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

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We have reviewed the accompanying condensed interim statement of financial position of **Afghan United Bank** ("the Bank"), as of March 31, 2018, and the related condensed interim statements of comprehensive income, statement of changes in equity and statement of cash flows for the nine months then ended, and the notes to the condensed interim financial statements and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with relevant International Financial Reporting Framework (IFRSs), the requirements of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Our responsibility is to express a conclusion on these interim financial statements based on our review.

## **Scope of Review**

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



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### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not give a true and fair view of the financial position of the bank as at March 31, 2018, and of its financial performance and its cash flows for the nine months then ended in accordance with International Financial Reporting Framework (IFRSs) and the requirements of the Law of Banking in Afghanistan.



**Kabul**

Date: May 14, 2018

*Grant Thornton Afghanistan*  
**Grant Thornton Afghanistan**  
Chartered Accountants

**AFGHAN UNITED BANK**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT MARCH 31, 2018**

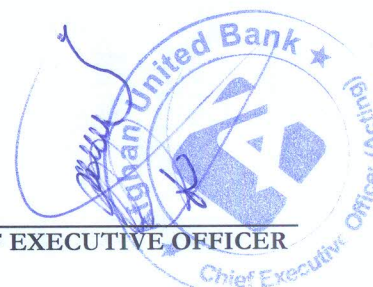
	Note	Un-audited 31-Mar-18 ..... Afs '000' .....	Audited 31-Dec-17
<b>ASSETS</b>			
Cash and balances with central bank	6	9,895,748	8,948,606
Balances with other banks	7	1,370,074	1,910,124
Investments	8	1,132,996	897,296
Loans and advances to customers	9	5,935,719	7,432,069
Property and equipment	10	957,410	959,911
Intangible assets	11	10,156	8,022
Other assets		2,201,082	2,113,835
<b>Total assets</b>		<b>21,503,185</b>	<b>22,269,863</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		1,522,030	1,522,030
Revaluation reserve		508,406	508,406
Retained earning		275,825	176,854
<b>Total equity</b>		<b>2,306,261</b>	<b>2,207,290</b>
<b>LIABILITIES</b>			
Deposits from customers	12	18,681,251	19,488,727
Deferred tax liability		145,954	145,954
Provision for tax		24,286	21,970
Other liabilities		345,432	405,922
<b>Total liabilities</b>		<b>19,196,924</b>	<b>20,062,573</b>
<b>Total equity and liabilities</b>		<b>21,503,185</b>	<b>22,269,863</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	14		

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

CHIEF FINANCIAL OFFICER



CHIEF EXECUTIVE OFFICER





**AFGHAN UNITED BANK**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

	Note	Un-audited 31-Mar-18 ..... Afs '000' .....	Un-audited 31-Mar-17
Mark-up/return /interest earned		225,816	246,671
Mark-up /return /interest expensed		(33,890)	(26,285)
<b>Net interest income</b>		<b>191,926</b>	<b>220,386</b>
Fee and commission income		56,608	61,951
Fee and commission expense		(1,974)	(2,658)
<b>Net fee and commission income</b>		<b>54,634</b>	<b>59,293</b>
Other operating income		12,028	45,567
<b>Operating income</b>		<b>258,588</b>	<b>325,246</b>
Net impairment loss on financial assets		(10,849)	26,224
Provision/ (reversal) against off-balance sheet items	16.1	21,858	-
Depreciation	10	(7,885)	(8,737)
Amortization	11	(1,195)	(1,230)
Employee compensation		(61,496)	(59,462)
Operating lease expenses		(11,681)	(12,319)
Other expenses		(63,624)	(65,377)
<b>Profit/ (Loss) before tax</b>		<b>123,716</b>	<b>204,345</b>
Income tax expense		(24,743)	(40,869)
<b>Profit/ (Loss) for the year</b>		<b>98,973</b>	<b>163,476</b>
<b>Other comprehensive income</b>			
Profit for the period		98,973	163,476
Incremental (depreciation)/ movement in revaluation		-	-
<b>Total comprehensive income for the period</b>		<b>98,973</b>	<b>163,476</b>

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

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**AFGHAN UNITED BANK**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

	Share capital	Revaluation reserve	Retained earning	Total
	..... Afs '000' .....			
Balance as at January 01, 2017	1,522,030	541,683	59,440	2,123,152
Total comprehensive income for the period				
Profit for the period	-	-	163,476	163,476
Other comprehensive income	-	-	-	-
	-	-	163,476	163,476
Transactions with owners				
Issuance of shares	-	-	-	-
Balance as at March 31, 2017	<u>1,522,030</u>	<u>541,683</u>	<u>222,916</u>	<u>2,286,628</u>
Balance as at January 01, 2018	1,522,030	508,407	176,852	2,207,291
Total comprehensive income for the year				
Profit for the year	-	-	98,973	98,973
Other comprehensive income	-	-	-	-
	-	-	98,973	98,973
Transactions with owners				
Issuance of shares	-	-	-	-
Balance as at March 31, 2018	<u>1,522,030</u>	<u>508,407</u>	<u>275,825</u>	<u>2,306,264</u>

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

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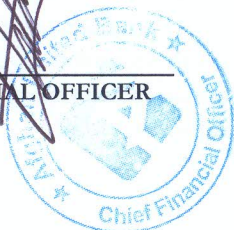
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**AFGHAN UNITED BANK**  
**STATEMENT OF CASH FLOWS**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

	Note	Un-audited 31-Mar-18 ..... Afs '000' .....	Un-audited 31-Mar-17
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		123,716	204,345
<b>Adjustments for:</b>			
Net impairment loss on financial assets		10,849	(26,224)
Provision against off-balance sheet items		(21,858)	-
Depreciation	10	7,885	8,737
Amortization	11	1,195	1,230
		<u>121,787</u>	<u>188,088</u>
<b>Increase /decrease in current assets and liabilities</b>			
Investments		(235,700)	82,778
Loans and advances to customers		1,507,359	235,288
Other assets		(87,247)	(30,600)
Deposits from customers		(807,476)	(1,547,567)
Other liabilities		(61,201)	12,795
		<u>437,522</u>	<u>(1,059,218)</u>
Income tax paid		(21,716)	(12,221)
<b>Net cash generated from/ (used in) operating activities</b>		<u>415,806</u>	<u>(1,071,439)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(5,384)	(1,287)
Purchase of intangible assets		(3,330)	-
<b>Net cash used in investing activities</b>		<u>(8,714)</u>	<u>(1,287)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	-
<b>Net cash generated from/ (used in) financing activities</b>		<u>-</u>	<u>-</u>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<u>407,092</u>	<u>(1,072,726)</u>
Cash and cash equivalents, beginning of period		10,858,730	9,892,255
<b>Cash and cash equivalents, end of year/ period</b>		<u><u>11,265,822</u></u>	<u><u>8,819,529</u></u>

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

  
**CHIEF FINANCIAL OFFICER**



  
**CHIEF EXECUTIVE OFFICER**





**AFGHAN UNITED BANK**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

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**1 STATUS AND NATURE OF BUSINESS**

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

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

These condensed interim financial statements for the quarter ended March 31, 2018 (including comparatives) have been approved and authorized for issue by the board of supervisors on

*May 14,* 2018.

**2 STATEMENT OF COMPLIANCE**

- 2.1 This condensed interim financial statements of the Bank for the quarter ended March 31, 2018 is unaudited and have been prepared in accordance with the International Accounting Standard 34, 'Interim Financial Reporting', issued by the International Accounting Standard Board (IASB) and directives issued by the Central Bank of Afghanistan (DAB). In case the requirements differs, the provisions of the law of banking in Afghanistan and directives issues by DAB shall prevail.

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

**3 BASIS OF PREPARATION**

**3.1 Basis of measurement**

These condensed interim financial statements have been prepared on the historical cost basis except that certain fixed assets are stated at revalued amount and certain investments, non-banking assets acquired in satisfaction of claims and commitments in respect of forward foreign exchange contracts have been marked to market and are carried at fair value.

**3.2 Use of critical accounting estimates and judgments**

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

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

- a) Note 9.6 Provision against non-performing loans and advances to customers
- b) Note 10 Valuation and depreciation rates for fixed assets

Following depreciation rates are used for property and equipments on straight line basis:

- 5% for office building
- 20% for furniture and fixture
- 33% for computer equipments
- 25% for vehicles and office equipments

### **3.2 Functional and presentation currency**

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

## **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

## **5 FINANCIAL RISK MANAGEMENT**

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

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**AFGHAN UNITED BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

**6 CASH AND BALANCES WITH CENTRAL BANK**

	Note	Un-audited 31-Mar-18 ..... Afs '000' .....	Audited 31-Dec-17
<b>In hand</b>			
Local currency		2,443,865	1,012,185
Foreign currencies		5,339,589	3,593,691
		7,783,454	4,605,876
<b>With Da Afghanistan Bank in:</b>			
Local currency current accounts		569,075	1,153,067
Foreign currency current accounts		740,665	1,439,026
Placements - Capital Notes		-	197,730
Overnight Deposit with Central Bank		802,554	1,552,907
		2,112,294	4,342,730
		9,895,748	8,948,606

**7 BALANCES WITH OTHER BANKS**

<b>In Afghanistan</b>			
National Bank of Pakistan		522	524
Pashtany Bank		350,354	352,172
New Kabul Bank		3	
		350,879	352,696
<b>Outside Afghanistan</b>			
CSC Bank, Lebanon		28,846	29,046
Aktif Bank, Turkey		179,086	354,379
Axis Bank, China		9,297	14,006
BMCE Bank, Spain		276,289	533,156
Nurol Bank, Turkey		1,782	796
Bahrain Middle East Bank		523,895	626,045
		1,019,195	1,557,428
		1,370,074	1,910,124

**8 INVESTMENTS**

<b>Held to maturity</b>			
Aktif Bank, Turkey		242,760	244,020
Bank Alfalah, Bahrain		208,080	-
BMCE Bank, Spain		208,080	174,300
Bahrain Middle East Bank		346,800	348,600
Nurol Bank, Turkey		138,720	139,440
		1,144,440	906,360
General provision on investments	8.2	(11,444)	(9,064)
<b>Investments - Net of provisions</b>		1,132,996	897,296

**8.2 Particulars of provision against investments**

Opening balance		9,064	-
Charge for the period/ year		2,380	9,064
Write off during the period/ year		-	-
		2,380	9,064
Closing balance		11,444	9,064

General provision against investment is held as per the DAB's *Asset Classification and Provisioning Regulation* @ 1% (2017: @ 1%) of the gross amount of investments.

**AFGHAN UNITED BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

**9 LOANS AND ADVANCES TO CUSTOMERS**

	Note	Un-audited 31-Mar-18	Audited 31-Dec-17
		..... Afs '000' .....	
<b>Conventional financing</b>			
Running finance	9.2	3,701,103	4,202,423
Term finance	9.3	698,652	836,346
		4,399,755	5,038,770
<b>Islamic financing</b>			
Murabaha	9.4	2,045,389	2,785,453
Ijara	9.5	131,894	242,068
<b>Loans and advances to customers - gross</b>		<b>6,577,038</b>	<b>8,066,291</b>
Provision against non-performing loans and advances	8.6	(641,319)	(634,222)
<b>Loans and advances to customers - net of provision</b>		<b>5,935,719</b>	<b>7,432,069</b>

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

In local currency	1,265,804	1,269,611
In foreign currencies	5,311,235	6,796,680
	6,577,038	8,066,291

9.2 These carry interest ranging between 12% to 15% 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.

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

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

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

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

**9.6 Particulars of provision against non-performing loans and advances**

Opening balance	634,222	321,150
Charge for the period/ year	9,805	316,575
Write off during the period/ year	-	(17,489)
Currency Fluctuation effect	(2,708)	13,987
	7,097	313,073
Closing balance	641,319	634,222

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**AFGHAN UNITED BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

	Un-audited 31-Mar-18 ..... Afs	Audited 31-Dec-17 '000' .....
<b>10 PROPERTY AND EQUIPMENT</b>		
<b>Gross Carrying Amount</b>		
At beginning of the period/ year	1,683,449	1,669,492
Addition during the period/ year	5,384	13,957
Disposal during the period/ year	-	-
Revaluation adjustment	-	-
Closing balance	1,688,833	1,683,449
<b>Accumulated Depreciation</b>		
At beginning of the period/ year	723,538	655,656
Charge for the period/ year	7,885	34,606
Accumulated depreciation on disposal during the period/ year	-	-
Revaluation adjustment	-	33,276
Closing balance	731,423	723,538
<b>Book value</b>	<u>957,410</u>	<u>959,911</u>

**11 INTANGIBLE ASSETS**

<b>Gross carrying amount</b>		
Opening balance	234,835	233,571
Additions during the period/ year	3,330	1,264
Closing balance	<u>238,165</u>	<u>234,835</u>
<b>Less: Accumulated amortization</b>		
Opening balance	226,813	222,142
Charge for the period/ year	1,195	4,671
Closing balance	<u>228,008</u>	<u>226,813</u>
<b>Written down value</b>	<u>10,156</u>	<u>8,022</u>

- 11.1** Intangible assets include computer software and licenses which are being amortized over the life of these assets. The amortization rate of intangible assets is 33.33% (2017: 33.33%). The gross carrying amount of fully amortized intangible assets still in use is Afs. 221,597 thousand (2017: 221,597 thousand).

**12 DEPOSITS FROM CUSTOMERS**

Current deposits		10,837,927	11,672,236
Saving deposits	12.1	1,961,832	1,817,744
Term deposits	12.2	2,479,143	2,448,822
Margin deposits		3,402,349	3,549,925
		<u>18,681,251</u>	<u>19,488,727</u>

- 12.1** Saving deposits carry interest ranging from 1% to 4% (2017: 1% to 4% per annum) per annum. The profit disbursed during the period on the Islamic saving deposits ranged from 0.44% to 0.75% (2017: 0.44% to 0.75%) per annum.

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**AFGHAN UNITED BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE QUARTER ENDED MARCH 31, 2018**

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

**13 RELATED PARTY TRANSACTIONS**

**Parent and ultimate controlling party**

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

**Key management personnel**

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

**Transactions with related parties**

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

	Balances		Transactions	
	Un-audited 31-Mar-18	Un-Audited 31-Dec-17	Un-audited 31-Mar-18	Un-audited 31-Mar-17
	..... Afs '000' .....			
<b>Shareholders</b>				
Loans and advances	-	-	-	-
Interest income	-	-	-	6,216
<b>Transactions with key management</b>				
<b>Short term employee benefits</b>				
Salary and other benefits	-	-	7,439	6,850

- 13.1 In addition to salaries and remuneration, Bank also provides non-cash benefits to executives which include furnished accommodation, meal and travel cost.

**14 CONTINGENCIES AND COMMITMENTS**

	Un-audited 31-Mar-18	Audited 31-Dec-17
	..... Afs '000' .....	
Letter of credits and guarantees issued on behalf of customers	7,249,485	7,211,798
This include outstanding BGs amounting to AFN 709.01 million (2017: 723.73 million) issued in Islamic mode of finance.		
Commitment for operating lease		
- not later than one year	46,724	48,613
- later than one year and not later than five year	186,896	194,452
	233,620	243,065

Currently, tax assessment for the tax year 2014 is under process by the auditors, of which financial impact is not known till the date of issuance of these financial statements. Management is confident that outcome of the assessment will not have a negative financial impact on Bank.

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**AFGHAN UNITED BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

**15 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 March 31, 2018 was as follows:

	Un-audited 31-Mar-18	Audited 31-Dec-17
	..... Afs '000' .....	
<b>Tier 1 capital</b>		
Total Equity	2,306,261	2,207,290
Less:		
Intangible assets	10,156	8,022
Profit for the year	98,973	117,415
Surplus on revaluation	508,406	508,406
	617,535	633,843
<b>Total tier 1 (core) capital</b>	1,688,726	1,573,447
<b>Tier 2 capital</b>		
General loss reserves on credits	26,881	55,235
Profit for the year	98,973	117,415
Surplus on revaluation	508,406	508,406
<b>Total tier 2 (supplementary) capital</b>	634,260	681,056
<b>Total regulatory capital</b>	2,322,986	2,254,503

**16 POST REPORTING DATE EVENTS**

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

**17 CORRESPONDING FIGURES**

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

CHIEF FINANCIAL OFFICER



CHIEF EXECUTIVE OFFICER

