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Independent Auditors' Report on Review of Condensed Interim Financial Statements to the Board of Supervisors 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 June 30, 2016, and the related condensed interim statements of comprehensive income, statement of changes in equity and statement of cash flows for the half year 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.

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 June 30, 2016, and of its financial performance and its cash flows for the half year then ended in accordance with International Financial Reporting Framework (IFRSs) and the requirements of the Law of Banking in Afghanistan.

**Kabul**

Date: August 15, 2016

**Grant Thornton Afghanistan**

Chartered Accountants

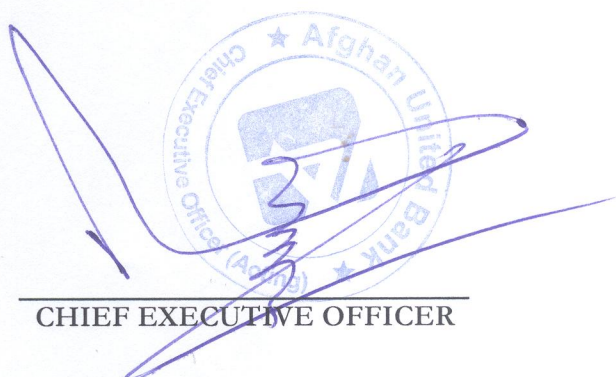
AFGHAN UNITED BANK
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2016

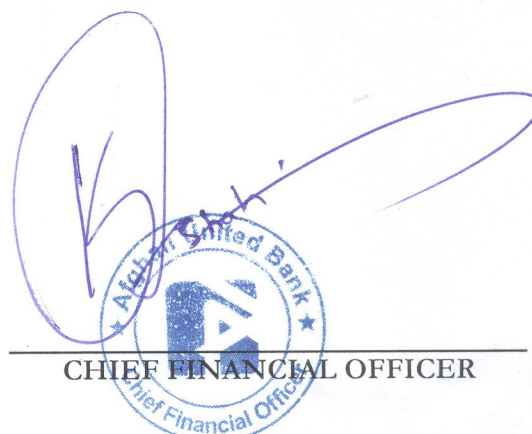
	Note	Un-audited 30-Jun-16 Afs '000'	Audited 31-Dec-15
ASSETS			
Cash and balances with central bank	6	7,443,653	7,944,097
Balances with other banks	7	842,394	2,274,301
Investments	8	889,460	341,850
Loans and advances to customers	9	7,836,633	6,094,660
Property and equipment	10	1,078,507	1,092,352
Intangible assets	11	5,553	13,094
Other assets		1,688,716	1,405,068
Total assets		19,784,916	19,165,422
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,522,030	1,522,030
Revaluation reserve		574,960	574,960
Retained earning		90,161	1,523
Total equity		2,187,151	2,098,513
LIABILITIES			
Deposits from customers	13	17,182,662	16,780,372
Deferred tax liability		162,708	162,708
Provision for tax		11,768	20,484
Other liabilities		240,627	103,345
Total liabilities		17,597,765	17,066,909
Total equity and liabilities		19,784,916	19,165,422

CONTINGENCIES AND COMMITMENTS

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The annexed notes 1 to 16 form an integral part of these condensed interim financial statements.


CHIEF EXECUTIVE OFFICER


CHIEF FINANCIAL OFFICER

AFGHAN UNITED BANK

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

		Quarter ended 30-Jun-16	Half Year ended 30-Jun-16	Quarter ended 30-Jun-15	Half Year ended 30-Jun-15
	Note	..... Afs '000'			
Interest income		270,233	494,298	241,263	440,528
Interest expense		(31,592)	(53,458)	(23,869)	(32,990)
Net interest income		238,641	440,840	217,394	407,538
Fee and commission income		78,011	171,818	28,572	64,056
Fee and commission expense		(9,018)	(15,237)	(16,658)	(28,673)
Net fee and commission income		68,993	156,581	11,914	35,383
Other operating income		10,994	24,260	17,827	36,435
Operating income		318,628	621,681	247,134	479,355
Net impairment loss on financial assets	9.6	(49,001)	(220,924)	(210,402)	(223,911)
Depreciation	10	(9,540)	(18,988)	(13,365)	(26,307)
Amortization	11	(3,762)	(7,540)	(3,667)	(7,328)
Employee benefit expense		(56,051)	(108,744)	(51,222)	(102,591)
Operating lease expenses		(12,229)	(23,236)	(11,083)	(21,727)
Other expenses		(62,050)	(117,426)	(44,654)	(100,256)
Profit/ (loss) before tax		125,995	124,823	(87,259)	(2,765)
Taxation		(36,419)	(36,185)	553	553
Profit/ (loss) for the period		89,575	88,638	(86,706)	(2,212)
Other comprehensive income					
- Revaluation reserve - net / (Related					
deferred tax - net of incremental		-	-	-	-
Total comprehensive income for the period		89,575	88,638	(86,706)	(2,212)

The annexed notes 1 to 16 form an integral part of these condensed interim financial statements.


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CHIEF FINANCIAL OFFICER

AFGHAN UNITED BANK
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED JUNE 30, 2016

	Share capital	Revaluation reserve	Retained earning	Total
	..... Afs '000'			
AUDITED				
Balance as at January 01, 2015	1,000,000	452,152	522,030	1,974,182
Total comprehensive income for the period				
Profit for the year	-	-	1,523	1,523
Other comprehensive income	-	122,808	-	122,808
	-	122,808	1,523	124,331
Transactions with owners				
Issuance of shares	522,030	-	(522,030)	-
Balance as at December 31, 2015	1,522,030	574,960	1,523	2,098,513
UN-AUDITED				
Balance as at January 01, 2016	1,522,030	574,960	1,523	2,098,513
Total comprehensive income for the period				
Profit for the period	-	-	88,638	88,638
Other comprehensive income	-	-	-	-
	-	-	88,638	88,638
Transactions with owners				
Issuance of shares	-	-	-	-
Balance as at June 30, 2016	1,522,030	574,960	90,161	2,187,151

The annexed notes 1 to 16 form an integral part of these condensed interim financial statements.

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

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CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

		Half Year ended 30-Jun-16	Half Year ended 30-Jun-15
Note		..... Afs '000'	
CASH FLOWS FROM OPERATING ACTIVITIES			
	Profit before tax	124,823	(86,706)
	Adjustments for:		
	Net impairment loss on financial assets	9.6 220,924	210,402
	Depreciation	10 18,988	13,365
	Amortization	11 7,540	3,667
	Loss on disposal of property and equipment	17	-
		<u>372,292</u>	<u>440,728</u>
	Increase / decrease in current assets and liabilities		
	Investments	(547,610)	(25,375)
	Loans and advances to customers - net of provision	(1,962,897)	(891,074)
	Other assets	(283,648)	47,786
	Deposits from customers	402,290	380,168
	Other liabilities	<u>137,282</u>	<u>(36,394)</u>
		<u>(1,882,292)</u>	<u>(384,162)</u>
	Income tax paid	<u>(44,899)</u>	<u>(1,589)</u>
	Net cash generated from operating activities	<u>(1,927,191)</u>	<u>(385,751)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
	Purchase of property and equipment	(5,173)	(13,537)
	Proceeds from disposal of property and equipment	13	-
	Purchase of intangible assets	-	(209)
	Net cash used in investing activities	<u>(5,160)</u>	<u>(13,746)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
	Proceeds from issue of shares	-	-
	Net cash generated from financing activities	<u>-</u>	<u>-</u>
	Net increase in cash and cash equivalents during the period	<u>(1,932,351)</u>	<u>(399,497)</u>
	Cash and cash equivalents, beginning of period	10,218,398	7,665,283
	Cash and cash equivalents, end of period	<u>8,286,047</u>	<u>7,265,786</u>

The annexed notes 1 to 16 form an integral part of these condensed interim financial statements.

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

AFGHAN UNITED BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2016

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 (2015: twenty six branches) in different provinces of Afghanistan.

These condensed interim financial statements for the Half year ended June 30, 2016 (including comparatives) have been approved and authorized for issue by the board of supervisors on 15 August 2016.

2 STATEMENT OF COMPLIANCE

- 2.1 This condensed interim financial statements of the Bank for the half year ended June 30, 2016 is un-audited and have been prepared in accordance with the International Accounting Standard 34, 'Interim Financial Reporting', requirements of the Law of Banking in Afghanistan, directives issued by the Central Bank of Afghanistan (DAB), and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). 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, 2015.

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.

AFGHAN UNITED BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2016

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) Following depreciation rates are used for property and equipments:
 - 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, 2015.

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, 2015.

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, 2015.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016**

	Note	Un-audited 30-Jun-16 Afs '000'	Audited 31-Dec-15
6 CASH AND BALANCES WITH CENTRAL BANK			
In hand			
Local currency		1,286,610	970,116
Foreign currencies		3,166,108	4,239,164
		<u>4,452,718</u>	<u>5,209,280</u>
With Da Afghanistan Bank in:			
Local currency current accounts		603,538	55,498
Foreign currency current accounts		1,890,306	2,581,847
Placements - Capital Notes	6.1	497,091	97,472
		<u>2,990,935</u>	<u>2,734,817</u>
		<u>7,443,653</u>	<u>7,944,097</u>

6.1 This represents capital notes from Da Afghanistan Bank carrying interest rate ranging from 1.8% to 5.13% (2014: 5.23%) per annum with maturity period from August 2016 till November 2016.

	Note	Un-audited 30-Jun-16 Afs '000'	Audited 31-Dec-15
7 BALANCES WITH OTHER BANKS			
In Afghanistan			
National Bank of Pakistan		515	342,364
Pashtany Bank		366,561	309,447
New Kabul Bank		7	7
		<u>367,083</u>	<u>651,818</u>
Outside Afghanistan			
Commerz Bank, Germany		-	62,654
CSC Bank		12,304	15,927
Aktif Bank		402,451	1,026,236
Axis Bank		12,766	511,038
Mashreq Bank		949	949
Yinzhou Bank		19	19
Bahrain Middle East Bank		46,821	5,660
		<u>475,311</u>	<u>1,622,483</u>
		<u>842,394</u>	<u>2,274,301</u>

8 INVESTMENTS

Held to maturity

Aktif Bank, Turkey		342,100	341,850
Habib Bank, Kabul		205,260	-
Bahrain Middle East Bank		342,100	-
	8.1	<u>889,460</u>	<u>341,850</u>

AFGHAN UNITED BANK

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016**

- 8.1 These are fixed term placements with banks having maturity from August 2016 to December 2016 and carries interest rate from 1.30% to 3.10%. The secondary purpose of these placements are to develop and maintain corresponding banking relationship to facilitate inward and outward remittances.

		Un-audited 30-Jun-16	Audited 31-Dec-15
		..... Afs '000'	
9 LOANS AND ADVANCES TO CUSTOMERS			
Conventional financing			
Running finance	9.2	5,308,477	5,309,287
Term finance	9.3	2,270,051	382,357
		7,578,528	5,691,644
Islamic financing			
Murabaha	9.4	488,496	264,013
Ijara	9.5	557,800	710,968
Loans and advances to customers - gross		8,624,824	6,666,625
Provision against non-performing loans and advances	9.6	(788,191)	(571,965)
Loans and advances to customers - net of provision		7,836,633	6,094,660

9.1 Particulars of loans and advances to customers - gross

In local currency	1,320,632	1,149,281
In foreign currencies	7,304,192	5,517,344
	8,624,824	6,666,625

- 9.2 Running finance are extended to meet the short term finance requirements of business, this facility is revolving in nature and is required to be settled at least one in a year and carry interest ranging between 13% to 16% per annum (Dec 2015: 13% to 16% 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 Term financing is long term facility issued to meet business capital requirements, this is re-paid in regular payments over a fixed period of term. These carry interest rate at 15% to 16% per annum (Dec 2015: 15% to 16% per annum). These loans have been extended for periods ranging from one to three years (Dec 2015: 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 15% to 18% per annum (Dec 2015: 15% to 18% per annum). These facilities are extended for the period of 8 months to 1 year (Dec 2015: 8 months to 1 year) 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 14% to 18% per annum (Dec 2015: 14% to 18%).

AFGHAN UNITED BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

	Un-audited 30-Jun-16 Afs '000'	Audited 31-Dec-15
9.6 Particulars of provision against non-performing loans and advances		
Opening balance	571,965	36,145
Charge for the period	220,924	610,904
Write off during the period	-	(83,004)
Currency Fluctuation effect	(4,698)	7,920
	216,226	535,820
Closing balance	788,191	571,965

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AFGHAN UNITED BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

	Un-audited 30-Jun-16	Audited 31-Dec-15
	..... Afs '000'	
10 PROPERTY AND EQUIPMENT		
Gross Carrying Amount		
At beginning of the period	1,676,863	1,649,458
Addition during the period	5,173	27,422
Disposal during the period	(125)	(17)
Revaluation adjustment	-	-
Closing balance	1,681,911	1,676,863
Accumulated Depreciation		
At beginning of the period	584,511	504,339
Charge for the period	18,988	46,913
Accumulated depreciation on disposal during the period	(95)	(17)
Revaluation adjustment	-	33,276
Closing balance	603,404	584,511
Net Book Value	<u>1,078,507</u>	<u>1,092,352</u>
11 INTANGIBLE ASSETS		
Gross carrying amount		
At beginning of the period	223,136	221,597
Addition during the period	-	1,539
Closing balance	223,136	223,136
Less: Accumulated amortization		
At beginning of the period	210,042	195,263
Charge for the period	7,540	14,779
Closing balance	217,583	210,042
Net Book Value	<u>5,553</u>	<u>13,094</u>
12 SHARE CAPITAL		
12.1 Authorized capital		
Un-audited 30-Jun-16	Audited 31-Dec-15	
Number of shares		Un-audited 30-Jun-16
		Audited 31-Dec-15
		..... Afs '000'
<u>40,000,000</u>	<u>40,000,000</u>	<u>10,000,000</u>
Ordinary shares of Afs 250 each		<u>10,000,000</u>
12.2 Issued and paid up capital		
Un-audited 30-Jun-16	Audited 31-Dec-15	Un-audited 30-Jun-16
Number of shares		Audited 31-Dec-15
		..... Afs '000'
<u>6,088,120</u>	<u>6,088,120</u>	<u>1,522,030</u>
Ordinary shares of Afs 250 each		<u>1,522,030</u>

AFGHAN UNITED BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

	Un-audited 30-Jun-16	Audited 31-Dec-15
	..... Afs '000'	
13 DEPOSITS FROM CUSTOMERS		
Current deposits	10,157,505	9,391,379
Saving deposits	2,534,422	4,200,952
Term deposits	1,451,796	1,322,937
Margin deposits	3,038,940	1,865,104
	<u>17,182,662</u>	<u>16,780,372</u>

14 RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Bank is owned by individual shareholders who own shares in different proportions.

Key management personnel

Key management personnel includes Acting Chief Executive Officer, Chief Operating Officer, Chief Credit Officer, Chief Finance Officer, Chief Human Resources & Administration Officer and Acting Chief Risk

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 30-Jun-16	Audited 31-Dec-15	Un-audited 30-Jun-16	Un-audited 30-Jun-15
	..... Afs '000'			
Shareholders				
Loans and advances	667,958	445,373	-	-
Interest income	-	-	40,853	7,552
Transactions with key management personnel				
Short term employee benefits				
Salary and other benefits	-	-	8,426	5,555

- 14.1 In addition to salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation, meals and travel.

	Un-audited 30-Jun-16	Audited 31-Dec-15
	..... Afs '000'	
15 CONTINGENCIES AND COMMITMENTS		
Contingent liabilities		
Contingent liabilities in respect of letter of credits, performance bond and bid bond etc.	7,806,362	6,308,627
Commitment		
Commitment in respect of operating lease		
- not later than one year	46,472	45,182
- later than one year and not later than five year	185,888	180,728
	<u>232,360</u>	<u>225,910</u>

AFGHAN UNITED BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

16 CAPITAL MANAGEMENT

Regulatory capital

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

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

The Bank's regulatory capital position at June 30, 2016 is as follows:

	Un-audited 30-Jun-16 Afs '000'	Audited 31-Dec-15
Tier 1 capital		
Total Equity	2,187,151	2,098,513
Less:		
Intangible assets	5,553	13,094
Profit for the year	88,638	1,523
Surplus on revaluation	574,960	574,960
	669,151	589,577
Total tier 1 (core) capital	1,518,000	1,508,936
Tier 2 capital		
Profit for the year	88,638	1,523
Surplus on revaluation	574,960	574,960
Total tier 2 (supplementary) capital	663,598	576,483
Total regulatory capital	2,181,598	2,085,419

CHIEF EXECUTIVE OFFICER

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