



Grant Thornton

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Afghan United Bank

Financial statements and audit report for the year 2020

Grant Thornton Afghanistan

Chartered Accountants and management consultants



Contents

1. Board letter
2. Independent Auditors' Report
3. Financial statements
4. Management letter



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Independent auditors' report

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To the Shareholders of Afghan United Bank

Qualified Opinion

We have audited the financial statements of the Bank, which comprise the statement of financial position as at December 31, 2020, 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, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material aspects, of the financial position of Afghan United Bank (the Bank) as at December 31, 2020, 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 Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank

Basis for Qualified Opinion

1. The banks in Afghanistan are subject to the provisions of DAB's "*Asset Classification and Provisioning Regulation*" (ACPR) for the purpose of recognizing provisioning against loans and advances. We have noted that eight overdraft facilities with outstanding balance of AFN 1.858 billion were classified after considering the extension periods of up to 6 months granted by the bank to the borrowers for settlement of the loan. Management is of the view that extensions are as per industry practice; and as the ACPR is silent on provisioning during extension period; it should not be taken as a period of default. In our opinion, the extensions in repayment term to borrowers unable to settle their loans should not impact the provisioning against those loan in light of ACPR. Had the provision been made upon the expiry of the loan, irrespective of the extension given to the borrower, the same would have been increased by an amount of AFN 451.72 million and loans and advances would have been lowered by the same amount.

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 within the meaning of International Ethics Standards Board of Accountants' *Code of Ethics of Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and have fulfilled our other

responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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 other laws and regulations issued by Da Afghanistan Bank, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the 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.

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 Bank'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.

Grant Thornton Afghanistan

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Chartered Accountants



Engagement Partner: Saqib Rehman Qureshi - FCA

Location: Kabul, Afghanistan

Date: 25-Mar-2021

AFGHAN UNITED BANK

Statement of Financial Position

As at December 31, 2020

		2020	2019
	Note	AFN '000'	
ASSETS			
Cash and balances with central bank	5	8,267,623	7,430,578
Balances with other banks	6	1,472,780	2,213,871
Investments	7	2,578,900	2,747,707
Loans and advances to customers	8	6,077,515	6,617,895
Property and equipment	9	1,314,402	945,023
Intangible assets	10	17,643	7,286
Other assets	11	2,859,940	2,804,801
Total assets		22,588,803	22,767,160
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	2,022,030	1,757,020
Revaluation reserve on property and equipment	13	756,767	431,018
Retained earnings		216,805	135,393
Total equity		2,995,602	2,323,431
LIABILITIES			
Deposits from customers	14	18,759,555	19,617,872
Deferred tax liability	15	218,820	123,924
Provision for tax		11,644	6,155
Other liabilities	16	603,182	695,779
Total liabilities		19,593,201	20,443,729
Total equity and liabilities		22,588,803	22,767,160
CONTINGENCIES AND COMMITMENTS			
	17		

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



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OFFICER



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572

AFGHAN UNITED BANK

Statement of Comprehensive Income

For the year ended December 31, 2020

	Note	2020 AFN '000'	2019
Mark-up/ return/ interest earned		861,279	766,081
Mark-up/ return/ interest expense		(47,524)	(90,518)
Net mark-up/ return/ interest income	18	813,755	675,563
Fee and commission income		517,805	378,228
Fee and commission expense		(9,199)	(8,028)
Net fee and commission income	19	508,606	370,200
Other income	20	105,720	188,062
Net operating income		1,428,081	1,247,478
Provision against non-performing loans and advances to customers	8.5	(645,208)	(517,143)
Net provision against off balance sheet items and other assets	11.2 & 16.1	(829)	61,600
Loss on disposal and de-recognition of fixed assets - net		-	-
Depreciation	9	(158,565)	(126,001)
Amortization	10	(5,639)	(5,358)
Employee compensation	21	(236,371)	(230,144)
Operating lease expenses		(9,583)	(6,710)
Other expenses	22	(310,611)	(283,448)
(Loss)/ Profit before tax		61,275	(22,505)
Income tax expense	23	(37,723)	2,341
(Loss)/ Profit for the year		23,552	(20,164)
Other comprehensive income			
(Loss)/ Profit for the year		23,552	(20,164)
Other comprehensive income that will not be reclassified to the income statement		479,512	-
Related deferred tax		(95,902)	-
Other comprehensive income that will be reclassified to the income statement		-	-
Total comprehensive income for the year		407,162	(20,164)

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

Nigam Bhakha

CHIEF FINANCIAL
OFFICER

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CHIEF EXECUTIVE
OFFICER

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AFGHAN UNITED BANK

Statement of Changes in Equity

For the year ended December 31, 2020

	Share capital	Revaluation reserve	Retained earnings	Total
	AFN '000'			
Balance as at January 01, 2019	1,522,030	463,471	123,104	2,108,606
Incremental depreciation on revaluation surplus	-	(32,453)	32,453	-
Revaluation adjustments on disposal	234,990	-	-	234,990
Total comprehensive income for the year				
Loss for the year	-	-	(20,164)	(20,164)
Other comprehensive income	-	-	-	-
	-	-	(20,164)	(20,164)
Balance as at December 31, 2019	1,757,020	431,018	135,393	2,323,431
Incremental depreciation on revaluation surplus	-	(57,861)	57,861	-
Proceeds from issue of shares	265,010	-	-	265,010
Total comprehensive income for the year				
Profit for the year	-	-	23,552	23,552
Other comprehensive income	-	383,610	-	383,610
	-	383,610	23,552	407,162
Balance as at December 31, 2020	2,022,030	756,767	216,805	2,995,602

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


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AFGHAN UNITED BANK

Statement of Cash Flows

For the year ended December 31, 2020

		2020	2019
	Note	AFN '000'	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/ Profit before tax		61,275	(22,505)
Adjustments for:			
Net impairment loss on financial assets		645,208	517,143
Provision against off balance sheet items		829	(61,600)
Depreciation	9	158,565	126,001
Amortization	10	5,639	5,358
		871,516	564,397
Increase/ decrease in current assets and liabilities			
Investments		167,978	(1,268,394)
Loans and advances to customers		(104,828)	(326,111)
Other assets		(55,139)	(791,960)
Deposits from customers		(858,317)	2,055,434
Other liabilities		(92,088)	241,939
		(70,878)	475,305
Income tax paid		(33,749)	(10,633)
Net cash (used in)/ generated from operating activities		(104,627)	464,672
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9.1	(48,433)	(166,885)
Purchase of intangible assets		(15,997)	(6,460)
Proceeds from disposal of property and equipment		-	-
Net cash used in investing activities		(64,429)	(173,345)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		265,010	234,990
Net cash generated from/ (used in) financing activities		265,010	234,990
Net (decrease)/ increase in cash and cash equivalents		95,954	526,318
Cash and cash equivalents, beginning of year		9,644,449	9,118,131
Cash and cash equivalents, end of year		9,740,403	9,644,449

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



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Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

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 fledged bank principally engaged in the business of commercial banking with a network of 26 branches including two full fledged 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, 2020 have been approved and authorized for issue by the Board of Supervisors on 24-Mar-2021.

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. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

Subsequent to that, and in response to the spread of COVID-19 virus in Afghanistan and its impact on the economy and businesses in the country, including the expected impact on the banking sector, Da Afghanistan Bank (DAB) has given several regulatory, financial and operational relaxations to the banking sector in the country. Da Afghanistan Bank (DAB) vide its circular no. E-02 dated April 9, 2020 deferred the applicability of IFRS 9 "Financial Instruments" till July 2021. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

- 2.2 Standards, amendments and interpretations to publish accounting standards that became effective in the current year

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to References to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

The above standards and interpretations do not have a significant impact on the financial statements and therefore the disclosure have not been made.

978

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

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

Standards, Interpretations and Amendments	Effective date (accounting periods beginning on or after)
- Interest Rate Benchmark Reform: Phase 2 - Amendments to IAS 39, IFRS 7, IFRS 4, IFRS 16, IFRS 9.	January 01, 2021
- References to the Conceptual Framework	January 01, 2022
- Proceeds before Intended Use (Amendments to IAS 16)	January 01, 2022
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	January 01, 2022
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)	January 01, 2022
- Classification of Liabilities as Current or Non-current -Amendment to IAS 1	January 01, 2023

The above standards, amendments and interpretations are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. Management does not intend to adopt any of the above standards, interpretations, and amendments earlier than the applicable date.

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 7.3 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 23 Income taxes

57A

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

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.

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

972

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

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 "Asset Classifications and Provisioning Regulation" issued by DAB.

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.

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 Leased assets

The Bank as a Lessee

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

- a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- b) The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- c) The Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Bank has elected to account for short-term leases and leases of low value assets, i.e. less than AFN 75,000, using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment within operating fixed assets and lease liabilities have been included in other liabilities and disclosed in notes to the financial statement.

372

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

Extension options for leases

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

4.5 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.

4.6 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

572

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

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

4.7 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.

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.

4.8 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.

4.9 Deposits

These are recorded at the amount of proceeds received.

672

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

4.10 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.

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.

4.11 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.

4.12 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.

4.13 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

670

Afghan United Bank
Notes to the Financial Statements
For the year ended December 31, 2020

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.

4.14 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.

4.15 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.

4.16 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.

4.17 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.

4.18 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.

677A

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

		2020	2019
	Note	AFN '000'	
5 CASH AND BALANCES WITH CENTRAL BANK			
In hand			
Local currency		721,740	779,738
Foreign currencies		1,518,803	1,872,495
		2,240,543	2,652,232
With Da Afghanistan Bank in:			
Local currency current accounts		2,620,660	1,704,822
Foreign currency current accounts		1,991,700	3,070,188
Overnight deposit with Central Bank		1,414,720	3,335
		6,027,080	4,778,346
		8,267,623	7,430,578
6 BALANCES WITH OTHER BANKS			
In Afghanistan			
National Bank of Pakistan		578	583
Pashtany Bank		1,964	1,972
New Kabul Bank		28	8,002
		2,570	10,557
Outside Afghanistan			
CSC Bank, Lebanon		81,603	56,813
Aktif Bank, Turkey		16,484	186,863
Axis Bank, India		10,795	23,386
BMCE Bank, Spain		378,149	966,684
Nurol Bank, Turkey		548,687	225,433
Bahrain Middle East Bank		78,190	294,410
Transkapital Bank, Russia		337,185	372,264
Ziraat Bank Uzbekistan		12,878	77,460
SBM Bank India		6,240	-
		1,470,210	2,203,314
		1,472,780	2,213,871
7 INVESTMENTS			
Capital notes	7.1	937,827	1,444,055
Held to maturity			
Aktif Bank, Turkey	7.2	501,150	503,490
BMCE Bank, Spain	7.2	-	154,920
Bahrain Middle East Bank	7.2	-	-
Nurol Bank, Turkey	7.2	462,600	426,030
Ziraat Bank Uzbekistan		308,400	232,380
Islamic Bank of Afghanistan		385,500	-
		1,657,650	1,316,820
General provision on investments	7.3	(16,577)	(13,168)
Investments - Net of provision		2,578,900	2,747,707

572

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

7.1 This represents capital notes from Da Afghanistan bank carrying interest rates from 1.25% to 3.04% (2019: 0.80% to 1.60%) per annum and having maturity dates up to Oct 2021.

7.2 This represents foreign currency fixed term placements with foreign banks carrying interest ranging from 1.50% to 4.40% (2019: 1.50% to 5.25%) per annum and having maturities up to Dec 2021.

	2020	2019
	AFN '000'	
7.3 Particulars of provision against investments		
Opening balance	13,168	10,920
Charge for the year	3,409	2,248
Write off during the year	-	-
	3,409	2,248
Closing balance	16,577	13,168

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

		2020	2019
	Note	AFN '000'	
8 LOANS AND ADVANCES TO CUSTOMERS			
Conventional financing			
Running finance	8.2	6,761,042	5,903,728
Term finance	8.3	426,187	774,417
		7,187,229	6,678,145
Islamic financing			
Murabaha	8.4	919,611	1,655,249
Ijara		-	-
Loans and advances to customers - gross		8,106,840	8,333,394
Provision against non-performing loans and advances	8.5	(2,029,325)	(1,715,499)
Loans and advances to customers - net of provision		6,077,515	6,617,895

8.1 Particulars of loans and advances to customers - gross

In local currency	3,226,242	3,480,341
In foreign currencies	4,880,598	4,853,053
	8,106,840	8,333,394

8.2 These carry interest ranging between 10% to 16% per annum (2019: 10% 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.

8.3 These carry interest rate at 13% to 15% per annum (2019: 13% to 15% per annum). These loans have been extended for periods ranging from one and a half year to five years (2019: one and a half year to five years) and are secured against personal guarantees, mortgage of immoveable commercial and residential properties and assignment of receivables.

572

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

- 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 (2019: 12% to 18% per annum). These facilities are extended for the period of two months to five years (2019: two months to five years) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

		2020	2019
	Note	AFN '000'	
8.5 Particulars of provision against non-performing loans and advances to customers			
Opening balance		1,715,499	1,229,773
Charge for the year	8.5.1	645,208	517,143
Write off during the year		(342,487)	(10,226)
Foreign currency fluctuation effect		11,104	(21,190)
		313,826	485,726
Closing balance		2,029,325	1,715,499

- 8.5.1 Due to Covid 19 pandemic in 2020, cash flows of a number of customers were adversely affected and customers approached the bank for extending the facility so that they could achieve the required turnover in their accounts and complete the mandatory clean-up.

As per DAB's Asset Classification & Provisioning Regulation in case a borrower has financial challenges, banks can extend the loans, on a case to case basis, depending on the borrower's circumstances. Based on this regulation, the Bank's Credit Policy allows the Bank to extend the facility up to 6 months. Under this facility of extension, a borrower's limit may be extended for up to 6 months under existing terms and conditions and with the same asset classification. This measure is to facilitate the borrower to tide over the difficult circumstances. With the extension of facility, the borrower's due date for facility renewal is extended and the new renewal date becomes the new due date. Any delay in renewal is counted from this date after extension. This is a normal banking practice followed in Afghanistan.

The Bank extended the facilities of eight accounts as on 31st December 2020.

9 PROPERTY AND EQUIPMENT

		2020	2019
		AFN '000'	
Fixed assets - Owned	9.1	1,260,801	862,600
Right of use assets - buildings	9.6	53,601	82,423
		1,314,402	945,023

578

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	Land	Office Buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				AFN '000'			

Note

9.1 Fixed assets - Owned

COST/ REVALUED AMOUNTS

Balance as at January 01, 2019

Additions during the year

Adjustments/ disposal during the year

Balance as at December 31, 2019

Additions during the year

Revaluation adjustments

Adjustments/ disposal during the year

Balance as at December 31, 2020

	222,424	1,000,893	74,306	163,155	95,720	125,494	1,681,992
9.1	-	-	1,360	6,086	-	15,843	23,290
	-	-	-	-	(6,127)	-	(6,127)
	222,424	1,000,893	75,667	169,241	89,593	141,337	1,699,156
9.1	-	-	908	16,267	-	10,625	27,800
	82,927	247,847	27,565	59,600	32,442	29,130	479,512
	-	-	-	-	-	-	-
	305,351	1,248,741	104,140	245,109	122,035	181,092	2,206,467

ACCUMULATED DEPRECIATION

Balance as at January 01, 2019

Charge for the year

Depreciation on disposals

Balance as at December 31, 2019

Charge for the year

Depreciation on disposals

Balance as at December 31, 2020

	-	353,327	70,186	153,501	93,772	107,068	777,854
	-	50,045	1,483	5,154	824	7,323	64,828
	-	-	-	-	(6,127)	-	(6,127)
	-	403,372	71,669	158,655	88,469	114,391	836,555
	-	59,339	5,690	22,589	6,906	14,586	109,110
	-	-	-	-	-	-	-
	-	462,711	77,359	181,244	95,375	128,977	945,666

WRITTEN DOWN VALUE AS AT

- December 31, 2020

- December 31, 2019

	305,351	786,030	26,781	63,864	26,660	52,115	1,260,801
	222,424	597,521	3,998	10,586	1,124	26,946	862,600

Rate of depreciation in %

5	20	33	25	25
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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

9.2 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2019: nil).

9.3 The Bank's Land and Building and other non-current assets were revalued by an independent accredited professional value during the financial year 2020, the valuation performed by the valuers was based on current market values for the nature and/or condition of the assets. Subsequently, the revaluation has been approved by Da Afghanistan Bank in April 2020. DAB approved 95% of the land and building revaluation amounts and other non-current assets revaluation amounts at 70%; this has resulted in a gain on revaluation of the Bank's non-current assets. This movement in revaluation is reflected in Note 9.5 to the Financial Statements.

9.4 The cost/ revalued amount of fully depreciated property and equipment still in use are as follows:

	2020	2019
	AFN '000'	
Furniture and fixtures	61,514	60,746
Computer equipment	106,628	103,279
Vehicles	87,187	92,425
Office equipment	68,734	63,575
	324,063	320,024

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

	2020	2020	2019	2019
	Cost	Revalued amount	Cost	Revalued amount
	AFN '000'			
Land	73,355	231,996	73,355	222,424
Office buildings	351,827	896,913	351,827	955,294
Furniture and fixtures	76,575	104,140	68,515	25,780
Computer equipment	185,508	245,109	128,751	31,776
Vehicles	89,593	122,035	89,593	-
Office equipment	151,850	180,980	98,875	32,428
	928,708	1,781,173	810,917	1,267,703

9.6 Right of use assets - buildings

Opening balance	143,596	143,596
Additions	20,633	-
Closing balance	164,229	143,596
Opening balance	61,173	-
Depreciation expense for the period	49,455	61,173
Closing balance	110,628	61,173
	53,601	82,423

573

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	2020	2019
	AFN '000'	
10 INTANGIBLE ASSETS		
Cost		
Opening balance	244,624	238,165
Additions during the year	15,997	6,460
Closing balance	<u>260,621</u>	<u>244,624</u>
Accumulated amortization		
Opening balance	237,339	231,980
Charge for the year	5,639	5,358
Closing balance	<u>242,978</u>	<u>237,339</u>
Written down value	<u>17,643</u>	<u>7,286</u>

- 10.1** Intangible assets include computer software and licenses. The amortization rate of intangible assets is 33.33% (2019: 33.33%). The gross carrying amount of fully amortized intangible assets still in use is AFN 234,835 thousand (2019: AFN 233,579 thousand).

		2020	2019
		AFN '000'	
11 OTHER ASSETS	<i>Note</i>		
Advances to suppliers and employees		18,969	26,850
Security deposits		452,339	504,307
Property - under sarqolfi contracts	11.1	107,940	-
Prepayments		23,763	6,644
Reposessed Assets		174,246	175,060
Receivable from Xpress Money and Money Gram		78,877	191,021
Restricted deposits with Da Afghanistan Bank	11.2	1,758,068	1,579,762
Income/ mark-up accrued		185,312	211,781
Advance Income Tax Receivable		-	15,207
Others	11.3	60,426	94,170
		<u>2,859,940</u>	<u>2,804,801</u>

- 11.1** This represents advance paid by the Bank for properties to be used for an undefinit period. The contract allows the Bank to sells the right of use to a third party or to return the property to the owner against refund of advance payment. Under the terms of these contracts, the title (i.e., Sharia Qabala) are not transferred to the Bank; therefore, in accordance with DAB guidelines, these have not been recorded as fixed assets.

We have tested the values of these Sarqulfi contract values for impairment (through an independent valuer) and there is no impairment which requires a reduction in the carrying value of the asset.

- 11.2** This represents statutory reserve maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank.

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

11.3 Others

	2020	2019
	AFN '000'	
Gross amount	72,229	108,062
Provision against other assets	(11,803)	(13,892)
	<u>60,426</u>	<u>94,170</u>

12 SHARE CAPITAL

12.1 Authorized capital

2020	2019		2020	2019
Number of shares			AFN '000'	
<u>40,000,000</u>	<u>40,000,000</u>	Ordinary shares of AFN 250 each	<u>10,000,000</u>	<u>10,000,000</u>

12.2 Issued and paid up capital

	2020	2019		2020	2019
			Ordinary shares of AFN 250 each		
	<u>8,088,120</u>	<u>7,028,080</u>	fully paid in cash	<u>2,022,030</u>	<u>1,757,020</u>

13 REVALUATION RESERVE ON PROPERTY AND EQUIPMENT

	Note	2020	2019
		AFN '000'	
Vehicles		32,442	-
Furniture and fixtures		30,377	2,812
Computer equipment		70,724	11,124
Office equipment		44,588	15,458
Land		231,996	149,069
Building		946,005	698,158
	9.3	<u>1,356,132</u>	<u>876,621</u>
Accumulated incremental depreciation		(358,113)	(300,252)
Related deferred tax liability		(145,350)	(145,350)
		<u>852,669</u>	<u>431,019</u>

14 DEPOSITS FROM CUSTOMERS

Conventional			
Current deposits		10,560,107	10,858,074
Saving deposits	14.1	446,833	764,464
Term deposits	14.2	476,970	439,783
Margin deposits		<u>2,497,725</u>	<u>2,569,951</u>
		<u>13,981,635</u>	<u>14,632,272</u>
Islamic			
Current deposits		2,592,554	2,673,124
Saving deposits	14.3	713,264	796,519
Term deposits	14.4	941,578	1,011,546
Margin deposits		<u>530,524</u>	<u>504,411</u>
		<u>4,777,920</u>	<u>4,985,600</u>
		<u>18,759,555</u>	<u>19,617,872</u>

570

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

- 14.1 Saving deposits carry interest ranging from 1% to 3% (2019: 1% to 3% per annum) per annum.
- 14.2 Term deposits carry interest ranging from 1.5% to 3.5% per annum (2019: 1.5% to 4% per annum), based on the term, with maturity ranging from three to twelve months (2019: three to twelve months).
- 14.3 The profit disbursed during the year on the Islamic saving deposits ranged from 0.18% to 0.25% (2019: 0.18% to 0.46%) per annum.
- 14.4 Profit distribution rates on Islamic term deposits during the year ranged from 1.50% to 2.40% (2019: 2.40% to 3.04%) per annum.

	2020	2019
	AFN '000'	
15 DEFERRED TAX ASSET AND LIABILITY		
Deferred tax liability on account of:		
Property and equipment	217,934	123,355
Intangible assets	887	569
	218,821	123,923
Reconciliation of deferred tax asset and liability is as follows:		
Opening balance	123,923	132,419
Recognized on revaluation surplus	95,902	-
Tax expense during the year		
- recognized in Profit & Loss	(1,005)	(8,496)
	218,820	123,924
16 OTHER LIABILITIES		
Creditors and accruals	40,891	62,766
Withholding tax payable	2,677	3,186
Properties Lease Liability	51,327	78,505
Murabaha risk and equalization reserve	75,005	91,743
Mark-up/ return/ interest payable	18,575	5,705
Deferred Income o/a Repossessed Assets	174,246	175,060
Deferred income on Murabaha Islamic Financing	6,667	-
Deferred income on bank guarantees and letter of credits	86,322	104,041
Others	147,472	174,774
	603,182	695,779
17 CONTINGENCIES AND COMMITMENTS		
LCs and BGs issued on behalf of the customers	12,193,455	10,175,057

This include outstanding BGs amounting to AFN 2.425 million (2019: 1.944 million) issued in Islamic mode of finance.

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	Note	2020	2019
		AFN '000'	
Commitment for operating lease			
- not later than one year		9,583	6,710
- later than one year and not later than five year		38,332	26,840
		47,915	33,550
18 NET MARK-UP/ RETURN/ INTEREST INCOME			
Mark-up/ return/ interest earned			
- On loans and advances to customers		795,258	715,771
- On placements and balances with Da Afghanistan Bank		12,625	4,958
- On held to maturity investments		47,980	39,165
- On overnight nostro deposits		5,416	6,187
		861,279	766,081
Mark-up/ return/ interest expense			
Deposits from customers		(47,524)	(90,518)
		813,755	675,563
19 NET FEE AND COMMISSION INCOME			
Fee and commission income			
- Commission and processing fee on guarantees issued		344,624	247,234
- Commission and processing fee on letters of credit issued		5,322	4,777
- Funds transfer, cheque books issuance fee and other service charges		167,859	126,218
		517,805	378,228
Fee and commission expense			
- Inter bank transaction fee		(9,199)	(8,028)
		508,606	370,200
20 OTHER INCOME			
Foreign exchange gain - net	20.1	37,440	(17,088)
Recovery of written off loans		28,999	1,260
Loan processing fee		18,150	33,726
Other income		21,131	21,039
		105,720	38,937
20.1 Foreign exchange gain - net			
- On dealing in foreign currencies		91,614	54,608
- On translation of monetary assets and liabilities		(54,174)	(71,696)
		37,440	(17,088)
21 EMPLOYEE COMPENSATION			
Salaries and wages		191,936	183,818
BOS remuneration and meeting expenses		7,138	8,331
Other allowances and benefits		37,297	37,995
		236,371	230,144

572

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	Note	2020	2019
		AFN '000'	
22 OTHER EXPENSES			
Communication		25,832	25,429
Travelling and conveyance		2,821	4,299
Insurance	22.1	65,460	51,292
Advertisement		8,959	16,390
Fuel expenses		7,421	9,126
Food expenses		492	525
Audit fee		4,900	8,660
Repairs and maintenance		56,667	53,302
Legal and professional charges		835	913
Stationery and printing		7,142	8,250
Staff training		2,748	2,810
Utilities		15,096	16,050
Security services		62,112	53,571
Miscellaneous		50,126	32,832
		310,611	283,448

22.1 These represents charges paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.35% per annum (2019: @ 0.30% to 0.35% 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% (2019: 20%) and the reported tax expense in Profit & Loss is as follows:

		2020	2019
		AFN '000'	
Taxation:			
Current	23.1	28,928	6,155
Prior	23.2	9,800	-
Deferred	23.3	(1,005)	(8,496)
		37,723	(2,341)
Reconciliation:			
Accounting profit before tax		61,275	(22,505)
Tax at the applicable rate of 20% (2019: 20%)		12,255	(4,501)
Non-deductible expenditure		189	935
Other temporary differences		16,484	9,721
		28,928	6,155

23.1 The current year's income tax charge has been calculated in accordance with the Income Tax rules of 2009, as applicable to the Bank. The Management periodically assesses its income tax position, based on the applicable rules and estimates the provisions required for the amount of income tax to be paid to the tax authorities, based on its financial performance and the applicable income tax rules.

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

23.2 During the year of 2020, income tax assessments for the financial years of 2015, 2016, 2017 and 2018 were completed by the tax authorities, as a result of which a sum of AFN 9.8 million was paid for these years (2019: Nil).

23.3 Deferred tax is recognized on the temporary/timing differences between the carrying value of assets and liabilities in the Bank's financial statements and the corresponding values used in the computation of taxable profits. The underlying assumption is that there will be taxable profits available against which these temporary/timing differences will be utilized.

24 RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Bank is owned by individual shareholders who owns the 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 Compliance 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	
	2020	2019	2020	2019
	AFN '000'			
Shareholders				
Loans and advances	-	-	-	-
Interest income	-	-	-	-
Deposit	1,979	686	-	-
Transactions with key management personnel				
Short-term employee benefits				
Salary and other benefits	-	-	47,592	52,606
Advance salary	1,311	1,084	-	-

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

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

25 FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and financial liabilities

Note 26 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

		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'					

	Derivatives used for hedging	Designated at FVTPL	Other liabilities at FVTPL	Other liabilities (amortized cost)	Total
	(carried at fair value)				
	AFN '000'				
Financial liabilities					
Deposits from customers	14	-	-	18,759,555	18,759,555
Other liabilities	16	-	-	335,947	335,947
	-	-	-	19,095,502	19,095,502

608

AFGHAN UNITED BANK
Notes to the Financial Statements
For the year ended December 31, 2020

	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)	
Note	AFN '000'					

December 31, 2019

Financial assets

5	Cash and balances with central bank	-	-	-	7,430,578	7,430,578
6	Balances with other banks	-	-	-	2,213,871	2,213,871
7	Investments	-	-	2,747,707	-	2,747,707
8	Loans and advances to customers	-	-	-	6,617,895	6,617,895
11	Other assets	-	-	-	2,771,307	2,771,307
		-	-	2,747,707	19,033,651	21,781,358

Financial liabilities

14	Deposits from customers	-	-	-	19,617,872	19,617,872
16	Other liabilities	-	-	-	695,779	695,779
		-	-	-	20,313,651	20,313,651

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.

492

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

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 Supervisors has overall responsibility for the establishment and oversight of risk management framework of the Bank. The Board has established a Risk Management Committee to review and monitor the various risks faced by the Bank in the regular course of business and guide with suitable strategy and direction for mitigation. Different functional departments are entrusted with the ownership for management of these risks by implementing suitable systems & procedures duly to comply with the regulatory guidelines and laws.

The Bank has established Operational Risk Management Committee and Credit Risk Management Committee at Management level to review and monitor operational risk and credit risk respectively.

The Bank has put in place a Risk Management Policy for Conventional Banking, apart from a separate Islamic Banking Risk Management Policy to deal with the risks relating to Islamic Banking activities. The Bank has developed a stress testing policy covering Credit Risk, Market Risk, and Liquidity Risk, which is a forward looking exercise to evaluate the impact on the Bank's financial position under severe but plausible scenarios. The output shall be used for risk mitigation methods, contingency plans, capital and liquidity management plans in stressed circumstances.

In the overall process of risk management of various risks encountered by the Bank, certain tools, models, frameworks are developed for identification, assessment and monitoring of risks.

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 departments 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.

578

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

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 the Chief Credit Officer (CCO). The Chief 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 a well-defined credit policy approved by the Board. The credit evaluation system comprises of a 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.

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 analyses of borrowers to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed through personal guarantees of the borrowers and mortgage of immoveable properties duly registered with the court of law and hypothecation over stock duly verified by the Bank's Credit Officers on a 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:

	2020	2019
	AFN '000'	
Classes of financial assets		
Cash and balances with central bank	6,027,080	4,778,346
Balances with other banks	1,472,780	2,213,871
Investments	2,578,900	2,747,707
Loans and advances to customers	6,077,515	6,617,895
Other assets	2,728,237	2,771,307
Total carrying amounts	<u>18,884,512</u>	<u>19,129,126</u>

As at the balance sheet date, all of 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 6,720.97 million (2019: AFN 7,729.84 million).

The Bank's management considers that all the above financial assets that are not impaired or past due on 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.

578

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

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.

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 the loan to be written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted.

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 the failure of an entity to honor its obligation to deliver cash or other financial 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:

	Note	2020 AFN '000'	2019
Carrying amount	8	8,106,840	8,333,394
Concentration by sector			
Construction		659,319	337,877
Livestock and farms		38,550	38,535
Services		2,705,785	2,637,253
Trade		3,868,732	4,007,895
Manufacturing		552,554	907,548
Others		281,900	404,286
		8,106,840	8,333,394

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

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 assets.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater to 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. The 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 problems.

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally have shorter maturities and a 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 problems.

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 equivalents 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:

	2020	2019
At the end of the year	46%	48%
Average for the year	44%	44%
Maximum for the year	49%	50%
Minimum for the year	40%	40%

Maturity analysis for financial liabilities

572

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	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'					
<i>Note</i>						
December 31, 2020						
Deposits from customers	14	18,759,555	(18,759,555)	(10,560,107)	(446,833)	(2,974,695)
Other liabilities	16	603,182	(603,182)	(441,855)	-	-
		<u>19,362,737</u>	<u>(19,362,737)</u>	<u>(11,001,962)</u>	<u>(446,833)</u>	<u>(2,974,695)</u>
						<u>(161,327)</u>
						<u>(161,327)</u>
December 31, 2019						
Deposits from customers	14	19,617,872	(19,617,872)	(10,858,074)	(764,464)	(3,009,734)
Other liabilities	16	695,779	(695,779)	(499,995)	-	-
		<u>20,313,651</u>	<u>(20,313,651)</u>	<u>(11,358,070)</u>	<u>(764,464)</u>	<u>(3,009,734)</u>
						<u>(195,784)</u>
						<u>(195,784)</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 within acceptable parameters, while optimizing the return on risk.

Management of market risk

The overall authority for market risk management is vested in the Asset & 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's scope covers the market risk identification, evaluation and reporting back with its recommendation to the management.

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

Exposure to interest rate risk

The risk to which the Bank's 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 is managed principally through the monitoring of 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 Department 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'				
December 31, 2020							
Cash and balances with central bank	5	937,827	598,164	145,627	194,036	-	-
Investments	7	1,657,650	616,800	269,850	771,000	-	-
Loans and advances to customers	8	8,106,840	3,998,572	2,296,323	1,385,758	426,187	-
		<u>10,702,317</u>	<u>5,213,538</u>	<u>2,711,800</u>	<u>2,350,793</u>	<u>426,187</u>	<u>-</u>
Deposits from customers	14	<u>18,759,556</u>	<u>4,194,802</u>	<u>166,349</u>	<u>14,392,033</u>	<u>6,372</u>	<u>-</u>
December 31, 2019							
Cash and balances with central bank	5	2,179,925	1,444,055	735,870	-	-	-
Investments	7	2,760,875	1,052,663	1,049,802	658,410	-	-
Loans and advances to customers	8	8,333,394	3,112,709	875,360	3,780,065	565,260	-
		<u>13,274,194</u>	<u>5,609,428</u>	<u>2,661,032</u>	<u>4,438,475</u>	<u>565,260</u>	<u>-</u>
Deposits from customers	14	<u>19,617,872</u>	<u>16,005,366</u>	<u>1,967,618</u>	<u>1,639,078</u>	<u>5,810</u>	<u>-</u>

672

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

Exposure to currency risk

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

		Total	AFN	USD AFN '000'	EURO	OTHERS
	Note					
December 31, 2020						
Cash and balances with central bank	5	8,267,623	4,757,120	3,367,655	137,197	5,651
Balances with other banks	6	1,472,780	26,828	973,620	5,671	466,661
Investments	7	3,315,300	1,657,650	1,657,650	-	-
Loans and advances to customers	8	8,106,840	3,226,242	4,880,598	-	-
Other assets	12	2,859,940	251,730	2,608,210	-	-
		24,022,483	9,919,571	13,487,732	142,868	472,312
Deposits from customers	15	(18,759,556)	(6,142,977)	(12,526,320)	(89,955)	(305)
Other liabilities	16	614,824	231,476	382,991	239	118
		(18,144,732)	(5,911,501)	(12,143,329)	(89,716)	(187)
Net foreign currency exposure		5,877,751	4,008,070	1,344,404	53,152	472,125
December 31, 2019						
Cash and balances with central bank	5	7,430,578	2,487,895	4,494,406	442,747	5,530
Balances with other banks	6	2,213,871	19,776	1,889,910	96,347	207,837
Investments	7	1,084,440	-	1,084,440	-	-
Loans and advances to customers	8	8,333,394	2,928,637	5,404,757	-	-
Other assets	12	2,804,801	449,328	2,355,473	-	-
		21,867,084	5,885,636	15,228,986	539,094	213,367
Deposits from customers	15	(19,617,872)	(5,001,738)	(14,247,808)	(367,944)	(382)
Other liabilities	16	-	(5,001,738)	(14,247,808)	(367,944)	(382)
		(19,617,872)	(5,001,738)	(14,247,808)	(367,944)	(382)
Net foreign currency exposure		2,249,212	883,899	981,178	171,151	212,985

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	December 31, 2020		December 31, 2019	
	Average rate	Reporting date rate	Average rate	Reporting date rate
USD	76.66	77.10	78.69	77.46
EURO	86.90	94.03	86.80	86.18

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and EURO at December 31, 2020 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, 2020		December 31, 2019	
	Equity	Profit or loss	Equity	Profit or loss
USD	(107,552)	(134,440)	(78,494)	(98,118)
EURO	(4,252)	(5,315)	(13,692)	(17,115)

A 10% weakening of the Afghani against the above currencies at December 31, 2020 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

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. The 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.

572

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

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, 2020 was as follows:

	2020	2019
	AFN '000'	
Tier 1 capital		
Total Equity	2,995,602	2,323,431
Less:		
Intangible assets	17,643	7,286
Net Deferred Tax Assets	-	-
Profit for the year	23,552	-
Revaluation reserve on property and equipment	756,767	431,018
	<u>797,962</u>	<u>438,304</u>
Total tier 1 (core) capital	<u>2,197,640</u>	<u>1,885,127</u>
Tier 2 capital		
General loss reserves on credits	-	-
Profit for the year	23,552	-
Revaluation reserve on property and equipment	756,767	431,018
Total tier 2 (supplementary) capital	<u>780,319</u>	<u>431,018</u>
Total regulatory capital	<u>2,977,959</u>	<u>2,316,145</u>
Risk-Weight Categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	2,240,543	2,652,232
Direct claims on DAB	8,722,975	7,802,162
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	-	-
Total	<u>10,963,518</u>	<u>10,454,395</u>
0% Risk-Weight Total (Above Total x 0%)	<u>-</u>	<u>-</u>

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	2020	2019
	AFN '000'	
20% risk weight		
Loans Collateralized by Claims on Central Banks and Central Governments of Category A Countries	-	-
Direct Claims on banks licensed in Category A countries	378,149	1,121,604
Short-term Claims on Banks Licensed In Non-Category A Countries Guaranteed by Multilateral Lending Institutions	2,752,281	2,409,087
Cash Items in Process of Collection	-	-
Other	-	-
Total	3,130,430	3,530,691
20% Risk-Weight Total (Above Total x 20%)	626,086	706,138
50% risk weight		
Qualifying Residential Mortgage Loans	-	-
Qualifying Real Estate Construction Loans	-	-
Other	-	-
Total	-	-
50% Risk-Weight Total (Above Total x 50%)	-	-
100% risk weight		
All Other Assets	10,552,559	10,524,634
Minus: Intangible Assets	17,643	7,286
Net Deferred Tax Assets	-	-
Deducted Equity Investments	-	-
Equals: Total	10,534,916	10,517,348
100% Risk-Weight Total (Above Total x 100%)	10,534,916	10,517,348
Off-balance-sheet items with 0% Credit Conversion Factor		
Unused Portions of Commitments with Original Maturity of 1 Year or Less	516,190	379,726
Unused Portions of Commitments that are Unconditionally Cancelable	-	-
Total	516,190	379,726
0% Credit Conversion Factor Total (Above Total x 0%)	-	-
Off-balance-sheet items with 20% Credit Conversion Factor		
Commercial Letter of Credits		
0 % Risk Weight	76,060	22,586
20% Risk Weight	-	-
50% Risk Weight	-	-
100% Risk Weight	130,260	143,871
Total	206,320	166,457
Risk-Weighted Total	130,260	143,871
20% Credit Conversion Factor Total (Risk-Weighted Total x 20%)	26,052	28,774

5/25

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2020

	2020	2019
	AFN '000'	
Off-balance sheet items with 100% Credit Conversion Factor		
Guarantees and Standby Letter of Credits		
0 % Risk Weight	4,089,067	6,482,008
20% Risk Weight	-	-
50% Risk Weight	-	-
100% Risk Weight	7,381,878	3,146,865
Total	11,470,945	9,628,873
100% Credit Conversion Factor Total		
(Risk-Weighted Totals x 100%)	7,381,878	3,146,865
Total Risk-Weighted Assets	18,568,932	14,399,125
Tier 1 Capital Ratio	11.84%	13.09%
Regulatory Capital Ratio	16.04%	16.09%

28 POST REPORTING DATE EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date, December 31, 2020 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.



CHIEF FINANCIAL OFFICER



CHIEF EXECUTIVE
OFFICER



BOS CHAIRMAN