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Afghan United Bank



Financial Statements and Auditor's Report
For the year ended December 31, 2019



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Independent auditors' report To the Shareholders of Afghan United Bank

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Opinion

We have audited the financial statements of Afghan United Bank (the Bank), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, 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 Opinion

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

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

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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.

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Grant Thornton Afghanistan
Chartered Accountants



Engagement Partner: Saqib Rehman Qureshi - FCA

Location: Kabul, Afghanistan

Date: 25-Mar-2020

AFGHAN UNITED BANK

Statement of Financial Position

As at December 31, 2019

		2019	2018
	Note	AFN '000'	
ASSETS			
Cash and balances with central bank	5	7,430,578	6,436,196
Balances with other banks	6	2,213,871	2,681,935
Investments	7	2,747,707	1,479,313
Loans and advances to customers	8	6,617,895	6,747,327
Property and equipment	9	945,023	904,139
Intangible assets	10	7,286	6,184
Other assets	11	2,804,801	2,012,841
Total assets		22,767,160	20,267,936
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,757,020	1,522,030
Revaluation reserve on property and equipment	13	431,018	463,472
Retained earnings		135,393	123,104
Total equity		2,323,431	2,108,606
LIABILITIES			
Deposits from customers	14	19,617,872	17,562,438
Deferred tax liability	15	123,924	132,419
Provision for tax		6,155	9,086
Other liabilities	16	695,779	455,387
Total liabilities		20,443,729	18,159,330
Total equity and liabilities		22,767,160	20,267,936
CONTINGENCIES AND COMMITMENTS			
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The annexed notes 1 to 29 form an integral part of these financial statements.



CHIEF FINANCIAL
OFFICER



CHIEF EXECUTIVE
OFFICER



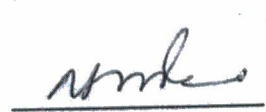
BOS CHAIRMAN

AFGHAN UNITED BANK
Statement of Comprehensive Income
For the year ended December 31, 2019

		2019	2018
	Note	AFN '000'	
Mark-up/ return/ interest earned		766,081	903,247
Mark-up/ return/ interest expense		(90,518)	(106,345)
Net mark-up/ return/ interest income	18	675,563	796,902
Fee and commission income		378,228	269,542
Fee and commission expense		(8,028)	(7,028)
Net fee and commission income	19	370,200	262,514
Other income	20	38,936	188,062
Net operating income		1,084,699	1,247,478
Provision against non-performing loans and advances to customers	8.6	(517,143)	(627,965)
Net provision against off balance sheet items and other assets	11.2 & 16.1	61,600	(1,500)
Loss on disposal and de-recognition of fixed assets - net		-	(19,708)
Depreciation	9	(126,001)	(65,347)
Amortization	10	(5,358)	(5,167)
Employee compensation	21	(230,144)	(238,051)
Operating lease expenses		(6,710)	(47,106)
Other expenses	22	(283,448)	(287,409)
(Loss)/ Profit before tax		(22,505)	(44,776)
Income tax expense	23	2,341	(53,909)
(Loss)/ Profit for the year		(20,164)	(98,685)
Other comprehensive income			
(Loss)/ Profit for the year		(20,164)	(98,685)
Other comprehensive income that will not be reclassified to the income statement		-	-
Other comprehensive income that will be reclassified to the income statement		-	-
Total comprehensive income for the year		(20,164)	(98,685)

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


**CHIEF FINANCIAL
OFFICER (ACTING)**


**CHIEF EXECUTIVE
OFFICER**



BOS CHAIRMAN

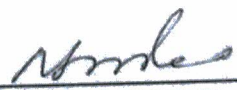
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AFGHAN UNITED BANK
Statement of Changes in Equity
For the year ended December 31, 2019

	Share capital	Revaluation reserve	Retained earnings	Total
	AFN '000'			
Balance as at January 01, 2018	1,522,030	508,407	176,854	2,207,291
Incremental depreciation on revaluation surplus	-	(32,453)	32,453	-
Revaluation adjustments on disposal	-	(12,482)	12,482	-
Total comprehensive income for the year				
Profit for the year	-	-	(98,685)	(98,685)
Other comprehensive income	-	-	-	-
	-	-	(98,685)	(98,685)
Balance as at December 31, 2018	1,522,030	463,471	123,104	2,108,606
Incremental depreciation on revaluation surplus	-	(32,453)	32,453	-
Proceeds from issue of shares	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	2,323,432

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


CHIEF FINANCIAL
OFFICER (ACTING)


CHIEF EXECUTIVE
OFFICER


BOS CHAIRMAN

AFGHAN UNITED BANK

Statement of Cash Flows

For the year ended December 31, 2019

		2019	2018
	Note	AFN '000'	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/ Profit before tax		(22,505)	(44,776)
Adjustments for:			
Net impairment loss on financial assets		517,143	627,965
Provision against off balance sheet items		(61,600)	1,500
Depreciation	9	126,001	65,347
Amortization	10	5,358	5,167
Loss on disposal and de-recognition of fixed assets - net		-	19,708
		<u>564,397</u>	<u>674,911</u>
Increase/ decrease in current assets and liabilities			
Investments		(1,268,394)	(384,287)
Loans and advances to customers		(326,111)	55,277
Other assets		(791,960)	100,994
Deposits from customers		2,055,434	(1,926,289)
Other liabilities		241,939	48,127
		<u>475,305</u>	<u>(1,431,267)</u>
Income tax paid		(10,633)	(78,989)
Net cash (used in)/ generated from operating activities		<u>464,672</u>	<u>(1,510,256)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9.1	(166,885)	(29,349)
Purchase of intangible assets		(6,460)	(3,330)
Proceeds from disposal of property and equipment		-	66
Net cash used in investing activities		<u>(173,345)</u>	<u>(32,613)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		234,990	-
Net cash generated from/ (used in) financing activities		<u>234,990</u>	<u>-</u>
Net (decrease)/ increase in cash and cash equivalents		526,317	(1,542,869)
Cash and cash equivalents, beginning of year		9,118,131	10,661,000
Cash and cash equivalents, end of year		<u>9,644,448</u>	<u>9,118,131</u>

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

CHIEF FINANCIAL OFFICER *Acting*CHIEF EXECUTIVE
OFFICER

BOS CHAIRMAN

1 STATUS AND NATURE OF BUSINESS

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

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

The financial statements for the year ended December 31, 2019 have been approved and authorized for issue by the Board of Supervisors on 23-Mar-2020.

2 STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

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

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

- IFRS 16, "Leases"
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (amendments to IAS 28)
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS Standards 2015-2017 Cycle

- IFRS 3 Business combination - previously held interest in a joint operation
- IFRS 11 Joint Agreements- previously held interest in a joint operation
- IAS 12 Income Taxes- Income tax consequences on payments on financial instruments classified as equity
- IAS 23 Borrowing cost - Borrowing cost eligible for capitalization

The above standards and interpretations did not have a material impact on the financial statements except for the IFRS 16 Leases for which the impact is discussed as below. Da Afghanistan Bank (DAB), vide its circular number 298 dated Hamal 8, 1398 (March 28, 2019), deferred the applicability of IFRS 9 "Financial Instruments" till January 1, 2021.

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

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

<i>Description</i>	<i>Effective date for annual accounting period</i>
• IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
• IFRS 17 – Insurance Contracts	1 January 2022
• IAS 1/ IAS 8 - Definition of Material (Amendments)	1 January 2020
• Definition of business - Amendment to IFRS 3	1 January 2020
• The Conceptual Framework of Financial Reporting	1 January 2022
• IFRS 9 “Financial Instruments”	1 January 2021

Management does not intend to adopt any of the above standards, interpretations and amendments earlier than the applicable date. The above standards, amendments and interpretations are not expected to have any material impact on the Bank's financial statements in the period of initial application.

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

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

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

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

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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 Adoption of IFRS 16 Leases

In these financial statements, the Bank has applied IFRS 9, effective for annual periods beginning on or after 1 January 2019, for the first time.

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The adoption of this new Standard has resulted in recognition of a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach. There has been no impact on the opening equity upon adoption of IFRS 16. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. Right-of-use asset amounting to AFN 132,521 thousand has been recognized along with lease liability of AFN 113,292 thousand with remaining impact recognized in reversal of prepaid rent expense as of the date of adoption.

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4. The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for prepaid/ accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The Bank did not had any finance lease. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 7% per annum. The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

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The effect of adoption of IFRS 16 as at January 1, 2019 (increase/ (decrease) is as follows:

	January 1, 2019 AFN '000'
Assets	
Right-of-use (RoU) asset	132,521
Prepayments	(19,229)
Total assets	113,292
Liability	
Lease liability	113,292

The carrying amount of right-of-use assets, lease liabilities and movement during the year is as below:

	December 31, 2019	
	RoU asset	Lease liability
AFN '000'	
As at January 1, 2019	132,521	113,292
Additions/ renewals	11,075	13,012
Depreciation	(61,173)	-
Borrowing cost	-	6,580
Payments	-	(54,379)
As at December 31, 2019	82,423	78,505

Had this standard not been applied, assets and liabilities would have been lower by AFN 82.42 million and AFN 78.5 million respectively. Rent expense would have been higher by AFN 46.32 million and depreciation charge and mark-up expense would have been lower by AFN 61.17 million and AFN 6.58 million respectively.

Following accounting policy change has been adopted by the Bank pursuant to IFRS 16:

Leased assets

The Bank as a Lessee

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:

- 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;
- 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
- 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.

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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 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.

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.

4.2 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.

4.3 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

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initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

Classification and subsequent measurement of financial assets and financial liabilities

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

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

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

a) Classification, recognition and subsequent measurement of financial assets

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

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications and Provisioning Regulation" issued December 2017.

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.

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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.

4.4 Investment in equity instruments

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

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.

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

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

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

Depreciation

Depreciation is recognized in profit or loss account on straight-line basis from the month an asset is put in use over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

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

4.7 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.

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 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.

AFGHAN UNITED BANK
Notes to the Financial Statements
For the year ended December 31, 2019

		2019	2018
		AFN '000'	
5 CASH AND BALANCES WITH CENTRAL BANK			
In hand			
Local currency		779,738	810,537
Foreign currencies		1,872,495	1,224,708
		2,652,232	2,035,245
With Da Afghanistan Bank in:			
Local currency current accounts		1,704,822	2,109,030
Foreign currency current accounts		3,070,188	1,386,319
Overnight deposit with Central Bank		3,335	905,602
		4,778,346	4,400,951
		7,430,578	6,436,196
6 BALANCES WITH OTHER BANKS			
In Afghanistan			
National Bank of Pakistan		583	566
Pashtany Bank		1,972	380,366
New Kabul Bank		8,002	-
		10,557	380,933
Outside Afghanistan			
CSC Bank, Lebanon		56,813	21,963
Aktif Bank, Turkey		186,863	400,774
Axis Bank, India		23,386	18,151
BMCE Bank, Spain		966,684	1,061,283
Nurol Bank, Turkey		225,433	1,843
Bahrain Middle East Bank		294,410	796,987
Transkapital Bank, Russia		372,264	-
Ziraat Bank Uzbekistan		77,460	-
		2,203,314	2,301,002
		2,213,871	2,681,935
7 INVESTMENTS			
Capital notes	7.1	1,444,055	398,238
Held to maturity			
Aktif Bank, Turkey	7.2	503,490	263,585
BMCE Bank, Spain	7.2	154,920	225,930
Bahrain Middle East Bank	7.2	-	376,550
Nurol Bank, Turkey	7.2	426,030	225,930
Ziraat Bank Uzbekistan		232,380	-
		1,316,820	1,091,995
General provision on investments	7.3	(13,168)	(10,920)
Investments - Net of provision		2,747,707	1,479,313

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

- 7.1 This represents capital notes from Da Afghanistan bank carrying interest rate from 0.80% to 1.60% (2018: 0.12% to 4.1%) per annum and having maturity date in Jun 2020.
- 7.2 This represents foreign currency fixed term placements with foreign banks carrying interest ranging from 1.50% to 5.25% (2018: 1.25% to 4.65%) per annum and having maturity by Nov 2020.

7.3 Particulars of provision against investments

Opening balance

Charge for the year

Write off during the year

Closing balance

	2019	2018
	AFN '000'	
	10,920	9,064
	2,248	1,856
	-	-
	2,248	1,856
	13,168	10,920

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

8 LOANS AND ADVANCES TO CUSTOMERS**Conventional financing**

Running finance

Term finance

Islamic financing

Murabaha

Ijara

Loans and advances to customers - gross

Provision against non-performing loans and advances

Loans and advances to customers - net of provision

	2019	2018
	AFN '000'	
	5,903,728	4,673,180
	774,417	382,882
	6,678,145	5,056,062
	1,655,249	2,921,038
	-	-
	8,333,394	7,977,100
	(1,715,499)	(1,229,773)
	6,617,895	6,747,327

8.1 Particulars of loans and advances to customers - gross

In local currency

In foreign currencies

	3,480,341	1,442,026
	4,853,053	6,535,074
	8,333,394	7,977,100

- 8.2 These carry interest ranging between 10% to 16% per annum (2018: 12% 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 (2018: 13% to 15% per annum). These loans have been extended for periods ranging from one and a half year to five years (2018: 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.

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Notes to the Financial Statements
For the year ended December 31, 2019

- 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 (2018: 12% to 18% per annum). These facilities are extended for the period of two months to five years (2018: two months to five years) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

		<u>2019</u>	<u>2018</u>
	<i>Note</i>	<u>AFN '000'</u>	
8.5 Particulars of provision against non-performing loans and advances to customers			
Opening balance		1,229,773	634,222
Charge for the year		517,143	627,965
Write off during the year		(10,226)	(91,951)
Foreign currency fluctuation effect		(21,190)	59,536
		485,726	595,550
Closing balance		1,715,499	1,229,773

9 PROPERTY AND EQUIPMENT

Fixed assets - Owned	9.1	862,600	904,139
Right of use assets - branches	4.1	82,423	-
		945,023	904,139

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Notes to the Financial Statements
For the year ended December 31, 2019

9.1 Fixed assets - Owned

COST/ REVALUED AMOUNTS

Balance as at January 01, 2018
Additions during the year
Adjustments/ disposal during the year
Balance as at December 31, 2018
Additions during the year
Adjustments/ disposal during the year
Balance as at December 31, 2019

ACCUMULATED DEPRECIATION

Balance as at January 01, 2018
Charge for the year
Depreciation on disposals
Balance as at December 31, 2018
Charge for the year
Depreciation on disposals
Balance as at December 31, 2019

WRITTEN DOWN VALUE AS AT

- December 31, 2019

- December 31, 2018

Rate of depreciation in %

Note

	Land	Office Buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
	AFN '000'						
	222,424	1,027,760	73,159	151,212	95,720	113,174	1,683,449
9.1	-	3,938	1,147	11,943	-	12,320	29,349
	-	(30,805)	-	-	-	-	(30,805)
	222,424	1,000,893	74,306	163,155	95,720	125,494	1,681,993
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
	-	313,792	68,594	148,461	92,948	99,743	723,538
	-	50,566	1,592	5,040	824	7,325	65,347
	-	(11,031)	-	-	-	-	(11,031)
	-	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
	222,424	597,521	3,998	10,586	1,124	26,946	862,600
	222,424	647,566	4,120	9,654	1,948	18,426	904,139
		5	20	33	25	25	

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

- 9.2 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2018: nil).
- 9.3 The Bank's land and building were revalued by an independent accredited professional valuer from May 28, 2012 to July 29, 2012. The revaluation resulted in a net surplus of AFN 1,210 million over the book value. Da Afghanistan Bank approved 70% of this surplus on July 21, 2012 which aggregates to AFN 847.22 million. Moreover, furniture and fixtures, computer equipment and office equipment were also revalued by two independent valuers on 31 December 2012. The valuation performed by the valuers was based on active market prices after adjusting for nature, and/ or condition of the assets. This revaluation resulted in a net surplus of AFN 29.395 million over the book value. The movement in surplus on revaluation is given in note 14 to the financial statements.

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

	2019	2018
	AFN '000'	
Furniture and fixtures	60,746	59,549
Computer equipment	103,279	99,260
Vehicles	92,425	92,425
Office equipment	63,575	50,507
	320,024	301,740

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

	2019	2019	2018	2018
	Cost	Revalued amount	Cost	Revalued amount
	AFN '000'			
Land	73,355	222,424	73,355	222,424
Office buildings	351,827	955,294	351,827	924,489
Furniture and fixtures	68,515	25,780	67,154	25,780
Computer equipment	128,751	31,776	122,665	31,776
Vehicles	89,593	-	95,720	-
Office equipment	98,875	32,428	83,039	32,428
	810,917	1,267,703	793,761	1,236,897

10 INTANGIBLE ASSETS**Cost**

Opening balance	238,165	234,835
Additions during the year	6,460	3,330
Closing balance	244,624	238,165

Accumulated amortization

Opening balance	231,980	226,813
Charge for the year	5,358	5,167
Closing balance	237,339	231,980

Written down value

	7,286	6,184
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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

- 10.1 Intangible assets include computer software and licenses. The amortization rate of intangible assets is 33.33% (2018: 33.33%). The gross carrying amount of fully amortized intangible assets still in use is AFN 233,579 thousand (2018: AFN 223,136 thousand).

		2019	2018
		AFN '000'	
11 OTHER ASSETS			
Advances to suppliers and employees		26,850	20,112
Security deposits		504,307	75,872
Prepayments		6,644	34,885
Reposessed Assets		175,060	-
Receivable from Xpress Money and Money Gram		191,021	89,727
Restricted deposits with Da Afghanistan Bank	11.1	1,579,762	1,555,207
Income/ mark-up accrued		211,781	228,815
Advance Income Tax Receivable		15,207	
Others	11.2	94,170	8,223
		2,804,801	2,012,841

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

	2019	2018
	AFN '000'	
11.2 Others		
Gross amount	108,062	8,223
Provision against other assets	(13,892)	-
	94,170	8,223

12 SHARE CAPITAL**12.1 Authorized capital**

2019	2018		2019	2018
Number of shares			AFN '000'	
40,000,000	40,000,000	Ordinary shares of AFN 250 each/-	10,000,000	10,000,000

12.2 Issued and paid up capital

2019	2018		2019	2018
Number of shares			AFN '000'	
7,028,080	6,088,120	Ordinary shares of AFN 250 each/- fully paid in cash	1,757,020	1,522,030

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

		2019	2018
	Note	AFN '000'	
13 REVALUATION RESERVE ON PROPERTY AND EQUIPMENT			
Furniture and fixtures		2,812	2,812
Computer equipment		11,124	11,124
Office equipment		15,458	15,458
Land		149,069	149,069
Building		698,158	698,158
	9.2	<u>876,621</u>	<u>876,621</u>
Accumulated incremental depreciation	9.2	(300,252)	(267,799)
Related deferred tax liability		(145,350)	(145,350)
		<u>431,019</u>	<u>463,472</u>
14 DEPOSITS FROM CUSTOMERS			
Conventional			
Current deposits		10,858,074	8,709,050
Saving deposits	14.1	764,464	246,649
Term deposits	14.2	439,783	727,613
Margin deposits		2,569,951	2,843,333
		<u>14,632,272</u>	<u>12,526,645</u>
Islamic			
Current deposits		2,673,124	2,524,028
Saving deposits	14.3	796,519	751,225
Term deposits	14.4	1,011,546	1,318,184
Margin deposits		504,411	442,356
		<u>4,985,600</u>	<u>5,035,793</u>
		<u>19,617,872</u>	<u>17,562,438</u>

14.1 Saving deposits carry interest ranging from 1% to 3% (2018: 1% to 3% per annum) per annum.

14.2 Term deposits carry interest ranging from 1.5% to 4% per annum (2018: 1.5% to 4.75% per annum), based on the term, with maturity ranging from three to twelve months (2018: three to twelve months).

14.3 The profit disbursed during the year on the Islamic saving deposits ranged from 0.18% to 0.46% (2018: 0.39% to 0.61%) per annum.

14.4 Profit distribution rates on Islamic term deposits during the year ranged from 2.40% to 3.04% (2018: 2.05% to 4.60%) per annum.

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

15 DEFERRED TAX LIABILITY

Deferred tax liability on account of:

Property and equipment

Intangible assets

2019	2018
AFN '000'	
123,355	131,515
569	904
123,923	132,419

Reconciliation of deferred tax liability is as follows:

Opening balance

Tax expense during the year

- recognized in profit or loss

Closing balance

132,419	145,954
(8,496)	(13,535)
123,924	132,419

16 OTHER LIABILITIES

Note

Creditors and accruals

Withholding tax payable

Properties Lease Liability

Murabaha risk and equalization reserve

Mark-up/ return/ interest payable

Deferred Income o/a Repossessed Assets

Deferred income on Murabaha Islamic Financing

Deferred income on bank guarantees and letter of credits

Others

16.1

2019	2018
AFN '000'	
62,766	32,766
3,186	4,732
78,505	-
91,743	66,102
5,705	16,254
175,060	-
-	128,901
104,041	76,938
174,774	129,694
695,779	455,387

- 16.1** This include provision against non-funded credit facilities i.e. Bank Guarantees (BGs) and Letter of Credits (LCs) amounting to AFN: Nill (2018: AFN 77.30 million) as per the DAB's *Asset Classification and Provisioning Regulation* @1% of the unsecured amount.

17 CONTINGENCIES AND COMMITMENTS

LCs and BGs issued on behalf of the customers

2019	2018
AFN '000'	
10,175,057	10,198,920

This include outstanding BGs amounting to AFN 1.944 million (2018: 1.489.43 million) issued in Islamic mode of finance.

Commitment for operating lease

- not later than one year

- later than one year and not later than five year

2019	2018
AFN '000'	
6,710	47,106
26,840	188,424
33,550	235,530

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

		2019	2018
		AFN '000'	
18 NET MARK-UP/ RETURN/ INTEREST INCOME	<i>Note</i>		
Mark-up/ return/ interest earned			
- On loans and advances to customers		715,771	864,897
- On placements and balances with Da Afghanistan Bank		4,958	3,075
- On held to maturity investments		39,165	31,676
- On overnight nostro deposits		6,187	3,599
		<u>766,081</u>	<u>903,247</u>
Mark-up/ return/ interest expense			
Deposits from customers		(90,518)	(106,345)
		<u>675,563</u>	<u>796,902</u>
19 NET FEE AND COMMISSION INCOME			
Fee and commission income			
- Commission and processing fee on guarantees issued		247,234	173,775
- Commission and processing fee on letters of credit issued		4,777	7,858
- Funds transfer, cheque books issuance fee and other service charges		126,218	87,909
		<u>378,228</u>	<u>269,542</u>
Fee and commission expense			
- Inter bank transaction fee		(8,028)	(7,028)
		<u>370,200</u>	<u>262,514</u>
20 OTHER INCOME			
Foreign exchange gain - net	20.1	(17,088)	16,395
Recovery of written off loans		1,260	119,678
Loan processing fee		33,726	36,275
Other income		21,039	15,715
		<u>38,937</u>	<u>188,063</u>
20.1 Foreign exchange gain - net			
- On dealing in foreign currencies		54,608	52,263
- On translation of monetary assets and liabilities		(71,696)	(35,868)
		<u>(17,088)</u>	<u>16,395</u>
21 EMPLOYEE COMPENSATION			
Salaries and wages		183,818	185,763
BOS remuneration and meeting expenses		8,331	14,483
Other allowances and benefits		37,995	37,805
		<u>230,144</u>	<u>238,051</u>

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

		2019	2018
		AFN '000'	
	Note		
22 OTHER EXPENSES			
Communication		25,429	27,511
Travelling and conveyance		4,299	3,164
Insurance	22.1	51,292	52,128
Advertisement		16,390	25,611
Fuel expenses		9,126	9,489
Food expenses		525	501
Audit fee		8,660	5,934
Repairs and maintenance		53,302	47,700
Legal and professional charges		913	1,718
Stationery and printing		8,250	6,790
Staff training		2,810	2,125
Utilities		16,050	15,451
Security services		53,571	54,387
Miscellaneous		32,832	34,900
		283,448	287,409

22.1 These represents charges paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.30% - 0.35% per annum (2018: @ 0.30% per annum) of the total deposits as required by Da Afghanistan Bank.

23 INCOME TAX EXPENSE

The major components of tax expense and the reconciliation of the expected tax expense based on the effective tax rate of 20% (2018: 20%) and the reported tax expense in profit or loss are as follows:

	2019	2018
	AFN '000'	
Taxation:		
Current	6,155	9,886
Prior	-	57,558
Deferred	(8,496)	(13,535)
	(2,341)	53,909
Reconciliation:		
Accounting profit before tax	(22,505)	(44,776)
Tax at the applicable rate of 20% (2018: 20%)	(4,501)	(8,955)
Non-deductible expenditure	935	2,418
Other temporary differences	9,721	16,423
	6,155	9,886

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AFGHAN UNITED BANK

Notes to the Financial Statements

*For the year ended December 31, 2019***24 RELATED PARTY TRANSACTIONS****Parent and ultimate controlling party**

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

Key management personnel

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

Transactions with related parties

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

	Balances		Transactions	
	2019	2018	2019	2018
	AFN '000'			
Shareholders				
Loans and advances	-	-	-	-
Interest income	-	-	-	-
Deposit	686	-	-	-
Transactions with key management personnel				
Short-term employee benefits				
Salary and other benefits	-	-	52,606	37,078
Advance salary	1,084	-	-	-

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

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

25 FINANCIAL ASSETS AND LIABILITIES
Categories of financial assets and financial liabilities

Note 4.2 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)		
	Note	AFN '000'					
December 31, 2019							
Financial assets							
Cash and balances with central bank	5	-	-	-	-	7,430,578	7,430,578
Balances with other banks	6	-	-	-	-	2,213,871	2,213,871
Investments	7	-	-	-	2,747,707	-	2,747,707
Loans and advances to customers	8	-	-	-	-	6,617,895	6,617,895
Other assets	11	-	-	-	-	2,771,307	2,771,307
		-	-	-	2,747,707	19,033,651	21,781,358

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

December 31, 2018
Financial assets

 Cash and balances with central bank
 Balances with other banks
 Investments
 Loans and advances to customers
 Other assets

Note

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'					
-	-	-	-	6,436,196	6,436,196
-	-	-	-	2,681,935	2,681,935
-	-	-	1,479,313	-	1,479,313
-	-	-	-	6,747,327	6,747,327
-	-	-	-	1,957,844	1,957,844
-	-	-	1,479,313	17,823,302	19,302,615

Financial liabilities

 Deposits from customers
 Other liabilities

14
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Derivatives used for hedging	Designated at FVTPL	Other liabilities at FVTPL	Other liabilities (amortized cost)	Total
(carried at fair value)				
AFN '000'				
-	-	-	17,562,438	17,562,438
-	-	-	455,387	455,387
-	-	-	18,017,825	18,017,825

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.

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

26 FINANCIAL RISK MANAGEMENT

26.1 Introduction and overview

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

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

This note presents information about Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

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

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

a) **Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and placements with other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

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

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

The amount of credit risk is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk is managed through regular analysis of borrower to met interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property dully registered with the court of law and hypothecation over stock dully verified by the Bank's Credit Officer on monthly basis.

Exposure to credit risk

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

	2019	2018
	AFN '000'	
Classes of financial assets		
Cash and balances with central bank	4,778,346	4,400,951
Balances with other banks	2,213,871	2,681,935
Investments	2,747,707	1,479,313
Loans and advances to customers	6,617,895	6,747,327
Other assets	2,771,307	1,957,844
Total carrying amounts	<u>19,129,126</u>	<u>17,267,370</u>

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

In addition to the above, the Bank has issued financial guarantees and letter of credits contracts for which the maximum amount payable by the Bank assuming all guarantees/ letter of credits (less margin) are called on, is AFN 6,720.97 million (2018: AFN 7,729.84 million).

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

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

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AFGHAN UNITED BANK

Notes to the Financial Statements

*For the year ended December 31, 2019***Write-off policy**

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

Concentration of credit risks by industry

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

	<i>Note</i>	2019	2018
		AFN '000'	
Carrying amount	8	8,333,394	7,977,100
Concentration by sector			
Construction		337,877	498,216
Livestock and farms		38,535	37,638
Services		2,637,253	1,927,618
Trade		4,007,895	3,797,525
Manufacturing		907,548	1,207,720
Others		404,286	508,383
		8,333,394	7,977,100

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Notes to the Financial Statements

For the year ended December 31, 2019

b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whilst enabling the Bank to pursue valued business opportunities. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

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

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquidity assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2019	2018
At the end of the year	48%	42%
Average for the year	44%	49%
Maximum for the year	50%	55%
Minimum for the year	40%	40%

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

Maturity analysis for financial liabilities

		Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	More than 1 to 5 years
	Note	AFN '000'					
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)	-	-	(195,784)
		<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>
December 31, 2018							
Deposits from customers	14	17,562,438	(17,562,438)	(8,709,050)	(246,649)	(3,570,946)	-
Other liabilities	16	455,387	(455,387)	(312,347)	-	-	(143,040)
		<u>19,894,649</u>	<u>(19,894,649)</u>	<u>(11,997,165)</u>	<u>(1,817,744)</u>	<u>(5,998,747)</u>	<u>(80,993)</u>

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal out flow disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures with in acceptable parameters, while optimizing the return on risk.

Management of market risks

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

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

Exposure to interest rate risk

The risk to which Banks' portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

		Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
	Note	AFN '000'					
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>
December 31, 2018							
Cash and balances with central bank	5	1,038,373	398,238	640,135	-	-	-
Investments	7	1,091,995	451,860	640,135	-	-	-
Loans and advances to customers	8	7,977,100	2,437,215	1,747,364	3,335,884	456,637	-
		<u>9,763,001</u>	<u>4,228,887</u>	<u>2,298,959</u>	<u>2,353,572</u>	<u>881,585</u>	<u>-</u>
Deposits from customers	14	<u>4,266,566</u>	<u>1,817,744</u>	<u>2,448,822</u>	<u>-</u>	<u>-</u>	<u>-</u>

Exposure to currency risk

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

AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

		Total	AFN	USD	EURO	OTHERS
	Note	AFN '000'				
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	-	-	-	-	-
		(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
December 31, 2018						
Cash and balances with central bank	5	8,948,606	3,915,889	4,921,138	101,812	9,767
Balances with other banks	6	1,910,124	2,101	1,539,273	94,711	274,039
Investments	7	906,360	-	906,360	-	-
Loans and advances to customers	8	8,066,291	1,269,611	6,796,680	-	-
Other assets	12	2,113,835	1,116,902	996,933	-	-
		21,945,216	6,304,503	15,160,383	196,523	283,806
Deposits from customers	15	(19,488,727)	(4,738,453)	(14,570,861)	(162,734)	(16,680)
Other liabilities	16	-	-	-	-	-
		(19,488,727)	(4,738,453)	(14,570,861)	(162,734)	(16,680)
Net foreign currency exposure		2,456,489	1,566,051	589,522	33,789	267,127

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Notes to the Financial Statements

For the year ended December 31, 2019

	December 31, 2019		December 31, 2018	
	Average rate	Reporting date rate	Average rate	Reporting date rate
USD	78.69	77.46	75.67	75.31
EURO	86.80	86.18	85.93	86.01

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and EURO at December 31, 2019 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, 2019		December 31, 2018	
	Equity	Profit or loss	Equity	Profit or loss
	AFN '000'			
USD	(78,494)	(98,118)	(47,162)	(58,952)
EURO	(13,692)	(17,115)	(2,703)	(3,379)

A 10% weakening of the Afghani against the above currencies at December 31, 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

d) Operational risk

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

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Notes to the Financial Statements

For the year ended December 31, 2019

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, 2019 was as follows:

	2019	2018
	AFN '000'	
Tier 1 capital		
Total Equity	2,323,431	2,108,606
Less:		
Intangible assets	7,286	6,184
Profit for the year	-	-
Revaluation reserve on property and equipment	431,018	463,472
	<u>438,304</u>	<u>469,656</u>
Total tier 1 (core) capital	<u>1,885,127</u>	<u>1,638,950</u>
Tier 2 capital		
General loss reserves on credits	-	9,374
Profit for the year	-	-
Revaluation reserve on property and equipment	431,018	463,472
Total tier 2 (supplementary) capital	<u>431,018</u>	<u>472,846</u>
Total regulatory capital	<u>2,316,145</u>	<u>2,111,796</u>
Risk-Weight Categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	2,652,232	2,035,245
Direct claims on DAB	7,802,162	6,354,396
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>10,454,395</u>	<u>8,389,641</u>
0% Risk-Weight Total (Above Total x 0%)	<u>-</u>	<u>-</u>

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AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2019

20% risk weight		
Loans Collateralized by Claims on Central Banks	-	-
and Central Governments of Category A Countries	1,121,604	2,179,345
Direct Claims on banks licensed in Category A countries		
Short-term Claims on Banks Licensed In Non-Category A Countries	2,409,087	1,594,585
Guaranteed by Multilateral Lending Institutions	-	-
Cash Items in Process of Collection	-	-
Other	-	-
Total	3,530,691	3,773,930
20% Risk-Weight Total (Above Total x 20%)	706,138	754,786
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	10,524,634	9,345,058
Minus: Intangible Assets	7,286	6,184
Net Deferred Tax Assets	-	-
Deducted Equity Investments	-	-
Equals: Total	10,517,348	9,338,873
100% Risk-Weight Total (Above Total x 100%)	10,517,348	9,338,873
Off-balance-sheet items with 0% Credit Conversion Factor		
Unused Portions of Commitments with Original Maturity		
of 1 Year or Less	379,726	-
Unused Portions of Commitments that are	-	-
Unconditionally Cancelable	-	-
Total	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	22,586	14,676
20% Risk Weight	-	-
50% Risk Weight	-	-
100% Risk Weight	143,871	179,862
Total	166,457	194,539
Risk-Weighted Total	143,871	179,862

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Notes to the Financial Statements

For the year ended December 31, 2019

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

<u>28,774</u>	<u>35,972</u>
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Off-balance sheet items with 100% Credit Conversion Factor

Guarantees and Standby Letter of Credits

0 % Risk Weight

20% Risk Weight

50% Risk Weight

100% Risk Weight

Total

6,482,008	426,439
-	-
-	6,614,235
3,146,865	2,963,707
<u>9,628,873</u>	<u>10,004,381</u>

100% Credit Conversion Factor Total
(Risk-Weighted Totals x 100%)

<u>3,146,865</u>	<u>6,270,825</u>
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Total Risk-Weighted Assets

<u>14,399,125</u>	<u>16,400,456</u>
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Tier 1 Capital Ratio

<u>13.09%</u>	<u>9.99%</u>
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Regulatory Capital Ratio

<u>16.09%</u>	<u>12.88%</u>
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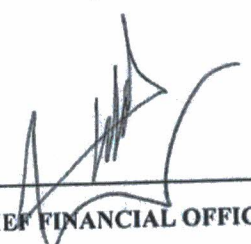
28 POST REPORTING DATE EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date, December 31, 2019 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.

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 CHIEF FINANCIAL OFFICER


 CHIEF EXECUTIVE
OFFICER


 BOS CHAIRMAN