

**OFFICE COPY**

**Islamic Bank of Afghanistan**  
(Formerly Bakhtar Bank)

**Condensed Interim Financial Statements**  
**For the 2<sup>nd</sup> Quarter Ended as at**  
**June 30, 2018**

**INDEPENDENT REVIEW REPORT TO SHAREHOLDERS***Introduction*

We have reviewed the accompanying Statement of Condensed Interim Financial Position of **Islamic Bank of Afghanistan** ("the Islamic bank") as of **June 30, 2018**, and the related Statement of Condensed Interim Comprehensive Income, Statement of Condensed Interim Changes in Equity and Statement of Condensed Interim Cash Flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements and Financial Institution's undertaking to operate in accordance with Shari'a are the responsibility of the Financial Institution's management. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and in conformity with the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with International Standards on Review Engagements (ISRE) 2410, which applies to review the historic financial information performed by the independent auditor of the entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standard for Islamic Financial Institution's issued by AAOIFI and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Our review indicates that these interim financial statements gives true and fair view of the financial position of the bank as at June 30, 2018, and of its financial performance and its cash flows for the three-month period then ended in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and in conformity with the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB).

*Emphasis of Matter*

We draw attention to the note no. 16 "Capital Management" which disclose that currently bank equity is not complying with requirements of regulations issued by Da Afghanistan Bank to maintain financial capital as per prescribed limit. However, bank has obtained commitment from the shareholder for injection of additional capital in case of equity shortfall. Our conclusion is not qualified in this respect.



Crowe Horwath Afghanistan

Auditors & Business Advisors  
Kabul


ISLAMIC BANK OF AFGHANISTAN  
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)  
As at June 30, 2018

As per International Financial Reporting Standards (IFRSs)		Audited 31-Dec-17 ---Afn '000'---	As per Financial Accounting Standards (FAS) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)		Un-Audited 30-Jun-18 ---Afn '000'---
	Note			Note	
<b>ASSETS</b>			<b>ASSETS</b>		
Cash and cash equivalents	5	7,722,538	Cash and cash equivalents	5	6,552,061
Loans and advances to customers	6	680,379	Murabaha Receivables	6	611,732
Investments	7	4,102,370	Investments:		
Property and equipment		397,876	Investments in Securities	7	283,308
Intangible assets		137,153	Other investments		387,265
Non current assets held for sale		104,958	Property and equipment		391,449
Deferred tax asset		126,955	Intangible assets		136,436
Other assets	8	1,284,801	Non current assets held for sale		107,847
			Deferred tax asset		126,955
			Other assets	8	2,262,140
<b>Total assets</b>		<b>14,557,030</b>	<b>Total assets</b>		<b>10,859,193</b>
<b>EQUITY AND LIABILITIES</b>			<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS'</b>		
<b>Equity</b>			<b>Liabilities</b>		
Share capital	9	1,725,000	Current Account from customers	10	6,182,992
Retained earning	13	(577,209)	Current Account from banks	11	-
			Other liabilities	12	473,931
<b>Total equity</b>		<b>1,147,791</b>	<b>Total liabilities</b>		<b>6,656,923</b>
<b>Liabilities</b>			<b>Equity of Unrestricted Investment Account</b>	10	3,222,337
Deposits from customers	10	12,168,896	<b>Owner's Equity</b>		
Deposits from banks	11	904,333	Share capital	9	1,725,000
Other liabilities	12	336,010	Retained earning	13	(745,067)
<b>Total liabilities</b>		<b>13,409,239</b>	<b>Total Owner's equity</b>		<b>979,933</b>
<b>Total equity and liabilities</b>		<b>14,557,030</b>	<b>Total Liabilities, Equity of Investment Accountholders and Owners' Equity</b>		<b>10,859,193</b>
<b>Contingencies and commitments</b>	14		<b>Contingencies and commitments</b>	14	

The annexed note 1 to 17 form an integral part of these condensed interim financial statements.

  
Chairman

  
Chief Executive Officer

  
Chief Finance Officer



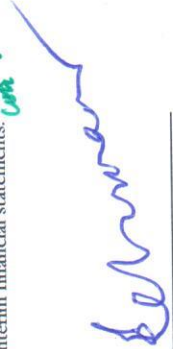
ISLAMIC BANK OF AFGHANISTAN  
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)  
FOR THE HALF YEAR ENDED JUNE 30, 2018

As per International Financial Reporting Standards (IFRSs)		As per Financial Accounting Standards (FAS) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	
Quarter ended 30 June 2017	Half yearly ended 30 June 2017	Quarter ended 31 March 2018	Quarter ended 30 June 2018
-----Afn '000'-----		-----Afn '000'-----	
			Note
Interest income	45,777	27,960	
Interest expense	(28,264)	(29,246)	
Net interest income	17,513	(1,286)	
Fee and commission income	60,644	40,554	
Fee and commission expense	(4,317)	(2,771)	
Net fee and commission income	56,327	37,783	
Foreign exchange gain / (loss)	11,202	(48,265)	
Other non-interest income	10,367	9,626	
Operating income	95,409	(2,142)	
Impairment (loss) on loans and	20,464	111,000	
Provision against non-funded facilities	2,361	18,199	
Employee benefit expenses	(62,450)	(80,938)	
Operating lease expenses	(24,592)	(21,139)	
Depreciation	(12,741)	(13,407)	
Amortization	(450)	(358)	
Other expenses	(74,279)	(112,773)	
Operating expenses	(151,687)	(99,416)	
Loss before taxation	(56,278)	(101,558)	
Provision for taxation- Deferred	-	-	
Profit/(Loss) for the period	(56,278)	(101,558)	
Other comprehensive income	-	-	
Total comprehensive loss for the period	(56,278)	(101,558)	
Income	112,617	27,960	
Deferred Sales Investments	(67,660)	(29,246)	
Return on Unrestricted Investment Accounts before the Bank's Share as Mudarib	44,957	(1,286)	
Banks Share as Mudarib	121,727	40,554	
Return on Unrestricted Investment Accounts	(9,842)	(2,771)	
	111,885	37,783	
	29,859	(48,265)	
	17,163	9,626	
	203,864	(2,142)	
Revenue from Banking Services	62,293	111,000	
Other Revenues	(36,588)	18,199	
Total Bank Revenue	(124,608)	(80,938)	
Administrative and General Expenditures	(43,002)	(21,139)	
Depreciation	(25,332)	(13,407)	
Total Operating Expenses	(901)	(358)	
Provision for impairment - net	(172,744)	(112,773)	
Net Income (Loss) Before Tax	(340,882)	(99,416)	
Provision for taxation- Deferred	(137,018)	(101,558)	
Net Income (Loss) for the period	59,359	-	
Other comprehensive income	(77,659)	(101,558)	
Total comprehensive loss for the period	(56,278)	(101,558)	

The annexed note 1 to 17 form an integral part of these condensed interim financial statements.



Chairman



Chief Executive Officer



Chief Finance Officer

**ISLAMIC BANK OF AFGHANISTAN**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

Note	Share capital	Retained earnings	Total
	.....Afn '000'.....		
Balance as at 01 April 2017	1,575,000	(665,143)	909,857
Comprehensive income:	-	-	-
Net loss for the period	-	(56,278)	(56,278)
Transactions with owners:	-	-	-
Ordinary shares Issued	150,000	-	150,000
Balance as at June 30, 2017	<u>1,725,000</u>	<u>721,421</u>	<u>1,003,579</u>
 <b>Balance as at 01 April 2018</b>	 <b>1,725,000</b>	 <b>(678,767)</b>	 <b>1,046,233</b>
Comprehensive income:	-	-	-
Net loss for the period	-	(66,300)	(66,300)
Transactions with owners:	-	-	-
Ordinary shares Issued	-	-	-
<b>Balance as at June 30, 2018</b>	<u><b>1,725,000</b></u>	<u><b>(745,067)</b></u>	<u><b>979,933</b></u>

The annexed note 1 to 17 form an integral part of these condensed interim financial statements.

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Chairman



Chief Executive Officer



Chief Financial Officer

**ISLAMIC BANK OF AFGHANISTAN**  
**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

		<u>30-Jun-18</u>	<u>30-Jun-17</u>
	Note	<u>.....Afn '000'.....</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(167,858)	(137,018)
Adjustments for:			
Depreciation		27,492	25,332
Amortization		1,319	901
Accrued profit on cash and cash equivalents		(14,285)	(22,659)
on Non Funded Facilities		1,210	36,588
on Financings		(34,017)	(62,293)
		<u>(186,139)</u>	<u>(159,149)</u>
Increase / decrease in operating assets and liabilities:			
Murabaha receivables / loan and advances	6	102,664	137,923
Other assets	8	(977,339)	(378,787)
Current Accounts from customers	10	(5,985,904)	(3,456,615)
Current Accounts from banks	11	(904,333)	(1,445,695)
Equity of Investment Account Holders	10	3,222,337	-
Other liabilities	12	137,921	334,319
		<u>(4,590,793)</u>	<u>(4,968,004)</u>
<b>Net cash generated from operating activities</b>			
Net Withholding taxes (paid) / collected from operating		<u>-</u>	<u>-</u>
		<u>(4,590,793)</u>	<u>(4,968,004)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments - Net of Profits	7	3,431,797	972,321
Non-current assets exchange fluctuation		-	2,831
Acquisition of property and equipment - net of adjustment		(11,481)	(23,235)
<b>Net cash used in investing activities</b>		<u>3,420,316</u>	<u>951,917</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of share capital	9	-	150,000
<b>generated from</b>		<u>-</u>	<u>150,000</u>
<b>Net increase in cash and cash equivalents</b>		<u>(1,170,477)</u>	<u>(3,866,087)</u>
Cash and cash equivalents at beginning of the period		7,722,538	11,708,109
<b>Cash and cash equivalents at the end of the period</b>	5	<u>6,552,061</u>	<u>7,842,022</u>

The annexed note 1 to 17 form an integral part of these condensed interim financial statements. *cut*

  
Chairman

  
Chief Finance Officer

  
Chief Executive Officer



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

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**1. STATUS AND NATURE OF OPERATIONS**

Islamic Bank of Afghanistan (formerly Bakhtar Bank) ("the Bank") is wholly owned subsidiary of Azizi Bank, Kabul Afghanistan. The Bank has been licensed for Islamic Banking activities by Da Afghanistan Bank (DAB) ("the Central Bank of Afghanistan"). The Bank obtained a business license from Afghanistan Investment Support Agency and is a limited liability company. The principal activities of the Bank are taking demand, saving and investment accounts, providing Murabaha, Ijara and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The registered office of the Bank is located at Malalai Zezhantoon Square Square, Quway – E – Markaz, Shahr – E – Naw, District 10, Kabul, Afghanistan.

Da Afghanistan Bank (DAB) had granted in principle approval for Islamic Banking business to the bank in January 2016. After in principle the bank initiated the process of procurement of Core banking system for Islamic banking, appointment of experienced Islamic banking management and development of Islamic banking policies and procedures to comply with DAB's requirements. From April 1, 2018 till April 8, 2018 the Bank was in conversion process and upon completion of conversion process, the DAB had granted full fledge Islamic Banking License to the Bank on April 9, 2018

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The Bank has adopted the Financial Accounting Framework of AAOIFI after conversion in to Islamic Banking. The financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and in conformity with the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB) takes precedence. In accordance with the requirements of AAOIFI, for matters, which are not covered by the AAOIFI standards, the Bank uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

Corresponding Figures are not comparable due to change of Financial Accounting Framework. Further, as the Bank converted during accounting period therefore, First quarter numbers has been restated due to adoption of AAOIFI.

Financial Statements are in conformity with Shariah rules and regulations after obtaining License from DAB.

**2.2 Basis of measurement**

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

**2.3 Functional and presentation currency**

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

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

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- 2.4 Da Afghanistan Bank had granted in principle approval for Islamic Banking business to the bank in January 2016. After in principle the bank initiated the process of procurement of Core banking system for Islamic banking, appointment of experienced Islamic banking management and development of Islamic banking policies and procedures to comply with DAB's requirements. In addition to the above to strengthen the equity due to accumulated losses in conversion process, shareholders confirmed their support to the bank due to conversion process.

**3. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial years. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgment will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgments used to measure and classify the carrying amounts of following assets and liabilities have been taken into

- a) Provision for loan losses
- b) Provision for income taxes
- c) Useful life of property and equipment and intangible assets
- d) Held to maturity investments

**4. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below

**a. Cash and Cash Equivalents**

Cash and cash equivalents as referred to in the statement of cash flows comprise cash in hand, balances and placements with central banks in non-restricted accounts, balances with other banks and financial institutions and sales receivable with an original maturity of three months or less.

**b. Receivables**

**(i) - Murabaha receivable**

Murabaha receivable are stated net of deferred profits, amounts written-off and provision for doubtful debts, if any. Murabaha receivable are sales on deferred payment terms. The Bank arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then sells this commodity to Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in installments by the Murabeh over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

**(ii) - Wakala receivable**

Wakala receivable are stated at cost less provision for doubtful amount.

**(iii) - Salam receivable**

Salam receivable is the outstanding amount at the end of the year less any provision for doubtful

**(iv) - Istisna'a receivable**

Istisna'a receivable is the outstanding amount at the end of the year less any provision for doubtful



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

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**c. Ijara Muntahia Bittamleek and Ijara income receivable**

Ijara Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease) term, provided that all Ijarah instalments are settled. Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life, whichever is lower. Ijara income receivable represent outstanding rentals at the end of the year less any provision for doubtful amount.

**d. Investments**

Investments comprise equity-type instruments at fair value through statement of income and through equity and debt-type instruments at amortised cost.

**(i) - Debt-type instruments at amortised cost**

Debt-type instruments, which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the statement of income, when the investment is de-recognised or impaired.

**e. Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land is recognised in the consolidated statement of changes in owner's equity.

**f. Fair values**

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sells transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for
- (iv) Investments which cannot be re-measured to fair value using any of the above techniques are carried at cost, less provision for impairment

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

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**g. - Equity of investment accountholders**

All equity of investment accountholders are measured by the amount received during the time of contracting. At the end of the financial period equity of investment accountholders is measured at the amount received plus accrued profit and related reserves less amounts settled.

**h. Revenue recognition**

**1 - Receivables**

Profit from sales transactions (Murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

**2- Wakala financing**

Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

**3- Ijara Muntahia Bittamleek**

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing Ijara Muntahia Bittamleek accounts that are above 90 days is excluded from the consolidated statement of income.

**4 - Fees and commission income**

Fees and commission income including structuring fees is recognised when earned.

**5 - Income from investments**

Income from investments is recognised when earned.

**i. Return on equity of investment accountholders**

Investors' share of income is calculated based on the income generated from joint investment accounts. The Bank's "Mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity and without completing three months are normally not entitled to any income. Equity of investment accountholders held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge. The basis applied by the Bank in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of equity of investment accountholders].



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

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**j. Taxation**

**Current**

The current income tax is calculated in accordance with the Income Tax Law, 2009. Management periodically evaluates position taken in tax return with respect to situation in which applicable tax regulation is subject to interpretation and establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary can be utilized. Such differences of deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that effect neither the taxable profit nor the accounting profit.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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.

**k. Contingencies and Commitments**

Contingencies are possible obligations or assets that arises from past events and whose existence will be confirmed only by occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the Bank. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resourced cannot be determined are also contingencies. A commitment is a binding contract for the exchange of a specified quantity of resourced at a specific price on a specified future dates or date.

**l. Earnings prohibited by Shari'a**

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non Islamic income is credited to a charity fund where the Bank uses these funds for social welfare activities.

**m. Foreign currencies**

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the date of the consolidated statement of financial position. All differences are taken to the statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

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The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

**n. Impairment of financial assets**

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income. In the case of equity-type instruments at fair value through equity, impairment is reflected directly as a write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income while any subsequent increases in their fair value are recognised directly in owners' equity.

**o. Judgments and estimates**

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

**Impairment and uncollectibility of financial**

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment (by the Bank) of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

**Going concern**

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

**Classification of investments**

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

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**p. Joint and self financed**

Investments, financing and receivables that are jointly owned by the Bank and the equity of investment accountholders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self financed".

**q. Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously

**r. Shari'a supervisory board**

The Bank's business activities are subject to the supervision of a Shari'a supervisory board consisting of two members appointed by the shareholders.

**s. Trade date accounting**

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2018**

	Note	30-Jun-18 .....Afn '000'.....	31-Dec-17
<b>5. CASH AND CASH EQUIVALENTS</b>			
Cash in hand	5.1	1,861,862	2,833,922
Balances with banks:			
Balances with Da Afghanistan Bank		2,840,673	2,318,259
Balances with other banks	5.2	1,849,526	2,570,357
		4,690,199	4,888,616
		<u>6,552,061</u>	<u>7,722,538</u>
<b>5.1 Cash in hand</b>			
Local currency		748,275	1,143,322
Foreign currency		1,113,587	1,690,600
		<u>1,861,862</u>	<u>2,833,922</u>
<b>5.2 Balances with other banks</b>			
Axis Bank Limited		-	24,819
Azizi Bank		-	185,749
Aktif Bank		148,718	140,761
Yinzhou Bank		1	8
Development Credit Bank Ltd		20,372	36,612
BMCE Bank		738,847	1,882,301
Yes Bank		3,149	106
Pashtany Bank		300,001	300,001
Nurol Bank		146,540	-
Transkapital Bank		455,448	-
Shua Capital		36,450	-
		<u>1,849,526</u>	<u>2,570,357</u>



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	Note	30-June-2018 .....Afn '000'.....	31-Dec-2017 .....Afn '000'.....
<b>6. MURABAHA RECEIVABLES</b>	6.1	<b>611,732</b>	<b>680,379</b>
Financing - at amortized cost			
6.1			
		Gross amount	Impairment allowance
		Jointly Financed	Carrying amount
		Self Financed	Impairment allowance
		Impairment allowance	Carrying amount
		30 June 2018	31 December 2017
		.....Afn '000'.....	.....Afn '000'.....
<b>Islamic Financing - Sale base contracts</b>			
Murahaba receivables		617,861	617,861
<b>Conventional Financing (Prior to Conversion)</b>			
Retail customers- running finances		-	-
Long term commercial loans		-	-
Small and medium enterprise loan		-	-
Short term loans to employees		-	-
Other public consumer loans		-	-
		617,861	617,861
		617,861	617,861
		-	-
		6,129	6,129
		611,732	611,732
		714,220	714,220
		33,841	33,841
		680,379	680,379
		Amount '000 (Afn)	Amount '000 (Afn)
i) By Geographical Distribution			
With in Kabul		558,369	583,886
Outside Kabul		59,491	33,974
		617,860	617,860
ii) By type of Customer			
Domestic Business Enterprises			583,886
Individuals			33,974
			617,860
iii) By profit rate sensitivity			
Fixed Rate		617,860	583,886
			33,974
			617,860
There is no financing with variable profit rates.			
iv) By Economic purpose			
Working Capital			583,886
Personnel use			33,974
			617,860
v) By Residual Contractual Maturity			
Within one year		562,274	6,129
One year to three years		26,987	-
Three years to five years		28,599	6,129
More than five years		-	-
		617,860	6,129
vi) Impairment by Economic Purpose			
Working Capital			6,129
Personnel use			-
			6,129
		30-June-2018	31-Dec-2017
		.....Afn '000'.....	.....Afn '000'.....
<b>Movement in Impaired Financing</b>			
As at January 01		33,841	430,500
Charged for the period / year		6,129	(77,064)
Reversal during the period / year		-	(221,495)
Written off during the period / year		-	(98,100)
Impairment of loans acquired by parent bank - at par		(33,841)	-
Closing balance		6,129	33,841

**7. INVESTMENTS**

		Jointly Financed	Self Financed	Gross Amount
		2018 June	December 2017	2018 June
		December 2017	2018 June	December 2017
		.....Afn '000'.....	.....Afn '000'.....	.....Afn '000'.....
<b>Investment in securities - Held to Maturity</b>				
Capital Notes	7.1	-	-	-
Quoted Securities:				
Corporate Sukuk	7.2	74,217	-	74,217
Government Sukuk		209,091	-	209,091
		283,308	-	283,308
<b>Other investments</b>				
Investment is equity instrument - Afghanistan Payment System	7.3	-	16,888	16,888
Money Market Instrument	7.4	370,377	-	370,377
		370,377	16,888	387,265
		653,685	16,888	670,573
				4,102,370
7.1 Capital Notes with DAB				
Capital notes - 07 days	Interest rate range	2017: 0.1400% per annum	-	699,981
Capital notes - 28 days	2017: 0.135% per annum	-	-	1,899,766
Capital notes -91 days	2017: 1.440% per annum	-	-	996,373
Capital notes -182 days	2017: 4.300% per annum	-	-	489,362
				4,085,482

7.2 These investment are made for the period ranging from 03 to 07 years carrying CPN ranges from 3.084% to 5.624%. Bank has positive intentions and ability to hold them until maturity. Cuurently the accretion of discount net of amortization of premium is 5,685,752 Afghanis.

7.3 This represents 16.66% equity investment in Afghanistan Payment System (APS) incorporated as limited liability company with AISA on January 31, 2011.

7.4 These investment are made in perpetual funds carrying profit ranges from 3.27% to 4.68% per annum.

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	30-Jun-18	31-Dec-17
	..... Afn '000' .....	
<b>8 OTHER ASSETS</b>		
Prepayments	63,312	59,370
Receivable from DAB	5,104	5,104
Required reserve held with DAB	786,485	828,201
Security deposit	1,500	1,500
Advance income tax	166,428	145,196
Western union - In bound balance	833,434	51,938
Murabaha profit receivable	2,470	13,051
Remittance in transit	150	-
Others	403,257	180,441
	<u>2,262,140</u>	<u>1,284,801</u>
<b>9 SHARE CAPITAL</b>		
<i>Authorized</i>		
250,000 ordinary shares of Afs 10,000 each	<u>2,500,000</u>	<u>2,500,000</u>
<i>Issued and paid up</i>		
1,725,000 ordinary shares (2017: 1,725,000) of Afs 10,000 each	<u>1,725,000</u>	<u>1,725,000</u>
	<b>Number of shares</b>	
	<b>30-Jun-18</b>	<b>31-Dec-17</b>
<b>9.1</b> Following is the reconciliation of number of shares:		
Number of shares at beginning of the period	172,500	157,500
Shares issued during the year	-	15,000
Number of shares at end of the period	<u>172,500</u>	<u>172,500</u>
	<b>30-Jun-18</b>	<b>31-Dec-17</b>
	..... Afn '000' .....	
<b>9.2</b> Following is the reconciliation of amount of share capital:		
Share capital at beginning of the period	1,725,000	1,575,000
Shares issued during the period	-	150,000
Share capital at end of the period	<u>1,725,000</u>	<u>1,725,000</u>
<b>10 CURRENT ACCOUNTS AND EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS</b>		
	<b>30-Jun-18</b>	<b>31-Dec-17</b>
	..... Afn '000' .....	
<b>CURRENT AND SAVING ACCOUNTS FROM CUSTOMERS:</b>	<b>Islamic</b>	<b>Conventional</b>
Demand / Current account	4,150,272	7,461,549
Margin against bank guarantees	-	2,281,885
Deposits against financial commitments	2,032,720	-
Saving deposits	-	2,425,462
	<u>6,182,992</u>	<u>12,168,896</u>
<b>EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS:</b>		
Mudarbaha saving desposits	<u>3,222,337</u>	<u>-</u>
	<u>3,222,337</u>	<u>-</u>
<b>TOTAL DEPOSITS FROM CUSTOMERS AND EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS</b>	<u><u>9,405,329</u></u>	<u><u>12,168,896</u></u>



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	Note	30-Jun-18	31-Dec-17
		.....Afn '000'.....	
<b>11 CURRENT ACCOUNT WITH BANKS / DEPOSITS FROM BANKS</b>			
Azizi Bank		-	904,333
		<u>-</u>	<u>904,333</u>
<b>12 OTHER LIABILITIES</b>			
Withholding tax payable		8,153	5,326
Creditors and accruals		409,475	281,015
Profit payable		13,036	-
Deferred income		15,650	-
Loss Reserves for off-Balance Sheet Commitments		27,617	46,653
Others		-	3,016
		<u>473,931</u>	<u>336,010</u>
<b>13 RETAINED EARNINGS</b>			
Opening Balance		(577,209)	(643,763)
(Loss) / Profit for the year		-	66,554
(Loss) for the first quarter as per IFRS	13.1	(101,558)	-
(Loss) for the second quarter as per AAOIFI		(66,300)	-
Closing Balance		<u>(745,067)</u>	<u>(577,209)</u>
13.1 Bank had secured Islamic Bank License from Da Afghanistan Bank on April 09, 2018, however conversion was effectively started from April 01, 2018. Hence the second quarter profit and loss account has been disclosed separately in these financial statements.			
<b>14 CONTINGENCIES AND COMMITMENTS</b>			
Guarantees and Letter of credit issued on behalf of cutomers		4,174,929	4,665,318
		<u>Quarter ended</u>	<u>Quarter ended</u>
		<u>30 June 2018</u>	<u>30 June 2017</u>
		.....Afn '000'.....	
<b>15 EMPLOYEE BENEFIT EXPENSES / OTHER ADMINISTRATIVE EXPENSES</b>			
Salaries and wages and other Benefits		62,299	62,450
Other Administrative Expenses		171,012	112,062
		<u>233,311</u>	<u>174,512</u>

ISLAMIC BANK OF AFGHANISTAN

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

FOR THE HALF YEAR ENDED JUNE 30, 2018

16. Capital management

*Regulatory capital*

The Bank's 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 minimum 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.

The Bank's regulatory capital position at 30 June 2018 was as follows:

	30 June 2018	31 December 2017
	.....Afn '000' .....	
<b>Tier 1 capital</b>		
Total equity capital	979,933	1,147,791
Less: Intangible assets	(136,436)	(137,153)
Less: Deferred tax assets	(126,955)	(126,955)
Less: Profit during the period / year	-	(66,554)
<b>Total tier 1 (core) capital</b>	<b>716,543</b>	<b>817,129</b>
<b>Tier 2 capital</b>		
Add: Profit for the period / year	-	66,554
Add: General loss reserve on credit	-	6,046
	-	72,600
Less: Equity Investment	16,888	16,888
<b>Total regulatory capital</b>	<b>699,655</b>	<b>872,841</b>

17. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on August 13 2018.

CWA

Chairman

Chief Executive Officer

Chief Finance Officer