

Islamic Bank of Afghanistan
Financial Statements Along with the
Accompanying Information
For the Year ended December 31, 2022

INDEPENDENT AUDITORS' REPORT

To the shareholders of Islamic Bank of Afghanistan

Opinion

We have audited the financial statements of Islamic Bank of Afghanistan ("the Bank"), which comprise the statement of financial position as at December 31, 2022, 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 present fairly, in all material respects, the financial position of the Bank as at December 31, 2022, and of its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards (FAS), issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB), 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 the Central Bank of Afghanistan (DAB).

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 Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standard Board for Accountants' Code of Ethics for 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.

Emphasis of Matter

1. We draw attention to the note no. 7.1.3 and 8.2 of the financial statements, which describes the effects of suspension of "Asset Classifications and Provisioning Regulations" by the Da Afghanistan Bank. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. However, we have found nothing to be of significant nature to be reported as key audit matters.

Other Matter

The financial statements of the Bank for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements on May 11, 2022.

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Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards (FAS), International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and with the requirements of the Law of Banking in Afghanistan and directives issued by the Da Afghanistan Bank (DAB), 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 Responsibility

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 the 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 scepticism 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, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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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.

Lynx Eyed Chartered Accountants.
Lynx Eyed Chartered Accountants
An independent member firm of Morison Global

Kabul



ISLAMIC BANK OF AFGHANISTAN
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022

		31-Dec-22	31-Dec-21
	Note	----- AFN '000' -----	-----
ASSETS			
Cash and cash equivalents	5	3,055,032	7,166,688
Receivable from financial institutions	6	-	1,000,000
Islamic financings	7	434,977	595,061
Investments	8	169,478	10,531,684
Property and equipment	9	374,224	418,798
Intangible assets	10	90,111	176,344
Investment in real estate	11	102,731	112,920
Deferred tax asset	12	65,198	65,198
Other assets	13	4,258,229	3,759,619
Total Assets		8,549,980	23,826,312
LIABILITIES AND EQUITY			
Owner's Equity			
Share Capital	18	1,775,000	1,775,000
Retained Earnings	19	(302,356)	(73,700)
Total Owner's Equity		1,472,644	1,701,300
Non current liabilities			
Equity of unrestricted investment account holders	14	3,498,131	8,245,708
		3,498,131	8,245,708
Current liabilities			
Current account from customers	14	2,912,692	5,544,497
Due to financial institutions	15	-	7,647,911
Other liabilities	16	636,646	657,029
Provision for taxation	17	29,867	29,867
		3,579,205	13,879,304
TOTAL EQUITY AND LIABILITIES		8,549,980	23,826,312

Contingencies and Commitments

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The annexed notes from 1 to 32 form an integral part of these financial statements.



Chief Executive Officer



Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	31-Dec-22 ----- AFN '000' -----	31-Dec-21
Deferred sales and diminishing musharaka rentals	21	31,369	65,030
Income on investments	22	36,185	369,371
Return on unrestricted investments accounts	23	(49,514)	(256,511)
Net income		18,040	177,890
Revenue from banking services	24	35,793	80,256
Expense on banking services		(17,124)	(40,792)
Net fee and commission income		18,669	39,464
Foreign exchange gain	25	136,161	821,230
Other income	26	145,960	161,194
Operating income		318,830	1,199,778
Administrative and general expenses	27	(425,248)	(886,965)
Depreciation for the year	9	(36,371)	(57,246)
Amortization for the year	10	(86,659)	(87,014)
Reintegration / (Impairment) charge for the year		792	(19,219)
Loss / profit before taxation		(228,656)	149,334
Taxation	28	-	(29,867)
Loss / profit for the year		(228,656)	119,467
Other comprehensive (loss) / income			48,170
Total comprehensive (loss) / income for the year		(228,656)	167,637
Basic and diluted earnings per share		(128.82)	84.13

The annexed notes from 1 to 32 form an integral part of these financial statements.



Chief Executive Officer



Chief Financial Officer

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ISLAMIC BANK OF AFGHANISTAN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

Balance as at January 01, 2020
Profit for the year
Other Comprehensive Income
Balance as at December 31, 2021

Balance as at January 01, 2022
Loss for the year
Other Comprehensive Income
Balance as at December 31, 2022

Share capital	Retained earnings	Total
----- AFN '000' -----		
1,775,000	(241,337)	1,533,663
-	119,467	119,467
-	48,170	48,170
<u>1,775,000</u>	<u>(73,700)</u>	<u>1,701,300</u>
1,775,000	(73,700)	1,701,300
-	(228,656)	(228,656)
-	-	-
<u>1,775,000</u>	<u>(302,356)</u>	<u>1,472,644</u>

The annexed notes from 1 to 32 form an integral part of these financial statements.



Chief Executive Officer



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Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	31-Dec-22 AFN '000'	31-Dec-21 AFN '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / Profit before taxation		(228,656)	149,334
Adjustments for:			
Depreciation	9	36,371	57,246
Amortization		86,659	87,014
Impairment (gain)/ loss on Financings		(792)	13,298
		<u>(106,418)</u>	<u>306,892</u>
Increase / decrease in operating assets and liabilities:			
Islamic financing	7	160,876	(95,881)
Other assets	13	(498,610)	1,270,342
Receivable from financial institutions	6	1,000,000	(1,000,000)
Current Accounts from customers and unrestricted funds	14	(7,379,382)	(12,811,261)
Due to Financial Institutions	15	(7,647,911)	6,486,161
Other liabilities	16	(20,383)	131,533
Provision for taxation		-	29,867
		<u>(14,491,828)</u>	<u>(5,682,347)</u>
Net cash generated from operating activities			
Tax paid		-	-
Net cash (used in) / generated from operating activities		<u>(14,491,828)</u>	<u>(5,682,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments	8	10,362,206	(1,292,807)
Investment in Real Estate / Non-current assets exchange fluctuation		10,189	(17,377)
Acquisition of property and equipment - net of adjustment		7,777	(21,354)
Net cash used in investing activities		<u>10,380,172</u>	<u>(1,331,538)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital	18	-	-
Net cash (used in) / generated from financing activities		<u>-</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents		<u>(4,111,656)</u>	<u>(7,013,885)</u>
Cash and cash equivalents at beginning of the year		7,166,688	14,180,573
Cash and cash equivalents at the end of the year	5	<u><u>3,055,032</u></u>	<u><u>7,166,688</u></u>

The annexed notes from 1 to 32 form an integral part of these financial statements.


Chief Executive Officer


Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

1 STATUS AND NATURE OF OPERATIONS

- 1.1** 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, 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 approval 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 fledged Islamic Banking License to the Bank on April 9, 2018. Currently bank is operating 45 Branches and 01 cash counter.

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 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) 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.

Financial Statements are in conformity with Shari'ah rules and regulations after obtaining License from DAB.

2.2 Amendments to published accounting and reporting standards which became effective for the year ended December 31, 2022

Amendment to standards issued and effective during the financial year beginning 1 January 2022:

	Effective Dates (Accounting period beginning on or after)
Revised Financial Accounting Standard (FAS) 01 "General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions" supersedes the earlier FAS 01	January 01, 2022
Financial Accounting Standard (FAS) 39 "Financial Reporting for Zakat" supersedes FAS 09 "Zakah"	January 01, 2022
Financial Accounting Standard (FAS) 40 "Financial Reporting for Islamic Finance Windows" supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions"	January 01, 2022

2.3 Basis of measurement

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

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ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2.4 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.

- 2.5** 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 consideration:

- a) Provision for Financing 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 amount.

(iv) - Istisna'a receivable

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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. Financial Assets

The Bank classifies its financial assets in four categories: at fair value through profit or loss, financings and receivables, held to maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

ii) Financings and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit and loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with banks and receivables from financial institution, loan and advances to customers and security deposits and other receivables are classified

iii) Held-to-maturity financial assets

Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale.

iv) Available-for-sale financial assets

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ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investment or (iii) financial assets at fair value through profit or loss.

Recognition, subsequent measurement and adjustments of fair values of financial assets

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statements of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gain and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Impairment of financial assets

i) Assets carried at amortized cost except for Financings

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash Flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiations of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration below investment grade level.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credits losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

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ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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 was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

ii) Financings and receivables

These are stated net of general provisions on Financings and advances considered "Standard" and specific provisions for non-performing loans and advances, if any. The outstanding principal of the advances are classified in accordance with the Classification and Loss Reserve Requirement (CLRR) issued by DAB.

Standard

These are Financings and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the client or by the collateral, if any supporting it.

Watch

These are financings and advances, which are adequately protected by the collateral, if any supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification of Substandard. further, all financings and advances which are past due by 31 to 60 days for principal or interest payment are classified as Watch. A provision is maintained in the books of account @5% of value of such financings and advances.

Substandard

These are financings and advances, which are inadequately protected by current sound net worth and paying capacity of the client or by the collateral, if any, supporting it. Further, all financings and advances which are past due by 61 or 120 days for principal or profit payments are also classified as Substandard. A provision is maintained in the books of account @25% of value of such loans and advances.

Doubtful

These are financings and advances, which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. further, all financings and advances which are past due by 121 to 480 days for principal or profit payments are also classified as Doubtful. A provision is maintained in the books of account @50% of value of such loans and advances.

Loss

These are financings and advances, which are not collectable and or such little value that in continuance as a bankable asset is not warranted. Further, all financings and advances which are past due over 481 days for principal or interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

iii) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired in the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets previously recognized in the statements of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instrument are not reversed through the statement of comprehensive income.

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ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

Financial Liabilities

The Bank classifies its financial liabilities in following categories;

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of trading or payment in the short term. Derivatives (if any) are also categorized as held for trading unless they are designed as hedges.

ii) Other financial liabilities measured at amortized cost

These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost; any differences between the proceed (net of transaction costs) and the redemption value is recognized in the income statements.

f. Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation /amortization are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. (cash-generating units).

g. 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 capitalized; 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.

h. 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 position date.

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(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 investments with similar terms and risk characteristics.

(iv) Investments which cannot be re-measured to fair value using any of the above techniques are carried at cost, less provision for impairment.

i. 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.

j. Revenue recognition

a - 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.

b- 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.

c- 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.

d - Fees and commission income

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

e - Income from investments

Income from investments is recognised when earned.

k. 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].

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l. 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.

m. 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.

n. 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.

o. 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. 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.

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p. 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.

q. 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 assets

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.

r. 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".

s. 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.

t. Shari'a supervisory board

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

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NOTES TO THE FINANCIAL STATEMENTS
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u. 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.

v. Non-current assets held for sale

Non-current assets held for sale signifies those assets taken up by the bank from collaterals held against the written off and doubtful loans and advances. For classifying these assets criteria set forth in the relevant standard has been followed i.e. management is committed to plan to sell, the asset is immediately available for sale, an active programme to locate the buyer has been initiated, the sale is highly probable within 60 months of classification as held for sale, the assets are being actively marketed for sales price reasonable in relation to its fair value and actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

At the time of classification as held for sale. Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRSs. After classification as held for sale, Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

At the time of classification as held for sale; Immediately prior to classifying an asset or disposal group as held for sale, impairment is measured and recognized in accordance with the applicable IFRSs. After classification as held for sale; Calculate any impairment loss based on the difference between the adjusted carrying amounts of the asset and fair value less costs to sell. Any impairment loss that arises by using the measurement principles in IFRS 5 must be recognized in profit or loss.

Subsequent increases in fair value. A gain for any subsequent increase in fair value less costs to sell of an asset can be recognized in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognized in accordance with the relevant IFRSs.

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	Note	31-Dec-22 AFN '000'	31-Dec-21
5 Cash and cash equivalents			
Cash in hand			
Local currency		229,423	315,188
Foreign currency		276,600	429,327
		506,023	744,515
Balances with banks:			
Balances with Da Afghanistan Bank	5.1	892,534	2,169,765
Balances with other banks	5.2	1,656,475	3,400,612
Balances with other Financial Institutions	5.3	-	851,796
		2,549,009	6,422,173
Total cash and cash equivalents		3,055,032	7,166,688
5.1 Balances with Da Afghanistan Bank			
Current account			
Local currency		132,567	330,927
Foreign currency		759,967	1,838,838
		892,534	2,169,765
5.2 Balances with other banks			
Abu Dhabi Islamic Bank - UAE		400,467	211,116
Aktif Bank - Turkey		25,638	30,429
Al Salam Bank - Bahrain		917,587	9,487
Bank of Africa Europe SA		91,504	496,722
CSC Bank - Lebanon		2,840	18,621
HDFC Bank - India		213	6,111
Nurol Bank - Turkey		119,966	14,210
Pashtany Bank		-	30,001
Qatar National Bank		4,981	111,173
Reyl Bank		5,935	186,599
Transkapital Bank		11,246	2,004,544
Vaktif Katilim Bankasi		60,180	21,335
Yes Bank		15,917	10,823
Yinzhou Bank - India		1	249,441
		1,656,475	3,400,613
5.3 Balances with other financial institutions			
Shuaa capital - UAE		-	58,099
Daman investments - UAE		-	793,697
		-	851,796
6 Receivable from financial institutions			
Current accounts:			
6.1		-	1,000,000
6.1	The Bank had entered into a memorandum of understanding effective 07-January-2021 with Pashtany Bank for back-to-back interest free deposit exchange arrangement whereby an amount of AFN 1 Million was received by Pashtany Bank against a deposit of USD 12.5 Million made by Pashtany Bank with the Islamic Bank of Afghanistan (a repo transaction), for a period of one year.		

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7 Islamic financings

Financing - at amortized cost

7.1

Islamic Financing

Murahaba recevables

Diminishing musharaka

Movement in Impaired Islamic Financing and Related Assets

Opening Balance

Charged for the year

Changes in exchange fluctuations

Closing balance

7.1.1	It includes receivables under Murabaha arrangements where the bank entered into sell agreements with customers on deferred payment basis.	48,531	56,731
7.1.2	It includes proportionate investment of the bank in Musharaka asset mainly in real estate and rental income is ranging between 11% to 14% per annum (2021: 11% to 14%).		

712 are sum entered into sell agreements with customers on deferred payment basis.

7.1.3 Circular reference number RSR No: 11068 dated 22 December 2021, issued by the Da Afghanistan Bank provides relief to the banks to maintain the asset classification as of 30 June 2021 and loan loss provision made as of that date. Consequently, the Bank has maintained the asset classification and provisioning as of 30 June 2021. Subsequent deterioration in the assets classification and any resulting increase has not been incorporated.

The latest relief with regard to waiving off the implications of 'Asset Classification and Provisioning Regulations 2017' issued by Da Afghanistan Bank (DAB) was granted through letter no. 12398/12923 dated 22 Ramzan 1444- Islamic Hijri Date, 24 Hamal 1402 Hijri Shamsi Date (April 13, 2023) till April 02, 2024. This regulation deals with

This regulation deals with provisioning against loans and advances, suspension of interest on non-performing loans, re-possessed assets, classification of off-balance sheet items, classification of investments and other assets, credit risk management, etc. The objective was to protect the banking sector from immense risk of default and financial impact of current economic turmoil.

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8 Investments

	Note	Jointly Financed		Self Financed		Gross Amount	
		31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021
	 AFN '000'					
Investment by Types							
Available for Sale							
Sovereign sukuk		-	5,557,491	-	-	-	5,557,491
Corporate sukuk		-	4,657,182	-	-	-	4,657,182
Revaluation Gain / (Loss)		-	179,327	-	-	-	179,327
Held to Maturity		-	10,394,000	-	-	-	10,394,000
Sovereign sukuk		53,471	-	-	-	53,471	-
Quasi - Sovereign sukuk	8.1	-	-	-	-	-	-
Other investments		53,471	-	-	-	53,471	-
Money Market Fund		-	-	116,007	137,682	116,007	137,684
	8.2	53,471	10,394,000	116,007	137,682	169,478	10,531,684

8.1

8.2

This investment is made for the period 2 years and six months (2021: 1 to 10 years) carrying coupon rate 4.489% (2021: 2.37% to 5.80%).

This represents the investment made through The ICD MMF Investment Agent Bank (the "Agent" or "Investtrade"), currently management along with the agent is in the process of recovering the funds invested through a lawsuit filed in the Bahrain Chamber for Dispute Resolution ("BCDR") against its local banks who were the primary agents and, in parallel, included further defendants in the same lawsuit to establish a broader scope for potential investment recovery. Management on the basis of current proceedings is hopeful of its favourable outcome, coupled with the suspension of "Asset Classification and Provisioning Regulations" as disclosed in Note 7.1.3, no impairment provision is recognized in these financial statements.

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9 Property and equipment

	Leasehold improvements	Office Equipment	Furniture & Fittings	IT equipment	Motor Vehicles	Assets held for capitalization	Total
 AFN '000'						
Gross carrying amount							
Balance as at January 01, 2021	81,825	162,298	37,117	217,856	51,147	326,652	876,895
Additions	2,368	7,717	1,587	8,705	2,212	569	23,158
Balance as at December 31, 2021	84,193	170,015	38,704	226,561	53,359	327,221	900,053
Balance as at January 01, 2022	84,193	170,015	38,704	226,561	53,359	327,221	900,053
Addition/deletion	460	94	13	1,900	-	(10,670)	(8,203)
Balance as at December 31, 2022	84,653	170,109	38,717	228,461	53,359	316,551	891,850
Depreciation							
Balance as at January 01, 2021	69,089	126,183	20,176	178,013	30,547	-	424,008
Depreciation for the year	6,354	13,265	2,908	29,521	5,198	-	57,246
Balance as at December 31, 2021	75,443	139,448	23,084	207,534	35,745	-	481,254
Balance as at January 01, 2022	75,443	139,448	23,084	207,534	35,745	-	481,254
Depreciation for the year	3,979	15,923	2,446	8,918	5,105	-	36,371
Balance as at December 31, 2022	79,422	155,371	25,531	216,452	40,850	-	517,625
Carrying amount							
Balance as at December 31, 2021	8,750	30,567	15,619	19,027	17,614	327,221	418,798
Balance as at December 31, 2022	5,231	14,738	13,186	12,009	12,509	316,551	374,224
Depreciation rates	20%	20%	5% - 20%	33.33%	15%	0%	

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10 Intangible assets

	Islamic Banking Development Cost	Software	Goodwill	Total
 AFN '000'			
Gross carrying amount				
Balance as at January 01, 2021	198,498	18,884	135,985	353,367
Additions	-	1,804	-	1,804
Balance as at December 31, 2021	198,498	20,688	135,985	355,171
Balance as at January 01, 2022	198,498	20,688	135,985	355,171
Additions	-	426	-	426
Balance as at December 31, 2022	198,498	21,114	135,985	355,597
Amortization				
Balance as at January 01, 2021	76,107	15,706	-	91,813
Amortization during the year	39,707	1,979	45,328	87,014
Balance as at December 31, 2021	115,814	17,685	45,328	178,827
Balance as at January 01, 2022	115,814	17,685	45,328	178,827
Amortization during the year	39,708	1,623	45,328	86,659
Balance as at December 31, 2022	155,522	19,308	90,656	265,486
Carrying amount as at December 31, 2021	82,684	3,003	90,657	176,344
Carrying amount as at December 31, 2022	42,976	1,806	45,329	90,111

- 10.1 Purchased software has estimated useful life of 3 years and is being amortized at the rate of 33.33%.
- 10.2 Goodwill represents the difference between the assets acquired and liabilities assumed by the Bank on the acquisition of the business of the Development Bank of Afghanistan ("DBA") which was acquired under an agreement, dated 18 March 2009, between DAB and Azizi Bank (parent entity of the Bank). Da Afghanistan Bank issued fresh license to the Bank on conclusion of the above mentioned agreement alongwith 16 existing Branch licenses. Management has passed the resolution to start impairment of goodwill @ 33% from 2021.
- 10.3 Islamic Banking development cost is related to cost incurred during the conversion phase i.e., between January 2018 till March 2018. Management has resolved to amortize the cost at the rate of 20% from 2019.

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11 Investment in real estate

The management had re-classified the Non-current Asset Held for Sale to Investment in Real Estate on the basis of approval letter for full-fledge conversion to Islamic Bank of Da Afghanistan Bank vide Letter No. 6786/6808

Dated 26-10-1396, whereby the bank is allowed to invest in real estate upto 20% of its regulatory capital.

12 Deferred tax asset

Opening Balance
Charged for the year
Reversal during the year
Closing Balance

Note	31-Dec-22 AFN '000'	31-Dec-21
	65,198	65,198
	-	-
	-	-
	65,198	65,198

13 Other assets

Prepayments
Security deposit
Margin deposits with Pashtany Bank against BG in favor of DABS 13.1
Required reserves with Da Afghanistan Bank 13.2
Advance income tax
Western Union - Imprest and Settlements
Money Gram Incorporation - Imprest and Settlements
Ria - Imprest and Settlements
Murabaha profit receivable / accrued profit
Receivable from Afghan Payment System 13.3
Marked to market and trading foreign exchange gain/(loss)
Others

30,336	55,227
928	8,639
350,001	-
440,892	1,008,029
151,762	151,762
528,975	217,929
11,211	11,161
11,933	-
156,581	153,175
3,210	8,063
2,132,013	1,565,881
440,387	579,753
4,258,229	3,759,619

13.1 This shows the deposit against the performance guarantee in favour of Da Afghanistan Breshna Shirkat against electricity bill collections issued on 13/8/1398 (22 October 2019) having expiry date of 12/8/1403 (20 October, 2024).

13.2 This represents the required reserve account maintained with Da Afghanistan Bank in Afghani, US Dollar and Euro currencies to meet minimum reserve requirement in accordance with Article 64 "Required reserve for banks" of Da Afghanistan Bank Law. This carries no interest.

13 Receivable from Afghan Payment System, differential of ATM payments on-us and off-us transactions.

14 Current Accounts and Equity of un-restricted Investment account holders

Current and Saving Accounts from customers:

Demand / current account
Deposits against financial commitments

31-Dec-22 AFN '000'	31-Dec-21
1,502,732	4,379,969
1,409,960	1,164,528
2,912,692	5,544,497

Equity of un-restricted Investment account holders:

Mudarabah and wakalah saving deposits

3,498,131	8,245,708
3,498,131	8,245,708
6,410,823	13,790,205

Total deposits from customers and equity of un-restricted investment account holders

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15 Due to financial institutions

The Bank had obtained secured placement for short term basis at the rate of 3 months LIBOR + 1.10% per annum in the previous year.

16 Other liabilities

Withholding tax payable
Creditors and accruals
Deferred income
Others

31-Dec-22	31-Dec-21
..... AFN '000' AFN '000'
32,805	33,059
318,958	370,832
9,357	22,967
275,526	230,171
636,646	657,029

17 Provision for taxation

Opening balance
Charge for the year
Paid/adjusted during the year
Closing balance

29,867	-
-	29,867
-	-
29,867	29,867

18 Share Capital

Authorized

250,000 (2021: 250,000) ordinary shares of AFN 10,000 each

2,500,000	2,500,000
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Issued and paid up

1,775,000 (2021: 1,775,000) ordinary shares of AFN 10,000 each

1,775,000	1,775,000
-----------	-----------

Number of shares

31-Dec-22	31-Dec-21
1,775,000	1,775,000
-	-
1,775,000	1,775,000

18 Following is the reconciliation of number of shares:

Number of shares at beginning of the year
Shares issued during the year
Number of shares at end of the year

31-Dec-22	31-Dec-21
..... AFN '000' AFN '000'

18 Following is the reconciliation of amount of share capital:

Share capital at beginning of the year
Shares issued during the year
Share capital at end of the year

1,775,000	1,775,000
-	-
1,775,000	1,775,000

19 Retained Earnings

Opening Balance
(Loss) / Profit for the year
Other Comprehensive Income
Closing Balance

(73,700)	(241,337)
(228,656)	119,467
-	48,170
(302,356)	(73,700)

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	31-Dec-22	31-Dec-21
 AFN '000'	
20 Contingencies and Commitments		
Guarantees and Letter of credit issued on behalf of customers	<u>7,769,504</u>	<u>7,630,995</u>

- 20 On March 25, 2017 Da Afghanistan Bank had liened the amount of \$5 Million from account of the bank on the basis of letter dated March 15, 2017 having reference no. 0628 as lien against the bank guarantee issued to Haji Khalil and Investment for the Ministry of Power and Energy. Claim was launched at April 19, 2016 vide letter no 1164/82, against the bank guarantee whereas, the expiry date of the bank guarantee was 30 April 2015. Management had taken written representation from the shareholders that incase of lodgment of the claim through court of law they will be liable to settle the liability, as Da Afghanistan Bank had marked the lien on the balance. However, management is showing the said amount as reconciling amount in the related US Dollar Bank Account 3000205027306 with DAB. Management had also communicated the matter to Presidential office and had informed them about the whole scenario of the matter vide letter no. 14/10/17/01075. However at conversion stage parent bank has given representation as counter guarantee incase of any unwarranted event.

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	31-Dec-22	31-Dec-21
 AFN '000' AFN '000'
21 Deferred sales and diminishing musharaka rentals		
Income from Murabaha/Wadiah	14,270	52,559
Income from Diminishing Musharaka/Wakala	17,099	12,471
	<u>31,369</u>	<u>65,030</u>
22 Income on investments		
Return on sukuk - sovereign guaranteed	19,728	194,697
Return on sukuk - corporate	16,457	174,674
	<u>36,185</u>	<u>369,371</u>
23 Return on unrestricted investment account		
Profit payment on saving accounts	21,478	189,072
Profit payment on fixed deposit accounts	23,120	1,414
Return on shuaa capital borrowing	4,916	66,025
	<u>49,514</u>	<u>256,511</u>
24 Revenue from banking services		
Commission income	14,741	79,137
Account servicing fee	21,052	1,119
	<u>35,793</u>	<u>80,256</u>
25 Foreign exchange gain / (Loss)		
Foreign Exchange Gain / (Loss) arising from the monthly revaluation of assets and liabilities for on-balance items in foreign currencies i.e. USD and Euro as per Da Afghanistan Bank regulations.		
26 Other income		
ATM fee and commission	477	3,696
Services charges for salaries	16,727	11,137
Gain on sale of securities	-	32,079
In-ward remittances fee	17,088	12,377
Out-ward remittances fee	35,137	7,817
Lockers fee	851	57
Brishna fee and commission	18,483	16,383
SMS alert charges	26,985	25,003
Western union In-bound & out-bound charges	21,810	51,669
Miscellaneous income	8,402	976
	<u>145,960</u>	<u>161,194</u>

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	31-Dec-22	31-Dec-21
 AFN '000'	
27 Administrative and general expenses		
Salaries and wages	208,872	329,785
Staff welfare	19,025	34,393
Repair and maintenance	10,440	33,029
Travelling expense	4,856	8,225
Advertising and publicity	5,007	72,656
Operating lease	55,392	94,141
Printing and stationery	7,678	11,088
Communication	1,031	2,794
Internet and connectivity	10,102	29,420
Electricity and power	21,438	36,104
Office supplies	1,638	3,001
Security expenses	41,372	115,349
Audit fee	624	7,864
Legal and professional charges	11,531	6,699
Postage and courier	6	19
Software maintenance fee	1,955	44,816
Deposit insurance premium	12,060	33,363
Others	12,221	24,219
	425,248	886,965

28 Taxation

Current	28.1	-	29,867
Prior		-	-
Deferred		-	-
		-	29,867

28.1 As the Bank has a net loss for the year, therefore no provision for income tax is made in the current year.

29 Related Party Disclosure

Parent and ultimate controlling party

The Bank is a 100% owned subsidiary of Azizi Bank, therefore all subsidiaries and associated entities are related parties of the Bank. The related entities also comprise entities in which directors are able to exercise significant influence and key management. At the stage of conversion process on standing instructions of Da Afghanistan Bank (DAB) bank had ensured the zero balances of counter deposits and onward there are no transactions occurred during the year.

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Key Management Personnel

Key management personnel include the following:

Chief Executive Officer
 Deputy Chief Executive Officer
 Chief Credit Officer
 Chief Financial Officer
 Chief Operations Officer
 Chief Risk Officer
 Chief Compliance Officer
 Chief Internal Auditor

Key Management Personnel compensation for the year comprised:

	2022	2021
 AFN '000'	
Short-term employee benefits	5,856	10,952

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

	2022	2021
 AFN '000'	
Performance guarantee from Azizi Bank	40,000	40,000
Performance guarantee to Azizi Bank	285,064	285,064

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30 FINANCIAL RISK MANAGEMENT

30.1 Introduction and overview

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

- a) credit risk;
- b) liquidity risk;
- c) market risk; and
- d) operational risk

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

Risk management framework

The Board of Supervisors have the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has established a separate Risk Management Department headed by the Chief Risk Officer. The Chief Risk Officer is independently and directly reporting to the Board. The Board has established Management Board, Asset & Liability Committee (ALCO), Credit Committee and Operational Risk Management Committee (ORMC) which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees have executive members and report regularly to the Board of Supervisors on their activities.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed are described below.

30.2 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 Islamic financings. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Supervisors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and is reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). Credit Officer along with credit department staff looks 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 of Supervisors. The credit evaluation system comprises of credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in financing activities and ensuring the high quality of asset portfolio.

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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:

Classes of financial assets

Cash and cash equivalents

Islamic financings

Other assets

Total carrying amounts

2022	2021
..... AFN '000'	
1,656,475	4,252,408
434,977	595,061
440,892	1,008,029
2,532,344	5,855,498

As at balance sheet date, all the portfolio of the Bank are 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 contracts and letter of credits for which the maximum amount payable by the Bank, assuming all guarantees are called on, is AFN 7,770 million (2021: AFN 7,631 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 cash equivalents comprising of capital notes, balances with other banks, nostro accounts and short term placements is considered negligible, since the counterparties are either the branches of Bank's own group with high quality external credit ratings or the central bank of Afghanistan / International Banks.

Allowances for impairment

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

Write-off policy

The Bank write off a loan balance against allowances for impairment losses when the Bank's Credit Department determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrowers financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller standardized loans, charge off decisions generally are based on a product specific past due status. Loan past due by more than 480 days are 100% provisioned and would be kept on books of account for 06 months additional after 480 days and than after expiry of 06 months loans would be written off pursuant to guidelines issued by the Central Bank of Afghanistan, however, this does not waive off the right of the Bank to recover these loans including through legal action.

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered charge over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of loan, and generally are not updated except when a loan is individually assessed as impaired.

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Cash and cash equivalents

Cash and cash equivalent includes balances held with the Central Bank which amount to AFN 1,333 million (2021: AFN 3,177 million) having limited credit risk.

30.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising 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.

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30.4 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

At fair value through profit and loss (FVTPL)										At amortized cost using effective interest rate					
Note	Held for trading	Designated at FVTPL	Held to maturity	Islamic Financialings and receivables	Financial liabilities	Available for sale financial assets	Non - financial assets / liabilities	Total for line item	Fair value						
December 31, 2022															
Cash and cash equivalents															
5	-	-	-	3,055,032	-	-	-	3,055,032	3,055,032						
7	-	-	-	434,977	-	-	-	434,977	434,977						
8	-	-	169,478	-	-	-	-	169,478	169,478						
13	-	-	-	440,892	-	-	-	3,817,337	4,258,229						
	-	-	169,478	3,930,901	-	-	-	3,817,337	7,917,716						
14	-	-	-	-	2,912,692	-	-	-	2,912,692						
15	-	-	-	-	-	-	-	-	-						
16	-	-	-	-	-	361,120	-	-	-						
	-	-	-	-	-	3,273,812	-	275,526	636,646						
	-	-	-	-	-	-	-	275,526	3,549,338						
December 31, 2021															
Cash and cash equivalents															
5	-	-	-	7,166,688	-	-	-	-	7,166,688						
7	-	-	-	595,061	-	-	-	-	595,061						
8	-	-	-	-	-	10,394,000	-	-	10,394,000						
13	-	-	-	1,008,029	-	-	-	2,751,590	3,759,619						
	-	-	-	8,769,778	-	-	-	2,751,590	21,915,368						
Current account from customer															
14	-	-	-	-	5,544,497	-	-	-	5,544,497						
15	-	-	-	-	7,647,911	-	-	-	7,647,911						
16	-	-	-	-	469,714	-	-	230,171	699,885						
	-	-	-	-	13,662,122	-	-	230,171	13,892,293						

30.4.1 The carrying amounts approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered/settled at their carrying amounts.

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30.5 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers and banks. For this purpose net liquid assets are considered as including cash and cash equivalent net off 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 and banks at the reporting date and during the reporting year was as follows:

	2022	2021
At the end of the year		
Average for the year	24%	46%
Maximum for the year	29%	47%
Minimum for the year	67%	59%
	22%	39%

Maturity analysis for financial liabilities

Note	Carrying amount	Gross nominal inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
				AFN '000'			
December 31, 2022							
14	6,410,823	6,410,823	159,206	101,601	1,521,220	2,081,663	-
Current Account from customers & Equity of Unrestricted Investment Account Holders							
15	-	-	-	-	-	-	-
16	636,646	636,646	101,840	304,865	35,724	194,217	-
	7,047,469	7,047,469	261,045	406,466	1,556,944	2,275,880	-
14	13,790,205	13,790,205	165,300	898,293	8,658,420	4,068,192	-
Due to Financial Institutions							
15	7,647,911	7,647,911	-	-	7,647,911	-	-
16	699,885	699,885	264,990	11,612	400,316	22,967	-
	22,138,001	22,138,001	430,290	909,905	16,706,647	4,091,159	-
Due to Financial Institutions							
15	7,647,911	7,647,911	-	-	7,647,911	-	-
16	699,885	699,885	264,990	11,612	400,316	22,967	-
	22,138,001	22,138,001	430,290	909,905	16,706,647	4,091,159	-

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30.6 Market risk

Market risk is the risk that changes in market prices, such as profit 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 ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management policies and day to day review of their implementation.

Exposure to profit rate risk

The Bank risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The 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 profit rate gap position is as follows:

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
December 31, 2022							
Cash and cash equivalents	5	3,055,032	2,449,141	-	-	605,891	-
Islamic financing	7	434,977	355,889	19,317	55,773	3,998	-
Investments	8	169,478	-	-	-	169,478	-
Other assets	13	4,258,229	1,326,588	1,156,581	221,877	1,553,183	-
		7,917,716	4,131,618	1,175,898	277,650	2,332,550	-
Current Account from customers & Equity of Unrestricted Investment Account Holders	14	6,410,823	199,623	1,409,960	2,106,360	2,096,018	598,862
Due to Financial Institutions	14	-	-	-	-	-	-
		6,410,823	199,623	1,409,960	2,106,360	2,096,018	598,862

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December 31, 2021	Note	Carrying amount	AFN '000'				
			Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Cash and cash equivalents							
Islamic financing	5	7,166,688	5,856,442	-	-	1,310,246	-
Investments	6	595,061	145,281	123,561	155,496	170,722	-
Other assets	7	10,531,684	-	343,336	354,489	3,262,814	6,571,045
	12	2,794,446	229,090	471,801	332,844	1,760,706	-
		21,087,879	6,230,813	938,698	842,829	6,504,488	6,571,045

Current Account from customers & Equity of Unrestricted Investment Account Holders Due to Financial Institutions

13	13,790,205	7,824,437	1,164,528	2,106,360	2,096,018	598,862
14	7,647,911	7,647,911				
	21,438,116	15,472,348	1,164,528	2,106,360	2,096,018	598,862

Exposure to currency risk

The Bank's exposure to foreign currency risk was as follows based on notional amounts.

December 31, 2022	Note	Total			Euro
		AFN '000'	AFN	US\$	
Cash and cash equivalents					
Islamic financing	5	3,055,032	357,181	2,204,465	493,386
Investments	6	434,977	277,017	157,960	-
Other assets	7	169,478	-	169,478	-
	12	4,258,229	2,978,777	1,271,230	8,222
		7,917,716	3,612,975	3,803,133	501,608
Current Account from customers & Equity of Unrestricted Investment Account Holders	14	6,410,823	3,180,985	3,127,232	102,606
Other liabilities	16	636,646	276,509	358,428	1,709
		7,047,469	3,457,494	3,485,660	104,315
		870,247	155,481	317,473	397,293

Net foreign currency exposure

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December 31, 2021

Cash and cash equivalents

Islamic financing

Investments

Other assets

	Total AFN '000'	AFN	US\$	Euro
5	7,166,688	4,838,370	2,211,355	116,963
6	595,061	595,061	-	-
7	10,531,684	-	10,531,684	-
12	2,794,446	2,237,522	556,924	-
	21,087,879	7,670,953	13,299,963	116,963

Current Account from customers & Equity
of Unrestricted Investment Account Holders
Due to Financial Institutions
Other liabilities

13	13,790,205	374,718	13,415,487	-
14	7,647,911	7,647,911	-	-
15	699,885	699,885	-	-
	22,138,001	8,722,514	13,415,487	-
	(1,050,122)	(1,051,561)	(115,524)	116,963

Net foreign currency exposure

The following significant exchange rates were applied during the year.

	2022		2021	
	Average rate	Reporting date	Average rate	Reporting date
	90.22	89.21	83.62	105.88
	98.43	94.45	98.06	113.15
				LEGA

USD
EURO

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Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and Euro at December 31, 2022 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 profit rates, remain constant.

	December 31, 2022	
	Equity	Profit or loss
USD AFN '000'	
Euro		
December 31, 2021	25,398	31,747
	63,567	79,459
USD		
Euro	(9,242)	(11,552)
	18,714	23,393

A 10% weakening of the Afghani against the above currencies at 31 December 2022 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

30.7 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. At the macro level it aims towards identification of possible risks, development and implementation of risk control strategies and monitoring & reviewing the effectiveness of the risk management systems.

Operational Risk Management

The responsibility for the oversight of the operational risk in the Bank has been delegated to the Operational Risk Management Committee (ORMC). The committee ensures establishment, monitoring and review of procedures to identify, monitor and mitigate operational risk in accordance with the Bank's risk management policies. It adopts integrated approach in managing all the risks.

30.8 Capital management

Minimum capital requirement

Current requirement for minimum financial capital is AFN 1,000 million. DAB through Circular Reference No 703/914 dated August 08, 2010 and 2179/1825 dated March 01, 2011 has required all the commercial banks to increase their capital to AFN 1,000 million (or equivalent USD). Accordingly the Bank has maintained the paid up capital to AFN 1,775 million as on 31 December 2022, which is well above the minimum requirement of DAB.

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31 Capital Management

31.1 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 31 December 2022 was as follows:

	31-Dec-22	31-Dec-21
 AFN '000'	
Tier 1 capital		
Total equity capital	1,472,644	1,701,300
Less: Intangible assets	(90,111)	(176,344)
Less: Deferred tax assets	(65,198)	(65,198)
Less: Profit during the year	-	(167,637)
Total tier 1 (core) capital	<u>1,317,335</u>	<u>1,292,122</u>
Tier 2 capital		
Add: Profit for the year	-	167,637
Add: General loss reserve on credit	-	-
Total Tier 2 capital	<u>-</u>	<u>167,637</u>
Less: Equity Investment	-	-
Total regulatory capital	<u>1,317,335</u>	<u>1,459,759</u>

31.2 Risk-weight categories

0% risk weight:

Cash in Afghani and fully-convertible foreign currencies
Direct claims on DAB

Total

0% risk-weight total (above total x 0%)

506,023	744,515
1,333,426	3,177,794
<u>1,839,449</u>	<u>3,922,309</u>
-	-

20% risk weight:

Balance with other Banks
20% risk-weight total (above total x 20%)

2,175,954	15,784,093
<u>435,191</u>	<u>3,156,819</u>

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	31-Dec-22 AFN '000'	31-Dec-21 AFN '000'
50% risk weight:		
Qualifying residential mortgage financings	-	-
50% risk-weight total (above total x 50%)	-	-
100% risk weight:		
All other assets	4,619,382	4,213,732
Less: intangible assets	(90,111)	(176,344)
Less: Net deferred tax assets	(65,198)	(30,572)
Allowable deduction-equity investment	-	-
Total	4,464,073	4,006,816
100% risk-weight total (above total x 100%)	4,464,073	4,006,816
0% risk weight:		
Guarantees	6,361,642	6,471,026
0% Credit conversion factor total (risk-weighted total x 0%)	-	-
100% risk weight:		
Guarantees	1,407,862	1,159,969
100% Credit conversion factor total (risk-weighted total x 100%)	1,407,862	1,159,969
Total risk-weighted assets	6,307,126	8,323,604
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	20.89%	15.52%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	20.89%	17.54%

32 Authorization

These financial statements were authorized for issue by the Board of Supervisors on _____ 2023.


Chief Executive Officer


Chief Financial Officer