



# Audited Financial Statements

*for Islamic Bank of Afghanistan*

*(For the year ended December 31, 2019)*

**Confidential**

**MGI ILYAS SAEED CHARTERED ACCOUNTANTS**

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Date: March 12, 2020

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Islamic Bank of Afghanistan

### **Opinion**

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards (FAS's) issued by the Accounting and Auditing Organization for Islamic Financial Institution (AAOFI), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Bank and in conformity with the Law of Banking in Afghanistan along with Laws and Regulations issued by Da Afghanistan Bank (DAB).

### **Basis for Opinion**

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institution issued by AAOFI and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Matter**

The Financial Statements of the bank for the year ended December 31, 2018 audited by another auditor who expressed unmodified opinion on the financial statements on March 20, 2019.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards (FAS's) issued by the Accounting and Auditing Organization for Islamic Financial Institution (AAOFI), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Bank and in conformity with the Law of Banking in Afghanistan along with Laws and Regulations issued by 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 is responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with AAOFI and ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with AAOFI and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, 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.

We communicate with those charged with governance of the Bank 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.

*MGI Ilyas Saeed*

MGI ILYAS SAEED  
Chartered Accountants

15 MAR 2020

Audit - Tax - Advisory

Muhammad Abdul Basit – ACA, CIA, CISA & APRM

Engagement Partner

Ilyas Saeed Chartered Accountants

Kabul, Afghanistan.

Dated:



**ISLAMIC BANK OF AFGHANISTAN**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2019**

	Note	31-Dec-19 ----- Afn '000'	31-Dec-18 -----
<b>ASSETS</b>			
Cash and Cash Equivalents	5	14,018,217	12,480,342
Islamic Financings and Related Assets	6	793,399	849,461
Investments:			
Investments in Securities	7	3,895,957	1,138,596
Other Investments		119,175	710,225
Property and Equipment	8	473,692	320,730
Intangible Assets	9	296,395	334,483
Investment in Real Estate	10	96,283	109,508
Deferred Tax Asset	11	73,521	110,279
Other Assets	12	1,846,230	1,226,267
<b>Total Assets</b>		<b>21,612,869</b>	<b>17,279,891</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>LIABILITIES</b>			
Current Account from customers	13	9,595,984	11,062,777
Short-term Placement from Financial Institutions	14	1,418,040	376,550
Other Liabilities	15	488,161	361,818
<b>Total Liabilities</b>		<b>11,502,185</b>	<b>11,801,145</b>
<b>Equity of Unrestricted Investment Account Holders</b>	13	<b>8,729,230</b>	<b>4,214,251</b>
<b>OWNER'S EQUITY</b>			
Share Capital	16	1,775,000	1,775,000
Retained Earnings	17	(393,546)	(510,505)
<b>Total Owner's Equity</b>		<b>1,381,454</b>	<b>1,264,495</b>
<b>Total Liabilities, Equity of Investment Accountholders and Owners' Equity</b>		<b>21,612,869</b>	<b>17,279,891</b>

**CONTINGENCIES AND COMMITMENTS**

18

*The annexed notes from 1 to 31 form an integral part of these financial statements.*

Chairman

Chief Executive Officer

Chief Financial Officer

**ISLAMIC BANK OF AFGHANISTAN**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

		31-Dec-19	31-Dec-18
	Note	----- Afn '000' -----	
Deferred Sales and Diminishing Musharaka rentals / Interest income *	19	178,654	107,522
Profit on Investments	20	121,583	56,308
Interest expense *		-	(29,246)
Return on unrestricted Investments accounts	23	(187,431)	(54,503)
<b>Bank share as Mudarib / Net interest income *</b>		<b>112,806</b>	<b>80,081</b>
Revenue from banking services / Fee and commission income	24	182,990	225,622
Expense on banking services / Fee and commission expense		(27,596)	(18,343)
<b>Net fee and commission income</b>		<b>155,394</b>	<b>207,279</b>
Foreign exchange gain		668,398	183,532
Gain on securities		69,164	-
Other non-profit / Interest income *		120,635	114,159
<b>Total Bank Revenue / Operating income</b>		<b>1,126,397</b>	<b>585,051</b>
Administrative and general expenses	25	(883,569)	(583,566)
Depreciation	8	(57,119)	(55,622)
Amortization		(40,246)	(1,167)
<b>Total Operating Expenses</b>		<b>(980,934)</b>	<b>(640,355)</b>
Provision for impairment - net		(16,792)	138,684
<b>Profit before taxation</b>		<b>128,671</b>	<b>83,380</b>
<b>Provision for taxation</b>			
Deferred	11	(25,734)	(16,676)
<b>Profit for the year</b>		<b>102,937</b>	<b>66,704</b>
Other comprehensive income		14,022	-
<b>Total comprehensive income for the year</b>		<b>116,959</b>	<b>66,704</b>

\* - Based on prior reporting frame work i.e. International Financial Reporting Standards (IFRSs) till March 31, 2018.

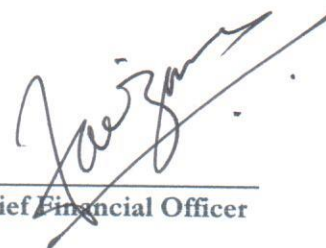
The annexed notes from 1 to 31 form an integral part of these financial statements.



Chairman



Chief Executive Officer




Chief Financial Officer

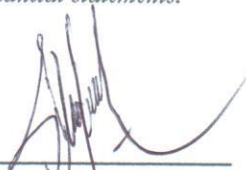


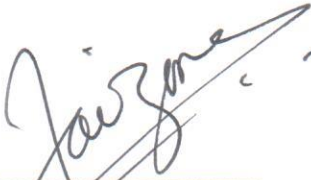
**ISLAMIC BANK OF AFGHANISTAN**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Share capital	Retained earnings	Total
	..... Afn '000' .....		
Balance as at January 01, 2018	1,725,000	(577,209)	1,147,791
Comprehensive income:			
Net profit for the year	-	66,704	66,704
Transactions with owners:			
Ordinary shares Issued	50,000	-	50,000
Balance as at December 31, 2018	<u>1,775,000</u>	<u>(510,505)</u>	<u>1,264,495</u>
Balance as at January 01, 2019	1,775,000	(510,505)	1,264,495
Comprehensive income:			
Net Profit for the year	-	102,937	102,937
Transactions with owners:			
Ordinary shares Issued	-	-	-
Profit after tax for the year			
Other Comprehensive Income for the year	-	14,022	14,022
Balance as at December 31, 2019	<u>1,775,000</u>	<u>(393,546)</u>	<u>1,381,454</u>

*The annexed notes from 1 to 31 form an integral part of these financial statements.*

  
Chairman

  
Chief Executive Officer

  
Chief Financial Officer

**ISLAMIC BANK OF AFGHANISTAN**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Note	31-Dec-19 ..... Afn '000' .....	31-Dec-18
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		128,671	83,380
Adjustments for:			
Depreciation		57,119	55,622
Amortization		40,246	1,167
Accrued profit on cash and cash equivalents		-	-
Impairment (gain)/ loss on Non Funded Facilities		-	(18,852)
Impairment (gain)/ loss on Financings		10,675	(119,832)
		<u>236,711</u>	<u>1,485</u>
Increase / decrease in operating assets and liabilities:			
Islamic Finance and Related Assets	6	56,062	(30,398)
Other assets	12	(619,963)	(769,667)
Required Reserve with Da Afghanistan Bank	5	(300,173)	(236,651)
Current Accounts from customers and unrestricted funds	13	3,048,186	3,108,132
Short-term financing - Shuaa Capital	14	1,041,490	376,550
Current Account from Banks		-	(904,333)
Other liabilities	15	126,343	25,808
		<u>3,588,656</u>	<u>1,570,926</u>
<b>Net cash generated from operating activities</b>			
Tax adjustment		(25,734)	(16,676)
<b>Net cash generated from operating activities</b>		<u>3,562,922</u>	<u>1,554,250</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments - Net of Profits	7	(2,166,311)	2,253,549
Investment in Real Estate / Non-current assets exchange fluctuation		13,086	4,550
Islamic Banking development cost - Intangibles		38,088	(198,498)
Acquisition of property and equipment - net of adjustment		(210,081)	29,101
<b>Net cash used in investing activities</b>		<u>(2,325,218)</u>	<u>2,088,702</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of share capital	16	-	50,000
<b>activities</b>		<u>-</u>	<u>50,000</u>
<b>Net increase in cash and cash equivalents</b>		<u>1,237,704</u>	<u>3,692,952</u>
Cash and cash equivalents at beginning of the year		<u>11,415,490</u>	<u>7,722,538</u>
<b>Cash and cash equivalents at the end of the year</b>	5	<u><u>12,653,194</u></u>	<u><u>11,415,490</u></u>

The annexed notes from 1 to 31 form an integral part of these financial statements.



Chairman



Chief Executive Officer



Chief Financial Officer



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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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 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 59 Branches and 02 cash counters.

**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. Further, as the Bank converted during accounting period 2018 therefore, the numbers of First quarter has been restated due to adoption of AAOIFI. Financial Statements are in conformity with Shari'ah rules and regulations after obtaining License from DAB.

**2.2 New accounting standards / amendments and IFRS interpretations**

The following revised standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**Effective Dates**  
**(Accounting period**  
**beginning on or after)**

Financial Accounting Standard 34: Financial Reporting for Sukuk-holders	January 01, 2020
Financial Accounting Standard 30: Impairment and Credit Losses and Onerous Commitments	January 01, 2020
payment sales	January 01, 2020

**2.3 Basis of measurement**

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

**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





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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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.

**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.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**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 under this category.

**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**

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.





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**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.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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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.

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.





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**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. 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.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**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.
- (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





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**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].



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**1. 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.





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**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.

**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.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**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.

**u. Trade date accounting**





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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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 with in 60 months of classification as held for sale, the assets is 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.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Note	31-Dec-19 ..... Afn '000'	31-Dec-18
<b>5 Cash and Cash Equivalents</b>			
<b>Cash in hand</b>			
Local currency		1,364,732	1,482,585
Foreign currency		1,686,376	1,866,861
		<u>3,051,108</u>	<u>3,349,446</u>
<b>Balances with banks:</b>			
Balances with Da Afghanistan Bank	5.1	<u>7,331,911</u>	4,997,128
Balances with other banks	5.2	<u>3,635,198</u>	4,133,768
		<u>10,967,109</u>	9,130,896
		<u>14,018,217</u>	<u>12,480,342</u>
<b>5.1 Balances with Da Afghanistan Bank</b>			
Required reserve with Da Afghanistan Bank	5.1.1	1,365,025	1,064,852
<b>Current account</b>			
Local currency		<u>4,866,140</u>	2,254,852
Foreign currency		<u>1,100,746</u>	1,677,424
		<u>5,966,886</u>	3,932,276
		<u>7,331,911</u>	<u>4,997,128</u>
5.1.1 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 carried no interest (2018: nil) per annum.			
<b>5.2 Balances with other banks</b>	Note	31-Dec-19 ..... Afn '000'	31-Dec-18
Al Salam Bank-Bahrain B.S.C	5.2.1	393,300	-
CSC Bank		4	-
REYL Finance		265,612	-
Aktif Bank	5.2.2	408,031	385,694
Yinzhou Bank		1	1
Development Credit Bank Ltd		9,776	14,647
BMCE Bank		856,800	2,191,325
Yes Bank		2,222	5,060
Pashtany Bank		350,001	300,001
Nurol Bank	5.2.2	421,855	383,823
Transkapital Bank		317,500	286,068
Daman Investments		12,548	183,989
Shua Capital		597,548	383,160
		<u>3,635,198</u>	<u>4,133,768</u>

5.2.1 Placement under Wakala arrangement where profit rate is 2.90% (2018 - Nil)

5.2.2 Placement under Commodity Murabaha arrangement where profit range is 4.15% to 4.40% (2018 - 4.60% to 5.60%)





ISLAMIC BANK OF AFGHANISTAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

		31-Dec-19	31-Dec-18
	Note	..... Afn '000'	.....

**5.3 Reconciliation of Cash And Cash Equivalent**

Cash and bank balances		14,018,217	12,480,342
Required reserve with Da Afghanistan Bank		(1,365,025)	(1,064,852)
	5.3.1	<u>12,653,192</u>	<u>11,415,490</u>

5.3.1 Deposits with DAB under required reserve are not available to finance the Bank's day to day operations and are therefore not part of cash and cash equivalents.



## ISLAMIC BANK OF AFGHANISTAN

31-Dec-2019	31-Dec-2018
<hr/>	
Note	.....Afn '000' .....

## 6 Islamic Financings and Related Assets

Financing - at amortized cost

		31 December 2019				31 December 2018			
		Gross amount	Jointly Financed	Self Financed	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
						Afn '000'			
<b>Islamic Financing</b>									
6.1.1	Murahaba receivables	675,795	675,795	-	26,345	649,450	719,321	15,670	703,651
6.1.2	Diminishing musharaka	143,949	143,949	-	-	143,949	145,810	-	145,810
		<b>819,744</b>	<b>819,744</b>	<b>-</b>	<b>26,345</b>	<b>793,399</b>	<b>865,131</b>	<b>15,670</b>	<b>849,461</b>

## Movement in Impaired Islamic Financing and Related Assets

As at January 01, 2019

Charged for the year

Reversal during the year

Written off during the year

Impairment of loans acquired by parent bank - at par

Closing balance as at December 31, 2019

31-Dec-2019	31-Dec-2018
..... Afn '000'	.....
15,670	33,841
10,675	15,670
-	(135,502)
-	-
-	101,661
26,345	15,670

6.1.1 It includes receivables under Murabaha arrangements where the bank entered into sell agreements with customers on Deferred Payment Basis.

6.1.2 It includes proportionate investment of the bank in Musharaka asset mainly in real estate and rental income is ranging between 12% to 14% per annum (2018: 12% to 14%).



ISLAMIC BANK OF AFGHANISTAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

7 Investments

	Jointly Financed		Self Financed		Gross Amount	
	31-Dec-2019	31-Dec-2018	31-Dec-2019	31-Dec-2018	31-Dec-2019	31-Dec-2018
Note	..... Afn '000' .....					

Investment in securities - Available for Sale

Quoted Securities:

Corporate Sukuk  
Government Sukuk

7.1

1,708,234	706,289	-	-	1,708,234	706,289
2,187,723	432,307	-	-	2,187,723	432,307
3,895,957	1,138,596	-	-	3,895,957	1,138,596

Other investments

Investment is equity instrument - Afghanistan  
Payment System  
Money Market Fund

7.2

-	-	16,888	16,888	16,888	16,888
102,287	693,337	-	-	102,287	693,337
102,287	693,337	16,888	16,888	119,175	710,225
3,998,244	1,831,933	16,888	16,888	4,015,132	1,848,821

7.1 These investment are made for the period ranging from 2 to 9 years (2018: 3 to 7 years) carrying CPN ranges from 2.89% to 7.90% (2018: 3.59% to 7.74%).

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

ISLAMIC BANK OF AFGHANISTAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

8 Property and Equipment

	Leasehold improvements	Office Equipment	Furniture & Fittings	IT equipment	Motor Vehicles	Assets held for capitalization / Advance against capital commitments	Total
<b>Gross carrying amount</b>							
Balance as at January 01, 2018	67,534	117,841	28,397	129,885	33,467	274,989	652,113
Additions	8,108	17,841	2,241	28,686	46	-	56,922
Disposals / Adjustments	-	-	-	-	-	(78,450)	(78,450)
Balance as at December 31, 2018	75,642	135,682	30,638	158,571	33,513	196,539	630,585
<b>Balance as at January 01, 2019</b>	<b>75,642</b>	<b>135,682</b>	<b>30,638</b>	<b>158,571</b>	<b>33,513</b>	<b>196,539</b>	<b>630,585</b>
Additions	4,291	16,379	3,464	42,699	13,652	129,596	210,081
Disposals / Adjustments	-	-	-	-	-	-	-
<b>Balance as at December 31, 2019</b>	<b>79,933</b>	<b>152,061</b>	<b>34,102</b>	<b>201,270</b>	<b>47,165</b>	<b>326,135</b>	<b>840,666</b>
<b>Depreciation</b>							
Balance as at January 01, 2018	44,117	80,911	11,398	97,387	20,420	-	254,233
Depreciation for the year	9,400	18,417	2,957	22,443	2,405	-	55,622
Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2018	53,517	99,328	14,355	119,830	22,825	-	309,855
<b>Balance as at January 01, 2019</b>	<b>53,517</b>	<b>99,328</b>	<b>14,355</b>	<b>119,830</b>	<b>22,825</b>	<b>-</b>	<b>309,855</b>
Depreciation for the year	7,891	15,736	2,842	27,499	3,151	-	57,119
Adjustments	-	-	-	-	-	-	-
<b>Balance as at December 31, 2019</b>	<b>61,408</b>	<b>115,064</b>	<b>17,198</b>	<b>147,329</b>	<b>25,976</b>	<b>-</b>	<b>366,974</b>
Carrying amount							
Balance as at December 31, 2018	22,125	36,354	16,283	38,741	10,688	196,539	320,730
<b>Balance as at December 31, 2019</b>	<b>18,525</b>	<b>36,997</b>	<b>16,904</b>	<b>53,941</b>	<b>21,189</b>	<b>326,135</b>	<b>473,692</b>
<b>Depreciation rates</b>	20%	20%	5-20%	33.33%	15%	0%	



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**9 Intangible Assets**

	Islamic Banking Development Cost	Software	Goodwill	Total
	..... Afn '000' .....			
<b>Gross carrying amount</b>				
Balance as at January 01, 2018	-	14,309	135,985	150,294
Additions	198,498	-	-	198,498
Balance as at December 31, 2018	198,498	14,309	135,985	348,792
<b>Balance as at January 01, 2019</b>	<b>198,498</b>	<b>14,309</b>	<b>135,985</b>	<b>348,792</b>
Additions	-	2,158	-	2,158
Balance as at December 31, 2019	198,498	16,467	135,985	350,950
<b>Amortization</b>				
Balance as at January 01, 2018	-	13,142	-	13,142
Amortization during the year	-	1,167	-	1,167
Balance as at December 31, 2018	-	14,309	-	14,309
<b>Balance as at January 01, 2019</b>	<b>-</b>	<b>14,309</b>	<b>-</b>	<b>14,309</b>
Amortization during the year	39,709	537	-	40,246
Balance as at December 31, 2019	39,709	14,846	-	54,555
Carrying amount as at December 31, 2018	198,498	-	135,985	334,483
Carrying amount as at December 31, 2019	158,789	1,621	135,985	296,395

- Purchased software has estimated useful life of 3 years and is being amortized at the rate of 33.33%.
- 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 @ 20% from 2020.
- Islamic Banking development cost is related to cost incurred during phase of conversion between January 2018 till March 2018. The management has resolved to amortized the cost at the rate of 33.33% from 2019.

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**10 Investment in Real Estate**

During the year management has 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.

**11 Deferred Tax Asset**

Carried Forward Losses:

Opening Balance

Charged for the year

Utilized / Reversed for the year

Closing Balance

31-Dec-19	31-Dec-18
..... Afn '000' .....	..... Afn '000' .....
110,279	126,955
(11,024)	-
(25,734)	(16,676)
73,521	110,279

**12 Other Assets**

Prepayments

Security deposit

Advance income tax

Western union - In bound balance

Murabaha profit receivable / Accrued Profit

Advance Against Murabaha

Others

99,060	97,953
904	1,500
149,732	168,496
128,720	44,278
113,736	42,134
-	1,600
1,354,078	870,306
1,846,230	1,226,267

**13 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-19	31-Dec-18
..... Afn '000' .....	..... Afn '000' .....
Islamic	Islamic
7,793,412	9,138,232
1,802,572	1,924,545
9,595,984	11,062,777

**Equity of un-restricted Investment account holders:**

Mudarabah saving deposits

8,729,230	4,214,251
8,729,230	4,214,251
18,325,214	15,277,028

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

**14 Short-term Placement from Financial Institutions**

The Bank obtained placement from Shuaa capital for short term basis at the rate of one month LIBOR + 0.90% p.a. This placement is based on commodity Murabaha (2018: one year @ 4.5% p.a).



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	31-Dec-19	31-Dec-18
	..... Afn '000' .....	
<b>15 Other Liabilities</b>		
Withholding tax payable	34,885	20,357
Creditors and accruals	308,607	272,614
Profit payable	9,420	1,008
Deferred income	28,071	2,582
Others	107,178	65,257
	<u>488,161</u>	<u>361,818</u>
<b>16 Share Capital</b>		
<b>Authorized</b>		
250,000 (2018: 250,000) ordinary shares of Afn 10,000 each	<u>2,500,000</u>	<u>2,500,000</u>
<b>Issued and paid up</b>		
1,775,000 (2018: 1,725,000) ordinary shares of Afn 10,000 each	<u>1,775,000</u>	<u>1,725,000</u>
	<b>Number of shares</b>	
	<b>31-Dec-19</b>	<b>31-Dec-18</b>
<b>16.1</b> Following is the reconciliation of number of shares:		
Number of shares at beginning of the year	1,775,000	1,725,000
Shares issued during the year	-	50,000
Number of shares at end of the year	<u>1,775,000</u>	<u>1,775,000</u>
	<b>31-Dec-19</b>	<b>31-Dec-18</b>
	..... Afn '000' .....	
<b>16.2</b> Following is the reconciliation of amount of share capital:		
Share capital at beginning of the year	1,775,000	1,725,000
Shares issued during the year	-	50,000
Share capital at end of the year	<u>1,775,000</u>	<u>1,775,000</u>
	<b>31-Dec-19</b>	<b>31-Dec-18</b>
	..... Afn '000' .....	
<b>17 Retained Earnings</b>		
Opening Balance	(510,505)	(577,209)
(Loss) / Profit for the year	-	-
(Loss) for the first quarter as per IFRS	-	(101,562)
Profit for the year (nine months period) ended as per AAOIFI	102,937	168,266
Through Other Comprehensive Income	14,022	-
Closing Balance	<u>(393,546)</u>	<u>(510,505)</u>

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**18 CONTINGENCIES AND COMMITMENTS**

Guarantees and Letter of credit issued on behalf of customers

6,309,450

4,945,270

- 18.1 On March 25, 2017 Da Afghanistan Bank had lined 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.



**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	31-Dec-19 ..... Afn '000' .....	31-Dec-18 ..... Afn '000' .....
<b>19 Deferred Sales and Diminishing Musharaka rentals / Interest income *</b>		
Unearned murabaha income/murabaha income	150,283	76,900
Diminishing musharaka rentals/wakala	28,371	2,666
	<u>178,654</u>	<u>79,566</u>
<b>20 Profit on Investments</b>		
Return on Sukuk - Sovereign Guaranteed	42,930	10,899
Return on Sukuk - Corporate	62,134	8,524
Return on Placements and ICD Money Market fund	16,519	36,885
	<u>121,583</u>	<u>56,308</u>
<b>21 Interest Income</b>		
Cash and cash equivalents	-	5,463
Loans and advances	-	22,493
	<u>-</u>	<u>27,956</u>
<b>22 Interest Expense</b>		
Deposits from customers	-	29,246
	<u>-</u>	<u>29,246</u>
<b>23 Return on unrestricted investment account</b>		
Profit payment on saving accounts	170,435	52,090
Profit payment on fixed deposit accounts	124	224
Return on Shuaa Capital Funds	16,872	2,189
	<u>187,431</u>	<u>54,503</u>
<b>24 Revenue from banking services / Fee and commission income</b>		
Commission income	182,071	223,050
Account servicing fee	919	2,572
	<u>182,990</u>	<u>225,622</u>
<b>25 Administrative and General Expenses</b>		
Salaries and wages	274,781	176,618
Staff welfare	34,433	30,133
Repair and maintenance	34,818	34,099
Travelling expense	20,144	20,242
Advertising and publicity	96,079	58,363
Operating Lease	91,857	62,181
Printing and stationery	15,179	12,047
Communication	3,153	2,027
Internet and connectivity	23,929	17,010

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Electricity and power	42,987	15,759
Office supplies	3,301	2,494
Security expenses	139,396	104,015
Audit fee	1,669	1,631
Legal and professional charges	10,708	8,243
Postage and courier	90	56
Software maintenance fee	8,425	5,026
Deposit insurance premium	29,334	22,507
Others	53,286	11,115
	<u>883,569</u>	<u>583,566</u>

**26 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.

**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

Key Management Personnel compensation for the year comprised:

	2019	2018
	..... Afn '000' .....	
Short-term employee benefits	29,965	30,133

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





ISLAMIC BANK OF AFGHANISTAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

27 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		Available for sale financial assets	Non - financial assets / liabilities	Total for line item	Fair value	
		Held for trading	Designated at FVTPL	Held to maturity	Islamic Financialings and receivables					Financial liabilities
Note		.....Afn '000' .....								
December 31, 2019										
	Cash and cash equivalents	5	-	-	-	14,018,217	-	-	14,018,217	14,018,217
	Islamic Financialings & Related Assets	6	-	-	-	793,399	-	-	793,399	793,399
	Investment in securities and others	7	-	-	4,015,132	-	-	-	4,015,132	4,015,132
	Other assets	5&12	-	-	-	1,365,025	-	481,205	1,846,230	1,846,230
			-	-	4,015,132	16,176,641	-	481,205	20,672,978	20,672,978
Current account from customer and unrestricted funds										
	Short term financing - Shuaa capital	13	-	-	-	-	18,325,214	-	18,325,214	18,325,214
	Other liabilities	14	-	-	-	-	1,418,040	-	1,418,040	1,418,040
		15	-	-	-	-	380,983	-	107,178	488,161
			-	-	-	-	20,124,237	-	107,178	20,231,415
December 31, 2018										
	Cash and cash equivalents	5	-	-	-	11,415,490	-	-	11,415,490	11,415,490
	Islamic Financialings & Related Assets	6	-	-	-	849,461	-	-	849,461	849,461
	Investment in securities and others	7	-	-	1,848,821	-	-	-	1,848,821	1,848,821
	Other assets	5&12	-	-	-	1,064,852	-	1,226,267	2,291,119	2,291,119
			-	-	1,848,821	13,329,803	-	1,226,267	16,404,891	16,404,891
Current account from customer and unrestricted funds										
	Short term financing - Shuaa capital	13	-	-	-	-	15,277,028	-	15,277,028	15,277,028
	Other liabilities	14	-	-	-	-	376,550	-	376,550	376,550
		15	-	-	-	-	324,528	-	37,290	361,818
			-	-	-	-	15,978,106	-	37,290	16,015,396

27.1 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.

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**28 FINANCIAL RISK MANAGEMENT**

**28.1 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) operation 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 Supervisor's have the overall responsibility for the establishment and oversight of the Bank's risk management framework. 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 Supervisor's 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.

**28.2 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 loans and advances to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk

**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.





### 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:

	Note	2019 ..... Afn '000' .....	2018
<b>Classes of financial assets</b>			
Cash and cash equivalents		<b>14,137,392</b>	9,914,865
Islamic financing and related assets / Loans and advances to customers		<b>793,399</b>	849,461
Other assets		<b>1,365,025</b>	1,064,852
Total carrying amounts		<b>16,295,816</b>	11,829,178

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 6,309 million (2018: 4,888 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 are 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 borrowing, and generally are not updated except when a loan is individually assessed as impaired.

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**Cash and cash equivalents**

The Bank held cash and cash equivalents of Afn 3,635 million as at December 31, 2018 (2018: 4,133 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with parent bank and other banks.

**28.3 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.





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Exposure to liquidity risk**

The key measure used by the Bank for managing liquidity risk is the ratio of net liquidity assets to deposits from customers 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:

	2019	2018
At the end of the year	57%	62%
Average for the year	51%	54%
Maximum for the year	62%	71%
Minimum for the year	43%	31%

**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
.....							
December 31, 2019							
13	18,325,214	18,325,214	2,821,053	898,293	10,537,690	4,068,192	-
Current Account from customers & Equity of Unrestricted Investment Account Holders							
14	1,418,040	1,418,040	-	-	1,418,040	-	-
15	488,161	488,161	31,746	32,799	283,367	140,236	-
	20,231,415	20,231,415	2,852,798	931,092	12,239,097	4,208,428	-
December 31, 2018							
Current Account from customers & Equity of Unrestricted Investment Account Holders							
13	15,277,028	15,277,028	1,792,160	-	7,767,497	5,717,371	-
14	376,550	376,550	-	-	376,550	-	-
15	361,815	361,815	1,009	272,614	-	88,192	-
	16,015,393	16,015,393	1,793,169	272,614	8,144,047	5,805,563	-

## 28.4 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
				Afn '000'			
<b>December 31, 2019</b>							
Cash and cash equivalents	5	14,018,217	12,707,971	-	-	1,310,246	-
Islamic financing and related assets	6	793,399	296,655	143,521	118,295	234,928	-
Investment in securities and others	7	4,015,132	-	38,565	-	234,475	3,742,093
Other assets	12	1,846,230	-	112,211	94,269	1,639,608	-
		<u>20,672,978</u>	<u>13,004,626</u>	<u>294,297</u>	<u>212,564</u>	<u>3,419,257</u>	<u>3,742,093</u>
<b>Current Account from customers &amp; Equity</b>							
of Unrestricted Investment Account Holders	13	18,325,214	11,721,416	1,802,572	2,106,360	2,096,018	598,862
Short term financing - Shuaa Capital	14	<u>1,418,040</u>	<u>1,418,040</u>	-	-	-	-
		<u>19,743,254</u>	<u>13,139,456</u>	<u>1,802,572</u>	<u>2,106,360</u>	<u>2,096,018</u>	<u>598,862</u>



Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		..... Afn '000' .....				
5	9,130,896	3,932,276	4,133,768	-	1,064,852	-
6	865,131	111,502	125,992	353,883	273,754	-
7	1,848,821	-	-	693,337	-	1,155,484
12	1,064,852	-	-	-	-	1,064,852
	12,909,700	4,043,778	4,259,760	1,047,220	1,338,606	2,220,336

#### December 31, 2018

Cash and cash equivalents  
Islamic financing and related assets  
Investment in securities and others  
Other assets

Current Account from customers & Equity  
of Unrestricted Investment Account

Holders  
Short term financing - Shuaa Capital

#### Exposure to currency risk

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

Total	Afn	US\$	Euro
	..... Afn '000' .....		
5	14,018,216	7,151,778	6,447,498
6	793,399	361,392	432,008
7	4,015,132	16,888	3,998,245
12	1,846,230	1,780,752	60,867
	20,672,977	9,310,810	10,938,619
			423,409

#### December 31, 2019

Cash and cash equivalents  
Islamic financing and related assets  
Investment in securities and others  
Other assets

of Unrestricted Investment Account  
Holders

Short term financing - Shuaa Capital  
Other liabilities

#### Net foreign currency exposure

13	18,325,214	9,053,807	8,931,536	339,871
14	1,418,040	-	1,418,040	-
15	488,161	97,779	385,319	5,064
	20,231,415	9,151,586	10,734,895	344,935
	441,562	159,224	203,724	78,474

December 31, 2018

	Total	AFN	US\$	Euro
			Afn '000'	
Cash and cash equivalents	5	11,415,490	4,037,438	6,749,302
Islamic financing and related assets	6	849,461	134,959	714,502
Investment in securities and others	7	1,848,821	16,888	1,831,933
Other assets	12	1,226,267	423,113	801,319
		16,669,526	5,244,939	10,658,920
				765,668

Current Account from customers & Equity of Unrestricted Investment Account Holders

Short term financing - Shuaa Capital	13	15,277,028	6,580,323	8,071,529	625,176
Other liabilities	14	376,550	-	376,550	-
	15	361,815	114,614	246,380	821
		16,015,393	6,694,937	8,694,459	625,997

Net foreign currency exposure

		654,133	(1,449,998)	1,964,461	139,671
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The following significant exchange rates were applied during the year.

	2019		2018	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	77.83	77.13	75.76	75.31
EURO	95.24	87.10	85.25	86.01



### Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and Euro at December 31, 2019 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular profit rates, remain constant.

		Profit or	
		Equity	loss
		..... Afn '000'	.....
December 31, 2019	USD	(16,298)	(20,372)
	EURO	(6,278)	(7,847)
December 31, 2018	USD	(133,070)	(166,337)
	EURO	(11,174)	(13,967)

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

### 28.5 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.

### 28.6 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 billion (or equivalent USD). Accordingly the Bank has maintained the paid up capital to Afn 1,775 million as on 31st December 2019, which is well above the minimum requirement of DAB.

**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**29 Capital Management**

**29.1 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 2019 was as follows:

	31 December 2019	31 December 2018
	..... Afn '000' .....	
<b>Tier 1 capital</b>		
Total equity capital	1,381,454	1,264,496
Less: Intangible assets	(296,395)	(334,483)
Less: Deferred tax assets	(73,521)	(110,279)
Less: Profit during the year	(116,959)	(66,704)
<b>Total tier 1 (core) capital</b>	<u>894,580</u>	<u>753,030</u>
<b>Tier 2 capital</b>		
Add: Profit for the year	116,959	66,704
Add: General loss reserve on credit	-	-
	<u>116,959</u>	<u>66,704</u>
Less: Equity Investment	16,888	16,888
<b>Total regulatory capital</b>	<u>994,651</u>	<u>802,846</u>

**29.2 Risk-weight categories**

**0% risk weight:**

Cash in Afghani and fully-convertible foreign currencies	3,051,106	3,349,445
Direct claims on DAB	7,331,911	4,997,128
<b>Total</b>	<u>10,383,017</u>	<u>8,346,573</u>
0% risk-weight total (above total x 0%)	-	-

**20% risk weight:**

Balance with other Banks	7,633,444	5,965,701
20% risk-weight total (above total x 20%)	<u>1,526,689</u>	<u>1,193,140</u>





**ISLAMIC BANK OF AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**50% risk weight:**

Qualifying residential mortgage financings  
50% risk-weight total (above total x 50%)

-	-
-	-

**100% risk weight:**

All other assets  
Less: intangible assets  
Less: Net deferred tax assets  
Allowable deduction-equity investment

3,666,895	3,012,465
(296,395)	(334,482)
(73,521)	(110,279)
(16,888)	(16,888)

**Total**

100% risk-weight total (above total x 100%)

3,280,091	2,550,816
3,280,091	2,550,816

**0% risk weight:**

Guarantees  
0% Credit conversion factor total (risk-weighted total x 0%)

6,309,450	1,674,925
-	-

**100% risk weight:**

Guarantees  
100% Credit conversion factor total (risk-weighted total x 100%)

2,289,657	3,270,346
2,289,657	3,270,346

**Total risk-weighted assets**

7,096,437 7,014,302

**Tier 1 Capital Ratio**

(Tier 1 capital as % of total risk-weighted assets)

12.61% 10.74%

**Regulatory Capital Ratio**

(Regulatory capital as % of total risk-weighted assets)

14.02% 11.45%

**30 Corresponding Figures**

The corresponding figures in the financial information have been re-grouped/re-classified for better presentation;

Description	Presented		Amount "AFN"
	From	To	
Required Reserve with Da Afghanistan Bank	Other Assets	Cash and bank balances	1,365,025

**31 Authorization**

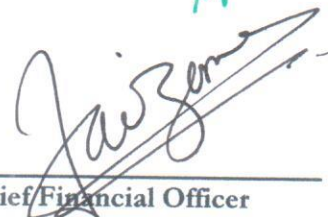
These financial statements were authorized for issue by the Board of Supervisors on 14-March- 2020.



Chairman



Chief Executive Officer



Chief Financial Officer