



Audited Financial Statements

for Islamic Bank of Afghanistan

(For the year ended December 31, 2020)

Confidential

MGI ILYAS SAEED CHARTERED ACCOUNTANTS

Contact: Muhammad Abdul Basit

Cell: +93 780 780 786

Email: basit@ilyassaeedca.com

Date: February 25, 2021

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, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, 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.

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

- ◆ 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.

mg. Basit



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, 2020

	Note	31-Dec-20 ----- Afn '000' -----	31-Dec-19 -----
ASSETS			
Cash and Cash Equivalents	5	16,123,648	14,018,217
Islamic Financings and Related Assets	6	499,180	793,399
Investments - Net	7	9,238,877	4,015,132
Property and Equipment	8	452,886	473,693
Intangible Assets	9	261,554	296,395
Investment in Real Estate	10	95,543	96,283
Deferred Tax Asset	11	65,198	73,521
Other Assets	12	3,129,742	1,846,229
Total Assets		29,866,628	21,612,869
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Current Account from Customers	13	14,681,504	9,595,984
Due to Financial Institutions	14	1,161,750	1,418,040
Other Liabilities	15	569,749	488,161
Total Liabilities		16,413,003	11,502,185
Equity of Unrestricted Investment Account Holders	13	11,919,962	8,729,230
OWNER'S EQUITY			
Share Capital	16	1,775,000	1,775,000
Retained Earnings	17	(241,337)	(393,546)
Total Owner's Equity		1,533,663	1,381,454
Total Liabilities, Equity of Investment Accountholders and Owners' Equity		29,866,628	21,612,869
CONTINGENCIES AND COMMITMENTS			
	18		

The annexed notes from 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

for 
Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

		31-Dec-20	31-Dec-19
		----- Afn '000' -----	
Deferred Sales and Diminishing Musharaka rentals	19	111,364	178,654
Income on Investments	20	234,023	121,583
Return on unrestricted Investments accounts	21	(180,947)	(187,431)
Bank share as Mudarib		164,440	112,806
Revenue from banking services	22	142,520	182,990
Expense on banking services		(34,091)	(27,596)
Net fee and commission income		108,429	155,394
Foreign exchange gain	23	609,759	668,398
Gain on securities		54,762	69,164
Other non-profit	24	143,904	120,635
Total Bank Revenue / Operating income		1,081,294	1,126,397
Administrative and general expenses	25	(907,133)	(883,569)
Depreciation		(57,034)	(57,119)
Amortization		(37,259)	(40,246)
Total Operating Expenses		(1,001,426)	(980,934)
Provision for impairment - net		(38,253)	(16,792)
Profit before taxation		41,615	128,671
Provision for taxation			
Deferred	11	(8,323)	(25,734)
Profit for the year		33,292	102,937
Other comprehensive income		118,917	14,022
Total comprehensive income for the year		152,209	116,959
Basic and diluted earnings per share		23.45	72.49

The annexed notes from 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Share capital Afn '000'	Retained earnings Afn '000'	Total
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	-	14,022	14,022
Balance as at December 31, 2019	<u>1,775,000</u>	<u>(393,546)</u>	<u>1,381,454</u>
Balance as at January 01, 2020	1,775,000	(393,546)	1,381,454
Comprehensive income:			
Net Profit for the year	-	33,292	33,292
Transactions with owners:			
Ordinary shares Issued	-	-	-
Profit after tax for the year			
Other Comprehensive Income for the year	-	118,917	118,917
Balance as at December 31, 2020	<u>1,775,000</u>	<u>(241,337)</u>	<u>1,533,663</u>

The annexed notes from 1 to 30 form an integral part of these financial statements.


Chief Executive Officer

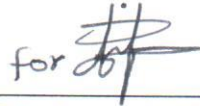

Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	31-Dec-20 Afn '000'	31-Dec-19
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		41,615	128,671
Adjustments for:			
Depreciation		57,034	57,119
Amortization		37,259	40,246
Accrued profit on cash and cash equivalents		121,450	-
Impairment (gain)/ loss on Non Funded Facilities		-	-
Impairment (gain)/ loss on Financings		17,142	10,675
		<u>274,500</u>	<u>236,711</u>
Increase / decrease in operating assets and liabilities:			
Islamic Finance and Related Assets	6	294,219	56,062
Other assets	12	(1,281,973)	(619,963)
Required Reserve with Da Afghanistan Bank	5	(578,050)	(300,173)
Current Accounts from customers and unrestricted funds	13	8,276,252	3,048,186
Due to Financial Institutions	14	(256,290)	1,041,490
Other liabilities	15	81,588	126,343
		<u>6,810,246</u>	<u>3,588,656</u>
Net cash generated from operating activities			
Tax adjustment		(8,323)	(25,734)
Net cash generated from operating activities		<u>6,801,923</u>	<u>3,562,922</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - Net of Profits	7	(5,363,861)	(2,166,311)
Investment in Real Estate / Non-current assets exchange fluctuation		740	13,086
Islamic Banking development cost - Intangibles		122,391	158,789
Acquisition of property and equipment - net of adjustment		(33,812)	(210,081)
Net cash used in investing activities		<u>(5,274,542)</u>	<u>(2,204,517)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital activities	16	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		1,527,381	1,358,405
Cash and cash equivalents at beginning of the year		12,653,193	11,294,788
Cash and cash equivalents at the end of the year	5	<u>14,180,574</u>	<u>12,653,193</u>

The annexed notes from 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

for 
Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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

- 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

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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 Murabaha (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in installments by the Murabaha 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) - Wakalah receivable

Wakalah 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.

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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
- 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.

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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.

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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, 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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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 Wakalah 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, 2020

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

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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 12 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, 2020

	Note	31-Dec-20 Afn '000'	31-Dec-19
5 Cash and Cash Equivalents			
Cash in hand			
Local currency		1,364,329	1,364,732
Foreign currency		2,229,224	1,686,376
		<u>3,593,553</u>	<u>3,051,108</u>
Balances with banks:			
Balances with Da Afghanistan Bank	5.1	7,052,057	7,331,911
Balances with other banks	5.2	5,322,480	3,025,102
Balances with other Financial Institutions	5.3	155,558	610,096
		<u>12,530,095</u>	<u>10,967,109</u>
		<u>16,123,648</u>	<u>14,018,217</u>
5.1 Balances with Da Afghanistan Bank			
Required reserve with Da Afghanistan Bank	5.1.1	1,943,075	1,365,025
Current account			
Local currency		2,892,945	4,866,140
Foreign currency		2,216,037	1,100,746
		<u>5,108,982</u>	<u>5,966,886</u>
		<u>7,052,057</u>	<u>7,331,911</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 (2019: nil) per annum.			
5.2 Balances with other banks	Note	31-Dec-20 Afn '000'	31-Dec-19
Abu Dhabi Islamic Bank - UAE		257,113	-
Aktif Bank - Turkey	5.2.1	22,974	408,031
Al Salam Bank - Bahrain	5.2.2	65,674	393,300
Bank-e-Millie Afghanistan - Afghanistan		800,000	-
BMCE Bank - Spain		531,378	856,800
CSC Bank - Lebanon		19,647	4
Development Credit Bank Ltd - India		-	9,776
First MicroFinance Bank - Afghanistan		255,000	-
Ghazanfar Bank - Afghanistan		900,000	-
HDFC Bank - India		26,924	-
NRB Commercial Bank - Bangladesh		402,740	-
Nurol Bank - Turkey		41,810	421,855
Pashtany Bank - Afghanistan		350,001	350,001
Qatar National Bank - Qatar		77,450	-
REYL Finance - UAE / Switzerland		6,278	265,612
Transkapital Bank - Russia		1,546,901	317,500
Vaktif Katilim Bank - Turkey		17,192	-
Yes Bank - China		1,397	2,222
Yinzhou Bank - India		1	1
		<u>5,322,480</u>	<u>3,025,102</u>

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

5.2.1	Placement under Wakala arrangement where profit rate is 2.90% (2019: 2.90%)			
5.2.2	Placement under Commodity Murabaha arrangement where profit range is 4.15% to 4.40% (2019: 4.15% to 4.40%)			
5.3	Balances with other Financial Institutions	Note	31-Dec-20 Afn '000'	31-Dec-19
	Shuaa Capital - UAE		6,693	597,548
	Daman Investments - UAE		148,865	12,548
			<u>155,558</u>	<u>610,096</u>
5.4	Reconciliation of Cash And Cash Equivalent			
	Cash and bank balances		16,123,648	14,018,217
	Required reserve with Da Afghanistan Bank		(1,943,075)	(1,365,025)
		5.4.1	<u>14,180,573</u>	<u>12,653,192</u>
5.4.1	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

6 Islamic Financings and Related Assets

Financing - at amortized cost

Islamic Financing
Murahaba receivables 6.1.1
Diminishing musharaka 6.1.2

Movement in Impaired Islamic Financing

Opening Balance	
Charged for the year	
Reversal during the year	
Written off during the year	
Closing balance	

6.1.1 It includes receivables under Murabaha and

6.1.2 It includes proportionate investment of the (2019: 12% to 14%).

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

7 Investments - Net

	Jointly Financed		Self Financed		Gross Amount	
	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
Note	..... Afn '000'					
7.1 Investment by Types						
Available for Sale						
Sovereign Sukuk	4,033,697	2,187,723	-	-	4,033,697	2,187,723
Quasi - Sovereign Sukuk	3,775,234	1,708,234	-	-	3,775,234	1,708,234
Units of Funds	-	-	100,714	102,287	100,714	102,287
Revaluation Gain / (Loss)	140,116	-	-	-	140,116	-
	7,949,047	3,895,957	100,714	102,287	8,049,761	3,998,244
Held to Maturity						
Sovereign Sukuk	407,913	-	-	-	407,913	-
Quasi - Sovereign Sukuk	781,203	-	-	-	781,203	-
Investment in Equity Instrument - Afghan Payment System	-	-	-	16,888	-	16,888
	1,189,116	-	-	16,888	1,189,116	16,888
	9,138,163	3,895,957	100,714	119,175	9,238,877	4,015,132

7.1 These investment are made for the period ranging from 2 to 9 years (2019: 3 to 7 years) carrying CPN ranges from 2.89% to 7.90% (2019: 3.59% to 7.74%).

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

8 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, 2019	75,642	135,682	30,638	158,571	33,513	196,539	630,585
Additions	4,291	16,379	3,464	42,699	13,652	129,596	210,081
Disposals / Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2019	79,933	152,061	34,102	201,270	47,165	326,135	840,666
Balance as at January 01, 2020	79,933	152,061	34,102	201,270	47,165	326,135	840,666
Additions	1,892	10,237	3,015	16,586	3,982	517	36,229
Disposals / Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2020	81,825	162,298	37,117	217,856	51,147	326,652	876,895
Depreciation							
Balance as at January 01, 2019	53,517	99,328	14,355	119,830	22,825	-	309,855
Depreciation for the year	7,891	15,736	2,842	27,499	3,151	-	57,119
Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2019	61,408	115,064	17,197	147,329	25,976	-	366,974
Balance as at January 01, 2020	61,408	115,064	17,197	147,329	25,976	-	366,974
Depreciation for the year	7,681	11,119	2,979	30,684	4,571	-	57,034
Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2020	69,089	126,183	20,177	178,013	30,547	-	424,008
Carrying amount							
Balance as at December 31, 2019	18,525	36,997	16,904	53,942	21,189	326,135	473,693
Balance as at December 31, 2020	12,736	36,115	16,940	39,843	20,600	326,652	452,886
Depreciation rates	20%	20%	5-20%	33.33%	15%	0%	

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

9 Intangible Assets

	Islamic Banking Development Cost	Software	Goodwill	Total
	..... Afn '000'			
Gross carrying amount				
Balance as at January 01, 2019	198,498	14,309	135,985	348,792
Additions	-	2,158	-	2,158
Balance as at December 31, 2019	198,498	16,467	135,985	350,950
Balance as at January 01, 2020	198,498	16,467	135,985	350,950
Additions	-	2,417	-	2,417
Balance as at December 31, 2020	198,498	18,884	135,985	353,367
Amortization				
Balance as at January 01, 2019	-	14,309	-	14,309
Amortization during the year	39,708	537	-	40,246
Balance as at December 31, 2019	39,708	14,846	-	54,554
Balance as at January 01, 2020	39,708	14,846	-	54,554
Amortization during the year	36,399	860	-	37,259
Balance as at December 31, 2020	76,107	15,706	-	91,813
Carrying amount as at December 31, 2019	158,789	1,621	135,985	296,395
Carrying amount as at December 31, 2020	122,391	3,178	135,985	261,554

9.1 Purchased software has estimated useful life of 3 years and is being amortized at the rate of 33.33%.

9.2 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 along with 16 existing Branch licenses. Management has passed the resolution to start impairment of goodwill @ 33% from 2021.

9.3 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 20% from 2019.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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

Closing Balance

31-Dec-20	31-Dec-19
..... Afn '000' .....	..... Afn '000'
73,521	110,279
(8,323)	(36,758)
<u>65,198</u>	<u>73,521</u>

12 Other Assets

Prepayments

Security Deposit

Advance income tax

Western union

Murabaha profit receivable / Accrued Profit

Receivable from Afghan Payment System

Others

12.1

12.2

101,560	99,060
8,639	904
149,731	149,732
67,324	128,720
235,186	113,736
712,884	-
1,854,418	1,354,078
<u>3,129,742</u>	<u>1,846,230</u>

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

12.2 Others includes: Advance payments to vendors for operating and capital expenditures.

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-20	31-Dec-19
..... Afn '000' .....	..... Afn '000'
13,253,881	7,793,412
1,427,623	1,802,572
14,681,504	9,595,984

Equity of un-restricted Investment account holders:

Mudarabah and Wakalah saving deposits

11,919,962	8,729,230
11,919,962	8,729,230

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

26,601,466	18,325,214
------------	------------

14 Due to Financial Institutions

The Bank obtained secured placement for short term basis at the rate of one month LIBOR + 0.90% p.a. (2019: LIBOR + 0.90% p.a).

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

	31-Dec-20	31-Dec-19
	..... Afn '000'	
15 Other Liabilities		
Withholding tax payable	52,361	34,885
Creditors and accruals	336,748	308,607
Profit payable	1,059	9,420
Deferred income	18,377	28,071
Others	161,204	107,178
	<u>569,749</u>	<u>488,161</u>
16 Share Capital		
Authorized		
250,000 (2020: 250,000) ordinary shares of Afn 10,000 each	<u>2,500,000</u>	<u>2,500,000</u>
Issued and paid up		
1,775,000 (2020: 1,775,000) ordinary shares of Afn 10,000 each	<u>1,775,000</u>	<u>1,775,000</u>
	Number of shares	
	31-Dec-20	31-Dec-19
16.1 Following is the reconciliation of number of shares:		
Number of shares at beginning of the year	1,775,000	1,775,000
Shares issued during the year	-	-
Number of shares at end of the year	<u>1,775,000</u>	<u>1,775,000</u>
	31-Dec-20	31-Dec-19
	..... Afn '000'	
16.2 Following is the reconciliation of amount of share capital:		
Share capital at beginning of the year	1,775,000	1,775,000
Shares issued during the year	-	-
Share capital at end of the year	<u>1,775,000</u>	<u>1,775,000</u>
	31-Dec-20	31-Dec-19
	..... Afn '000'	
17 Retained Earnings		
Opening Balance	(393,546)	(510,505)
Profit for the year	33,292	102,937
Through Other Comprehensive Income	118,917	14,022
Closing Balance	<u>(241,337)</u>	<u>(393,546)</u>

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

18 CONTINGENCIES AND COMMITMENTS

Guarantees and Letter of credit issued on behalf of customers	<u><u>6,199,231</u></u>	<u><u>6,309,450</u></u>
---	-------------------------	-------------------------

- 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, 2020

	31-Dec-20	31-Dec-19
	..... Afn '000'	
19 Deferred Sales and Diminishing Musharaka rentals		
Unearned murabaha income/murabaha income	88,407	150,283
Diminishing musharaka rentals/Wakalah	22,957	28,371
	<u>111,364</u>	<u>178,654</u>
20 Income on Investments		
Return on Sukuk - Sovereign Guaranteed	137,852	42,930
Return on Sukuk - Corporate	96,171	62,134
Return on Placements and ICD Money Market fund	-	16,519
	<u>234,023</u>	<u>121,583</u>
21 Return on unrestricted investment account		
Profit payment on saving accounts	148,756	170,435
Profit payment on fixed deposit accounts	126	124
Return on Shuua Capital borrowing	32,065	16,872
	<u>180,947</u>	<u>187,431</u>
22 Revenue from banking services		
Commission income	141,177	182,071
Account servicing fee	1,343	919
	<u>142,520</u>	<u>182,990</u>
23 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.		
24 Other non-profit		
ATM Fee and Commission	405	352
Services Charges for Salaries	15,735	14,248
In-ward Remittances Fee	14,949	8,292
Out-ward Remittances Fee	4,237	5,457
Lockers Fee	109	22
Brishna Fee and Commission	17,195	11,968
SMS alert charges	22,081	19,616
Western Union In-Bound & Out-Bound Charges	62,136	50,308
Miscellaneous Income	7,057	10,372
	<u>143,904</u>	<u>120,635</u>

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

25 Administrative and General Expenses

31-Dec-20	31-Dec-19
..... Afn '000'	
Salaries and wages	274,781
Staff welfare	34,433
Repair and maintenance	34,818
Travelling expense	20,144
Advertising and publicity	96,079
Operating Lease	91,857
Printing and stationery	15,179
Communication	3,153
Internet and connectivity	23,929
Electricity and power	42,987
Office supplies	3,301
Security expenses	139,396
Audit fee	1,669
Legal and professional charges	10,708
Postage and courier	90
Software maintenance fee	8,425
Deposit insurance premium	29,334
Others	53,286
907,133	883,569

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
- Chief Risk Officer
- Chief Compliance Officer
- Chief Internal Auditor

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Key Management Personnel compensation for the year comprised:

2020	2019
..... Afn '000'.....	..... Afn '000'.....

Short-term employee benefits

43,498	29,965
--------	--------

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

2020	2019
..... Afn '000'.....	..... Afn '000'.....

Performance guarantee - Azizi Bank

40,000	40,000
--------	--------

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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:

Note	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					Financial
				Financings and receivables					liabilities
.....Afn '000'									
December 31, 2020									
Cash and cash equivalents	5	-	-	14,180,573	-	-	14,180,573	14,180,573	
Islamic Financialings & Related Assets	6	-	-	499,180	-	-	499,180	499,180	
Investment in securities and others	7	-	-	1,189,116	-	7,949,047	9,138,163	9,138,163	
Other assets	5&12	-	-	1,943,075	-	3,028,182	4,971,257	4,971,257	
	-	-	1,189,116	16,622,828	-	7,949,047	28,789,173	28,789,173	
Current account from customer and unrestricted funds	13	-	-	-	26,601,466	-	26,601,466	26,601,466	
Short term financing - Shuua capital	14	-	-	-	1,161,750	-	1,161,750	1,161,750	
Other liabilities	15	-	-	-	408,545	161,204	569,749	569,749	
	-	-	-	-	28,171,761	161,204	28,332,965	28,332,965	
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	13	-	-	-	18,325,214	-	18,325,214	18,325,214	
Due to Financial Institutions	14	-	-	-	1,418,040	-	1,418,040	1,418,040	
Other liabilities	15	-	-	-	380,983	107,178	488,161	488,161	
	-	-	-	-	20,124,237	107,178	20,231,415	20,231,415	

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, 2020

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.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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	2020 Afn '000'	2019
Classes of financial assets			
Cash and cash equivalents		14,180,573	14,137,392
Islamic financing and related assets / Loans and advances to customers		499,180	793,399
Other assets		1,943,075	1,365,025
Total carrying amounts		<u>16,622,828</u>	<u>16,295,816</u>

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 6,199 million (2019: 6,309 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' 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, 2020

Cash and cash equivalents

The Bank held cash and cash equivalents of Afn 16,123 million as at December 31, 2020 (2019: 14,018 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, 2020

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:

	2020	2019
At the end of the year	49%	57%
Average for the year	49%	51%
Maximum for the year	57%	62%
Minimum for the year	44%	43%

Maturity analysis for financial liabilities

Note	Carrying amount	Gross nominal inflow	Less than 1 month	1-3 months	3 months to			More than 5 years
					1 year	1-5 years		
..... Afn '000'								
December 31, 2020								
13	26,601,466	26,601,466	11,097,291	898,293	10,537,690	4,068,192	-	
Current Account from customers & Equity of Unrestricted Investment Account Holders								
14	1,161,750	1,161,750	-	-	1,161,750	-	-	
15	569,749	569,749	40,281	70,747	438,188	20,533	-	
	28,332,965	28,332,965	11,137,571	969,040	12,137,628	4,088,725	-	
December 31, 2019								
Current Account from customers & Equity of Unrestricted Investment Account Holders								
13	18,325,214	18,325,214	2,821,053	898,293	10,537,690	4,068,192	-	
14	1,418,040	1,418,040	-	-	1,418,040	-	-	
15	488,161	488,161	31,745	32,799	283,367	140,236	-	
	20,231,415	20,231,415	2,852,798	931,092	12,239,097	4,208,428	-	

ISLAMIC BANK OF AFGHANISTAN

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'			
December 31, 2020						
Cash and cash equivalents	14,180,573	12,870,327	-	-	1,310,246	-
Islamic financing and related assets	499,180	255,716	52,257	53,628	137,579	-
Investment in securities and others	9,238,877	-	343,336	354,489	3,262,814	5,278,238
Other assets	3,129,742	165,328	616,959	817,624	1,529,819	-
	<u>27,048,372</u>	<u>13,291,371</u>	<u>1,012,552</u>	<u>1,225,741</u>	<u>6,240,458</u>	<u>5,278,238</u>
Current Account from customers & Equity of Unrestricted Investment						
Account Holders	26,601,466	20,372,603	1,427,623	2,106,360	2,096,018	598,862
Due to Financial Institutions	<u>1,161,750</u>	<u>1,161,750</u>	-	-	-	-
	<u>27,763,216</u>	<u>21,534,353</u>	<u>1,427,623</u>	<u>2,106,360</u>	<u>2,096,018</u>	<u>598,862</u>

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		..... Afn '000'				
December 31, 2019						
5	14,018,217	12,707,971	-	-	1,310,246	-
6	793,399	296,655	143,521	118,295	234,928	-
7	4,015,132	-	38,565	-	234,475.00	3,742,093
12	1,846,230	-	112,211	94,269	1,639,608.00	-
	<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>
Current Account from customers & Equity of Unrestricted Investment Account Holders						
13	18,325,214	11,721,416	1,802,572	2,106,360	2,096,018	598,862
14	1,418,040	1,418,040	-	-	-	-
	<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>

Exposure to currency risk

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

	Afn '000'		
	Total	AFN	US\$ Euro
December 31, 2020			
5	14,180,573	8,679,217	5,277,508 223,848
6	499,180	436,020	63,160 -
7	9,238,877	-	9,238,878 -
12	3,129,742	2,524,566	603,370 1,806
	<u>27,048,372</u>	<u>11,639,803</u>	<u>15,182,916 225,654</u>
13	26,601,466	12,754,089	13,472,659 374,718
Equity of Unrestricted Investment Account Holders			
14	1,161,750	-	1,161,750 -
15	569,749	165,519	397,057 7,173
	<u>28,332,965</u>	<u>12,919,608</u>	<u>15,031,466 381,891</u>
	<u>(1,284,593)</u>	<u>(1,279,805)</u>	<u>151,450 (156,237)</u>

Net foreign currency exposure

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Total	AFN	US\$ Afn '000'	Euro
December 31, 2019				
Cash and cash equivalents	14,018,216	7,151,778	6,447,498	418,940
Islamic financing and related assets	793,399	361,392	432,008	-
Investment in securities and others	4,015,132	16,888	3,998,246	-
Other assets	1,846,230	1,780,752	60,867	4,469
	<u>20,672,977</u>	<u>9,310,810</u>	<u>10,938,619</u>	<u>423,409</u>
Current Account from customers & Equity of Unrestricted Investment Account Holders	18,325,214	9,053,807	8,931,536	339,871
Due to Financial Institutions	1,418,040	-	1,418,040	-
Other liabilities	488,161	97,779	385,319	5,064
	<u>20,231,415</u>	<u>9,151,586</u>	<u>10,734,895</u>	<u>344,935</u>
Net foreign currency exposure	<u>441,562</u>	<u>159,224</u>	<u>203,724</u>	<u>78,474</u>

The following significant exchange rates were applied during the year.

	2020		2019	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	76.81	77.45	77.83	77.13
EURO	86.92	95.81	95.24	87.10

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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.

	Equity	Profit or loss
..... Afn '000'		
December 31, 2020		
USD	(12,116)	(15,145)
Euro	12,499	15,624
December 31, 2019		
USD	(16,298)	(20,372)
Euro	(6,278)	(7,847)

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 Operation 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

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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 2020, which is well above the minimum requirement of DAB.

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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 2020 was as follows:

	31 December 2020	31 December 2019
	..... Afn '000'	
Tier 1 capital		
Total equity capital	1,533,663	1,381,454
Less: Intangible assets	(261,554)	(296,395)
Less: Deferred tax assets	(65,198)	(73,521)
Less: Profit during the year	(152,209)	(116,959)
Total tier 1 (core) capital	1,054,703	894,579
Tier 2 capital		
Add: Profit for the year	152,209	116,960
Add: General loss reserve on credit	-	-
	152,209	116,960
Less: Equity Investment	-	16,888
Total regulatory capital	1,206,912	994,651

29.2 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%)

3,593,553	3,051,106
7,052,057	7,331,911
10,645,610	10,383,017
-	-

20% risk weight:

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

14,716,916	7,633,444
2,943,383	1,526,689

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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

4,581,625	3,666,895
(261,554)	(296,396)
(65,198)	(73,520)
-	(16,888)

Total

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

4,254,873	3,280,091
4,254,873	3,280,091

0% risk weight:

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

6,199,231	6,309,450
-	-

100% risk weight:

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

1,425,355	2,289,657
1,425,355	2,289,657

Total risk-weighted assets

8,623,611 7,096,437

Tier 1 Capital Ratio

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

12.23% 12.61%

Regulatory Capital Ratio

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

14.00% 14.02%

30 Authorization

These financial statements were authorized for issue by the Board of Supervisors on 27 Feb 2021.

Chief Executive Officer

for 
 Chief Financial Officer