

Islamic Bank of Afghanistan
Un-Audited Condensed Interim Financial
Statements along with Accompanying
Information
For the period ended March 31, 2019

INDEPENDENT REVIEW REPORT TO SHAREHOLDERS

Introduction

We have reviewed the accompanying Statement of Condensed Interim Financial Position of **Islamic Bank of Afghanistan** ("the Islamic bank") as of **March 31, 2019**, and the related Statement of Condensed Interim Comprehensive Income, Statement of Condensed Interim Changes in Equity and Statement of Condensed Interim Cash Flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements and Financial Institution's undertaking to operate in accordance with Shari'a are the responsibility of the Financial Institution's management. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and in conformity with the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Our review indicates that these interim financial statements gives true and fair view of the financial position of the bank as at March 31, 2019, and of its financial performance and its cash flows for the three-month period then ended in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and in conformity with the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB).


Crowe Horwath Afghanistan
Auditors & Business Advisors
Kabul




ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2019

		Un-Audited 31-Mar-19	Audited 31-Dec-18
	Note	-----Afn-----	
ASSETS			
Cash and cash equivalents	5	8,259,365	11,415,490
Islamic Financings & Related Assets	6	901,831	849,461
Investments:			
Investments in Securities	7	1,582,494	1,138,596
Other investments		721,247	710,225
Property and equipment		313,852	320,730
Intangible assets		324,555	334,483
Investment in Real Estate	8	94,681	109,508
Deferred tax asset		107,603	110,279
Other assets	9	2,542,642	2,291,119
Total assets		14,848,270	17,279,891
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Current Account from customers	11	8,283,425	11,062,777
Short term financing- Shua Capital	12	380,200	376,550
Other liabilities	13	322,608	361,818
Total liabilities		8,986,233	11,801,145
Equity of Unrestricted Investment Account Holders	11	4,586,839	4,214,251
Owner's Equity			
Share capital	10	1,775,000	1,775,000
Retained earning		(499,802)	(510,505)
Total Owner's equity		1,275,198	1,264,495
Total Liabilities, Equity of Investment Accountholders and Owners' Equity		14,848,270	17,279,891
Contingencies and commitments			
	14	-	-

The annexed notes form 1 to 24 form an integral part of these condensed interim financial statements. 


Chief Executive Officer


Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

		As per Financial Accounting Standards (FAS) as issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	As per International Financial Reporting Standards (IFRSs)
		Three Month Ended 31, March 2019	Three Month Ended 31, March 2018
	Note		
Deferred sales and diminishing musharaka rentals / Interest income *	15 & 16	37,397	27,960
Profit on investment	17	36,786	-
Interest expense *	18	-	(29,246)
Return on unrestricted investment accounts	19	(37,663)	-
Bank share as Mudarib / Net interest income *		36,520	(1,286)
Revenue from banking services / Fee and commission income	20	40,397	40,554
Expense on banking services / Fee and commission expense	21	(2,583)	(2,771)
Net fee and commission income		37,814	37,783
Foreign exchange gain / (loss)		141,209	(48,265)
Other non-profit / interest * income		25,537	9,626
Total Bank Revenue / Operating income		241,080	(2,142)
Administrative and general expenses	22	(193,345)	(214,850)
Depreciation		(14,083)	(13,407)
Amortization		(9,927)	(358)
Total Operating Expenses		(217,355)	(228,615)
Provision for impairment - net	6	(10,346)	129,199
Profit / (Loss) before taxation		13,379	(101,558)
Provision for taxation			
Deferred		(2,676)	-
Profit/(Loss) for the period		10,703	(101,558)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the period		10,703	(101,558)

* - Based on prior reporting frame work i.e. International Financial Reporting Standards (IFRSs)


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 Chief Executive Officer


 Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

	Share Capital	Retained Earnings	Total
Afn '000'.....		
Balance as at January 01, 2018	1,725,000	(577,208)	1,147,792
Comprehensive income:			
Net loss for the period	-	(101,558)	(101,558)
Transactions with owners:			
Ordinary shares Issued	-	-	-
Balance as at March 31, 2018 - Unaudited	<u>1,725,000</u>	<u>(678,766)</u>	<u>1,046,234</u>
 Balance as at January 01, 2019	 1,775,000	 (510,505)	 1,264,495
Comprehensive income:			
Net profit for the period	-	10,703	10,703
Transactions with owners:			
Ordinary shares Issued	-	-	-
Balance as at March 31, 2019 - Unaudited	<u>1,775,000</u>	<u>(499,802)</u>	<u>1,275,198</u>

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 Chief Executive Officer


 Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

	Note	31-Mar-19Afn '000'.....	31-Mar-18
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / Loss before taxation		13,379	(101,558)
Adjustments for:			
Depreciation		14,083	11,963
Amortization		9,927	1,802
Accrued profit on cash and cash equivalents		(11,972)	(1,515)
Impairment (gain)/ loss on Financings / loans and advances		10,346	(111,000)
		<u>35,763</u>	<u>(200,308)</u>
Increase / decrease in operating assets and liabilities:			
Murabaha receivables / loan and advances		(62,716)	229,133
Other assets		(251,523)	(314,398)
Current Accounts from customers and unrestricted funds		(2,779,352)	-
Deposits from customers		-	(3,736,885)
Short term financing - Shua Capital		380,200	-
Deposit from banks		-	(904,333)
Other liabilities		(39,210)	(198)
		<u>(2,716,838)</u>	<u>(4,926,989)</u>
Net cash generated from operating activities			
Tax adjustment		-	-
Net cash generated from operating activities		<u>(2,716,838)</u>	<u>(4,926,989)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - Net of Profits	7	(446,909)	3,737,736
Investment in Real Estate / Non-current assets exchange fluctuation		14,827	269
Acquisition of property and equipment - net of adjustment		(7,205)	(9,223)
Net cash used in investing activities		<u>(439,287)</u>	<u>3,728,782</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital	13	-	-
Net cash used in / generated from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		<u>(3,156,125)</u>	<u>(1,198,207)</u>
Cash and cash equivalents at beginning of the period		11,415,490	7,722,538
Cash and cash equivalents at the end of the period	5	<u>8,259,365</u>	<u>6,524,331</u>

The annexed notes form 1 to 24 form an integral part of these condensed interim financial statements.


Chief Executive Officer


Chief Financial Officer

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

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 fledge 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.

Corresponding Figures are not comparable due to change of Financial Accounting Framework. Further, as the Bank converted during accounting period therefore, First quarter numbers has been restated due to adoption of AAOIFI. Financial Statements are in conformity with Shari'ah rules and regulations after obtaining License from DAB.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

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

3 USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

- 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 to be read with latest annual audited financial statements.

		Un-Audited 31-Mar-19	Audited 31-Dec-18
	NoteAfn '000'.....	
5 CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	2,390,217	3,349,446
Balances with banks:			
Balances with Da Afghanistan Bank		2,780,012	3,932,276
Balances with other banks	5.2	3,089,136	4,133,768
		5,869,148	8,066,044
		8,259,365	11,415,490
5.1 Cash in hand			
Local currency		1,446,689	1,482,585
Foreign currency		943,528	1,866,861
		2,390,217	3,349,446
5.2 Balances with other banks			
Aktif Bank		410,954	385,694
Yinzhou Bank		1	1
Development Credit Bank Ltd		10,373	14,647
BMCE Bank		777,871	2,191,325
Yes Bank		1,620	5,060
Pashtany Bank		300,001	300,001
Nurol Bank		573,180	383,823
Transkapital Bank		140,651	286,068
Daman Investments		324,799	183,989
Shua Capital		549,686	383,160
		3,089,136	4,133,768

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

7 INVESTMENTS

	Un-Audited 31-Mar-2019	Audited 31-Dec-2018	Un-Audited 31-Mar-2019	Audited 31-Dec-2018	Un-Audited 31-Mar-2019	Audited 31-Dec-2018
.....Afn '000'						
	Jointly Financed		Self Financed		Gross Amount	
Investment in securities - Held to Maturity						
Quoted Securities:						
Corporate Sukuk	855,720	706,289	-	-	855,720	706,289
Government Sukuk	726,774	432,307	-	-	726,774	432,307
	1,582,494	1,138,596	-	-	1,582,494	1,138,596
Other investments						
Investment is equity instrument - Afghanistan	-	-	16,888	16,888	16,888	16,888
Payment System	704,359	693,337	-	-	704,359	693,337
Money Market Fund	704,359	693,337	16,888	16,888	721,247	710,225
	2,286,853	1,831,933	16,888	16,888	2,303,741	1,848,821

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

8 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 up to 20% of its regulatory capital.

	Un-Audited 31-Mar-2019Afn '000'.....	Audited 31-Dec-2018
9 OTHER ASSETS		
Prepayments	75,356	97,953
Required reserve held with DAB	1,117,342	1,064,852
Security deposit	-	1,500
Advance income tax	149,731	168,496
Western union - In bound balance	170,914	44,278
Murabaha profit receivable / Accrued Profit	69,378	42,134
Advance Against Murabaha	1,600	1,600
Advance against capital expenditure	145,568	140,699
Others	812,753	729,607
	<u>2,542,642</u>	<u>2,291,119</u>

10 SHARE CAPITAL

Authorized

250,000 ordinary shares of Afs 10,000 each

Issued and paid up

1,775,000 ordinary shares (2018: 1,775,000) of Afs 10,000 each

	Number of shares	
10.1 Following is the reconciliation of number of shares:		
Number of shares at beginning of the period / year	177,500	172,500
Shares issued during the period / year	-	5,000
Number of shares at end of the period / year	<u>177,500</u>	<u>177,500</u>

..... Afn '000'

10.2 Following is the reconciliation of amount of share capital:

Share capital at beginning of the period / year	1,775,000	1,725,000
Shares issued during the period / year	-	50,000
Share capital at end of the period / year	<u>1,775,000</u>	<u>1,775,000</u>

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

11 CURRENT ACCOUNTS AND EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS

	Un-Audited 31-Mar-19 Afn '000'	Audited 31-Dec-18
CURRENT AND SAVING ACCOUNTS FROM CUSTOMERS:		
Demand / Current account	5,806,549	9,138,232
Deposits against financial commitments	2,476,876	1,924,545
	8,283,425	11,062,777
EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS:		
Mudarabah saving deposits	4,586,839	4,214,251
	4,586,839	4,214,251
TOTAL DEPOSITS FROM CUSTOMERS AND EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS	12,870,264	15,277,028

12 SHORT TERM FINANCING - SHUA CAPITAL

The Bank obtained placement from Shuaa capital for one year at the rate of 4.5% p.a. This placement is based on commodity Murabaha basis.

	Un-Audited 31-Mar-19 Afn '000'	Audited 31-Dec-18
13 OTHER LIABILITIES		
Withholding tax payable	33,877	20,357
Creditors and accruals	228,276	272,780
Profit payable	757	1,008
Deferred income	11,028	2,582
Provision for off-Balance Sheet Commitments	-	27,801
Others	48,670	37,290
	322,608	361,818

14 CONTINGENCIES AND COMMITMENTS

Guarantees and Letter of credit issued on behalf of customers	4,477,742	4,945,271
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- 14.1** 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
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

	As per Financial Accounting Standards (FAS) as issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	As per International Financial Reporting Standards (IFRSs)
	Three Month Ended 31, March 2019	Three Month Ended 31, March 2018
15 DEFERRED SALES AND DIMINISHING MUSHARAKA RENTALS		
Unearned murabaha income	28,224	-
Diminishing musharaka rentals	9,173	-
	<u>37,397</u>	<u>-</u>
16 PROFIT ON INVESTMENT		
Return on Sukuk - Sovereign Guaranteed	5,319	-
Return on Sukuk - Corporate	13,284	-
Return on Placements and ICD Money Market fund	18,183	-
	<u>36,786</u>	<u>-</u>
17 INTEREST INCOME		
Cash and cash equivalents	-	5,467
Loans and advances	-	22,493
	<u>-</u>	<u>27,960</u>
18 INTEREST EXPENSE		
Deposits from customers	-	29,246
	<u>-</u>	<u>29,246</u>
19 RETURN ON UNRESTRICTED INVESTMENT ACCOUNT		
Profit payment on saving accounts	33,492	-
Return on Shua Capital borrowing	4,171	-
	<u>37,663</u>	<u>-</u>
20 REVENUE FROM BANKING SERVICES / FEE AND COMMISSION INCOME		
Commission income	40,371	40,423
Account servicing fee	26	131
	<u>40,397</u>	<u>40,554</u>
21 EXPENSE ON BANKING SERVICES / FEE AND COMMISSION EXPENSE		
Inter-bank transaction fees	2,583	2,771
	<u>2,583</u>	<u>2,771</u>

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

As per Financial Accounting Standards (FAS) as issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	As per International Financial Reporting Standards (IFRSs)
Three Month Ended 31, March 2019	Three Month Ended 31, March 2018

22 ADMINISTRATIVE AND GENERAL EXPENSE

Salaries and wages	58,647	71,435
Staff welfare	6,887	9,503
Repair and maintenance	8,100	8,484
Travelling expense	1,100	5,521
Advertising and publicity	16,101	11,552
Operating Lease	22,059	21,139
Printing and stationery	6,657	5,569
Communication	960	836
Internet and connectivity	3,306	4,823
Electricity and power	10,853	7,726
Office supplies	1,016	742
Security expenses	32,842	48,094
Audit fee	563	254
Legal and professional charges	2,452	3,074
Postage and courier	8	28
Software maintenance fee	614	1,191
Deposit insurance premium	4,200	9,465
Others	16,980	5,414
	193,345	214,850

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE PERIOD ENDED MARCH 31, 2019

23 Capital management

Regulatory capital

The Bank's regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be minimum 6% of risk weighted assets.

- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

The Bank's regulatory capital position at 31 March 2019 was as follows:

	Un-Audited 31 March 2019	Audited 31 December 2018
Afn '000'.....	
Tier 1 capital		
Total equity capital	1,275,198	1,264,495
Less: Intangible assets	(324,555)	(334,483)
Less: Deferred tax assets	(107,603)	(110,279)
Less: Profit during the period / year	(10,703)	(66,704)
Total tier 1 (core) capital	832,338	753,029
Tier 2 capital		
Add: Profit for the period / year	10,703	66,704
	10,703	66,704
Less: Equity Investment	16,888	16,888
Total regulatory capital	826,153	802,845

24 AUTHORIZATION

These condensed interim financial statements for the three months ended March 31, 2019 have been authorized for issue by the Board of Supervisors on May 13, 2019.



 Chief Executive Officer



 Chief Financial Officer