

Islamic Bank of Afghanistan

(Formerly Bakhtar Bank)

Kabul, Afghanistan

Condensed Interim Financial Statements along with
Accompanying Information

For the Quarter ended as at September 30, 2018

INDEPENDENT REVIEW REPORT TO SHAREHOLDERS

Introduction

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

Scope of Review

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

Conclusion

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

Emphasis of Matter

Without qualifying our conclusion, we draw attention to the note no. 16 "Capital Management" which disclose that currently bank equity is not complying with requirements of regulations issued by Da Afghanistan Bank to maintain financial capital as per prescribed limit. However, shareholders has shown their commitment by injecting Afn. 50 Million, subsequent to the reporting period.

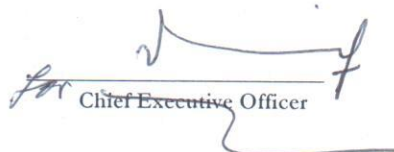

Crowe Horwath Afghanistan
Auditors & Business Advisors
Kabul



ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)
AS AT SEPTEMBER 30, 2018

As per International Financial Reporting Standards (IFRSs)		As per Financial Accounting Standards (FAS) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)		
		Audited 31-Dec-17 ---Afn '000'---	Un-Audited 30-Sep-18 ---Afn '000'---	
	Note		Note	
ASSETS		ASSETS		
Cash and cash equivalents	5	7,722,538	5 6,603,159	
Loans and advances to customers	6	680,379	6 809,715	
Investments	7	4,102,370	Investments:	
Property and equipment		397,876	Investments in Securities	7 590,832
Intangible assets		137,153	Other investments	555,837
Non current assets held for sale		104,958	Property and equipment	393,005
Deferred tax asset		126,955	Intangible assets	136,119
Other assets	8	1,284,801	Non current assets held for sale	109,785
			Deferred tax asset	126,955
			Other assets	8 1,865,772
Total assets		14,557,030	Total assets	11,191,179
EQUITY AND LIABILITIES		LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS'		
Equity		Liabilities		
Share capital	9	1,725,000	Current Account from customers	10 6,435,098
Retained earning	13	(577,209)	Current Account from banks	11 -
			Other liabilities	12 412,338
Total equity		1,147,791	Total liabilities	6,847,436
Liabilities		Equity of Unrestricted Investment Account		
Deposits from customers	10	12,168,896	Owner's Equity	10 3,391,879
Deposits from banks	11	904,333	Share capital	9 1,725,000
Other liabilities	12	336,010	Retained earning	13 (773,136)
Total liabilities		13,409,239	Total Owner's equity	951,864
Total equity and liabilities		14,557,030	Total Liabilities, Equity of Investment Accountholders and Owners' Equity	11,191,179
Contingencies and commitments	14		Contingencies and commitments	14

The annexed note 01 to 17 form an integral part of these condensed interim financial statements. *cut*


Chief Executive Officer


Chief Finance Officer

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

As per International Financial Reporting Standards (IFRSs)		As per Financial Accounting Standards (FAS) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)			
	Quarter ended 30 September 2017	Nine Months ended 30 September 2017	Quarter ended 30 March 2018	Quarter ended 30 September 2018	Six month ended 30 September 2018
	-----Afn '000'-----			-----Afn '000'-----	
Interest income	60,033	172,650	27,960	10,135	34,682
Interest expense	(26,758)	(94,418)	(29,246)	19,082	29,259
Net interest income	33,275	78,232	(1,286)	29,217	63,941
Fee and commission income	47,469	169,196	40,554		
Fee and commission expense	(3,858)	(13,700)	(2,771)		
Net fee and commission income	43,611	155,496	37,783	34,724	63,941
Foreign exchange gain / (loss)	9,510	39,369	(48,265)	(9,367)	(24,778)
Other non-interest income	37,249	54,412	9,626	19,850	39,163
Operating income	123,645	327,509	(2,142)	(9,367)	(24,778)
Impairment (loss) on loans and advances					
Provision against non-funded facilities					
Employee benefit expenses	14,582	76,875	111,000	99,340	127,260
Operating lease expenses	(9,339)	(45,927)	18,199	74,360	175,768
Depreciation	(65,963)	(190,571)	(80,938)	193,550	342,191
Amortization	(18,297)	(61,299)	(21,139)	(206,315)	(439,626)
Other expenses	(13,178)	(38,510)	(13,407)	(15,024)	(29,109)
Operating expenses	(100,962)	(273,706)	(112,773)	(221,339)	(468,735)
Loss before taxation	(193,594)	(534,476)	(99,416)	(96)	32,175
Provision for taxation- Deferred	(69,949)	(206,967)	(101,558)	(27,885)	(94,369)
Profit/(Loss) for the period	(69,949)	(147,608)	(101,558)	(27,885)	(94,369)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	(69,949)	(147,608)	(101,558)	(27,885)	(94,369)

The annexed note 01 to 17 form an integral part of these condensed interim financial statements.



Chief Executive Officer


Chief Finance Officer

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

	Note	Share capital	Retained earnings	Total
	Afn '000'.....		
Balance as at 01 July 2017		1,725,000	(721,422)	1,003,578
Comprehensive income:				
Net loss for the period		-	(69,949)	(69,949)
Transactions with owners:				
Ordinary shares Issued		-	-	150,000
Balance as at September 30, 2017		<u>1,725,000</u>	<u>(791,371)</u>	<u>1,083,629</u>
 Balance as at 01 July 2018		 1,725,000	 (678,767)	 1,046,233
Comprehensive income:				
Net loss for the period		-	(94,369)	(94,369)
Transactions with owners:				
Ordinary shares Issued		-	-	-
Balance as at September 30, 2018		<u>1,725,000</u>	<u>(773,136)</u>	<u>951,864</u>

The annexed note 01 to 17 form an integral part of these condensed interim financial statements. ^{copy.}

for 

Chief Executive Officer

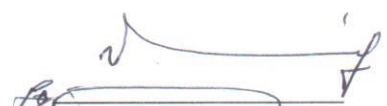


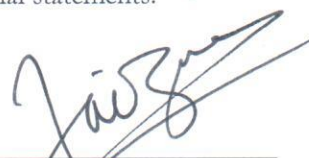
Chief Finance Officer

ISLAMIC BANK OF AFGHANISTAN
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

	Note	30-Sep-18Afn '000'.....	30-Sep-17
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(195,927)	(206,967)
Adjustments for:			
Depreciation		42,516	38,510
Amortization		1,319	1,338
Accrued profit on cash and cash equivalents		(25,507)	(33,101)
Impairment (gain)/ loss on Non Funded Facilities		1,394	45,927
Impairment (gain)/ loss on Financings		(34,017)	(76,875)
		<u>(210,222)</u>	<u>(231,168)</u>
Increase / decrease in operating assets and liabilities:			
Murabaha receivables / loan and advances	6	(95,319)	91,633
Other assets	8	(580,971)	(224,400)
Current Accounts from customers	10	(5,733,798)	(2,762,547)
Current Accounts from banks	11	(904,333)	(3,805,127)
Equity of Investment Account Holders	10	3,391,879	-
Other liabilities	12	76,328	147,866
		<u>(4,056,436)</u>	<u>(6,783,743)</u>
Net cash generated from operating activities			
Net Withholding taxes (paid) / collected		-	-
Net cash generated from operating activities		<u>(4,056,436)</u>	<u>(6,783,743)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - Net of Profits	7	2,955,701	577,120
Non-current assets exchange fluctuation		-	2,831
Acquisition of property and equipment - net of adjustment		(18,644)	(34,363)
Net cash used in investing activities		<u>2,937,057</u>	<u>545,588</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital	9	-	150,000
Net cash used in / generated from financing activities		<u>-</u>	<u>150,000</u>
Net increase in cash and cash equivalents		<u>(1,119,379)</u>	<u>(6,088,155)</u>
Cash and cash equivalents at beginning of the period		7,722,538	11,708,109
Cash and cash equivalents at the end of the period	5	<u><u>6,603,159</u></u>	<u><u>5,619,954</u></u>

The annexed note 01 to 17 form an integral part of these condensed interim financial statements.


Chief Executive Officer


Chief Finance Officer

ISLAMIC BANK OF AFGHANISTAN

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE PERIOD ENDED SEPTEMBER 30, 2018

1. STATUS AND NATURE OF OPERATIONS

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

- 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
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

a. Cash and Cash Equivalents

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

b. Receivables

(i) - Murabaha receivable

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

(ii) - Wakala receivable

Wakala receivable are stated at cost less provision for doubtful amount

(iii) - Salam receivable

Salam receivable is the outstanding amount at the end of the year less any provision for doubtful 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. Property and equipment

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

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

f. Fair values

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

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

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial 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

g. - Equity of investment accountholders

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

h. Revenue recognition

a - Receivables

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

b- Wakala financing

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

c- Ijara Muntahia Bittamleek

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

d - Fees and commission income

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

e - Income from investments

Income from investments is recognised when earned.

i. Return on equity of investment accountholders

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

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

j. Taxation

Current

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

Deferred

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary can be utilized.

Such differences of deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that effect neither the taxable profit nor the accounting profit.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k. Contingencies and Commitments

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

l. Earnings prohibited by Shari'a

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

m. Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the date of the consolidated statement of financial position. All differences are taken to the statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

n. Impairment of financial assets

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

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

o. Judgments and estimates

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

Impairment and uncollectibility of financial 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.

p. Joint and self financed

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

q. Offsetting

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

r. Shari'a supervisory board

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

s. Trade date accounting

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

ISLAMIC BANK OF AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

	Note	30-Sep-18Afn '000'	31-Dec-17
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	2,069,337	2,833,922
Balances with banks:			
Balances with Da Afghanistan Bank		1,909,540	2,318,259
Balances with other banks	5.2	2,624,282	2,570,357
		4,533,822	4,888,616
		6,603,159	7,722,538
5.1 Cash in hand			
Local currency		1,230,862	1,143,322
Foreign currency		838,475	1,690,600
		2,069,337	2,833,922
5.2 Balances with other banks			
Axis Bank Limited		-	24,819
Azizi Bank		-	185,749
Aktif Bank		404,271	140,761
Yinzhou Bank		1	8
Development Credit Bank Ltd		11,583	36,612
BMCE Bank		1,084,040	1,882,301
Yes Bank		2,912	106
Pashtany Bank		300,001	300,001
Nurol Bank		387,490	-
Transkapital Bank		43,546	-
Shua Capital	5.2.1	390,438	-
		2,624,282	2,570,357

5.2.1 The Bank have wakala placements with Ajman Bank UAE, First Abu Dhabi Bank UAE and Finance House UAE. Profit rate is ranging from 2.00% to 2.80% p.a. through Shua Capital for the period of 90 days with early maturity option.

ISLAMIC BANK OF AFGHANISTAN

30-Sep-2018	31-Dec-2017
.....Afn '000'

6. MURABAHA RECEIVABLES

Financing - at amortized cost

	30 Sep 2018				31 December 2017			
	Gross amount	Jointly Financed	Self Financed	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
6.1								

Islamic Financing - Sale base contracts

Murahaba receivables	-	740,309	740,309	-	6,225	734,084	-	-
Diminishing Musharaka	-	75,631	75,631	-	-	75,631	-	-
Conventional Financing (Prior to Conversion)								
Retail customers- running finances	-	-	-	-	-	-	450,356	14,185
Long term commercial loans	-	-	-	-	-	-	202,345	5,685
Small and medium enterprise loan	-	-	-	-	-	-	33,575	10,282
Short term loans to employees	-	-	-	-	-	-	7,830	78
Other public consumer loans	-	-	-	-	-	-	20,114	3,611
	815,940	815,940	815,940	-	6,225	809,715	714,220	33,841
								680,379

Conventional Financing (Prior to Conversion)

Retail customers- running finances	-	-	-	450,356	14,185	436,171
Long term commercial loans	-	-	-	202,345	5,685	196,660
Small and medium enterprise loan	-	-	-	33,575	10,282	23,293
Short term loans to employees	-	-	-	7,830	78	7,752
Other public consumer loans	-	-	-	20,114	3,611	16,503
	815,940	815,940	6,225	809,715	714,220	680,379

	Amount '000 (Afn)	Amount '000 (Afn)
i) By Geographical Distribution		
With in Kabul	685,073	778,000
Outside Kabul	130,867	37,940
	<u>815,940</u>	<u>815,940</u>
ii) By type of Customer		
Domestic Business Enterprises		
Individuals		

iii) By Profit rate sensitivity Fixed Rate	815,940		
		iv) By Economic purpose	
		Working Capital	778,000
		Personal Use	37,940
			815,940

There is no financing with variable profit rates.

“There is no financing with variable profit rates.

- v) By Residual Contractual Maturity
- vi) Impairment by Economic Purpose

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Within One Year	544,359	Working Capital	6,225
One Year to three years	242,099	Personal Use	-
Three years to five years	29,482		<u>6,225</u>
More than five years	-		
	<u>815,940</u>		

30-Sep-2018	31-Dec-2017
.....Afs '000'
33,841	430,500
6,225	(77,064)
-	(221,495)
-	(98,100)
<u>(33,841)</u>	<u>-</u>
<u>6,225</u>	<u>33,841</u>

Movement in Impaired Financing

As at January 01
Charged for the period / year
Reversal during the period / year
Written off during the period / year
Impairment of loans acquired by parent bank - at par
Closing balance

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7. INVESTMENTS

	Jointly Financed		Self Financed		Gross Amount	
	30-Sep-2018	31-Dec-2017	30-Sep-2018	31-Dec-2017	30-Sep-2018	31-Dec-2017
						Afn '000'
Investment in securities - Held to Maturity						
Capital Notes	-	-	-	-	-	4,085,482
Quoted Securities:						
Corporate Sukuk	156,573	-	-	-	156,573	-
Government Sukuk	434,259	-	-	-	434,259	-
	590,832	-	-	-	590,832	4,085,482
Other investments						
Investment is equity instrument - Afghanistan Payment System	-	-	16,888	-	16,888	16,888
Money Market Fund	538,949	-	-	-	538,949	-
	538,949	-	16,888	-	555,837	16,888
	1,129,781	-	16,888	-	1,146,669	4,102,370

7.1 Capital Notes with DAB

Interest rate range

Capital notes - 07 days	-	699,981
Capital notes - 28 days	-	1,899,766
Capital notes - 91 days	-	996,373
Capital notes - 182 days	-	489,362
	-	4,085,482

7.2 These investment are made for the period ranging from 03 to 07 years carrying CPN ranges from 3.596% to 7.743%. Bank has positive intentions and ability to hold them until maturity. Currently the accretion of discount net of amortization of premium is 16,320,418 Afghani.

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

7.4 These investment are made in perpetual funds carrying profit ranges from 1.33% to 4.83% per annum from January to September 2018.

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	30-Sep-18	31-Dec-17
 Afn '000'	
8 OTHER ASSETS		
Prepayments	95,054	59,370
Receivable from DAB	5,104	5,104
Required reserve held with DAB	801,211	828,201
Security deposit	1,500	1,500
Advance income tax	168,555	145,196
Western union - In bound balance	219,975	51,938
Murabaha profit receivable	12,760	13,051
Remittance in transit	15,000	-
Advance Against Murabaha	194	-
Others	546,419	180,441
	<u>1,865,772</u>	<u>1,284,801</u>
9 SHARE CAPITAL		
<i>Authorized</i>		
250,000 ordinary shares of Af\$ 10,000 each	<u>2,500,000</u>	<u>2,500,000</u>
<i>Issued and paid up</i>		
1,725,000 ordinary shares (2017: 1,725,000) of Af\$ 10,000 each	<u>1,725,000</u>	<u>1,725,000</u>
	Number of shares	
	30-Sep-18	31-Dec-17
9.1 Following is the reconciliation of number of shares:		
Number of shares at beginning of the period	172,500	157,500
Shares issued during the year	-	15,000
Number of shares at end of the period	<u>172,500</u>	<u>172,500</u>
	30-Sep-18	31-Dec-17
 Afn '000'	
9.2 Following is the reconciliation of amount of share capital:		
Share capital at beginning of the period	1,725,000	1,575,000
Shares issued during the period	-	150,000
Share capital at end of the period	<u>1,725,000</u>	<u>1,725,000</u>
9.3 Subsequent to the reporting period parent company has injected an amount of Af\$ 50 Million in the paid-up share capital on November 12, 2018.		
10 CURRENT ACCOUNTS AND EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS		
	30-Sep-18	31-Dec-17
 Afn '000'	
CURRENT AND SAVING ACCOUNTS FROM CUSTOMERS:	Islamic	Conventional
Demand / Current account	4,608,887	7,461,549
Margin against bank guarantees	-	2,281,885
Deposits against financial commitments	1,826,211	-
Saving deposits	-	2,425,462
	<u>6,435,098</u>	<u>12,168,896</u>
EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS:		
Mudarbaha saving deposits	<u>3,391,879</u>	<u>-</u>
	3,391,879	-
TOTAL DEPOSITS FROM CUSTOMERS AND EQUITY OF UN-RESTRICTED INVESTMENT ACCOUNT HOLDERS	<u>9,826,977</u>	<u>12,168,896</u>

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	Note	30-Sep-18Afn '000'.....	31-Dec-17
11 CURRENT ACCOUNT WITH BANKS / DEPOSITS FROM BANKS			
Azizi Bank		-	904,333
		<u>-</u>	<u>904,333</u>
12 OTHER LIABILITIES			
Withholding tax payable		14,189	5,326
Creditors and accruals		348,443	281,015
Profit payable		1,389	-
Deferred income		2,353	-
Loss Reserves for off-Balance Sheet Commitments		27,801	46,653
Others		18,163	3,016
		<u>412,338</u>	<u>336,010</u>
13 RETAINED EARNINGS			
Opening Balance		(577,209)	(643,763)
(Loss) / Profit for the year		-	66,554
(Loss) for the first quarter as per IFRS	13.1	(101,558)	-
(Loss) for the six months ended as per AAOIFI		(94,369)	-
Closing Balance		<u>(773,136)</u>	<u>(577,209)</u>
13.1 Bank had secured Islamic Bank License from Da Afghanistan Bank on April 09, 2018, however conversion was effectively started from April 01, 2018. Hence the six months ended profit and loss account has been disclosed separately in these financial statements.			
14 CONTINGENCIES AND COMMITMENTS			
Guarantees and Letter of credit issued on behalf of cutomers		<u>4,681,203</u>	<u>4,665,318</u>
		Quarter ended 30 Sep 2018	Quarter ended 30 September 2017
	Afn '000'.....	
15 EMPLOYEE BENEFIT EXPENSES / OTHER ADMINISTRATIVE EXPENSES			
Salaries and wages and other benefits		58,449	65,963
Other administrative expenses		147,866	119,259
		<u>206,315</u>	<u>185,222</u>

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16. Capital management

Regulatory capital

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

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

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

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

	30 Sep 2018	31 December 2017
Afn '000'.....	
Tier 1 capital		
Total equity capital	951,864	1,147,791
Less: Intangible assets	(136,119)	(137,153)
Less: Deferred tax assets	(126,955)	(126,955)
Less: Profit during the period / year	-	(66,554)
Total tier 1 (core) capital	688,791	817,129
Tier 2 capital		
Add: Profit for the period / year	-	66,554
Add: General loss reserve on credit	-	6,046
	-	72,600
Less: Equity Investment	16,888	16,888
Total regulatory capital	671,903	872,841

17. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on Nov, 14 2018. ^{UP:}


 Chief Executive Officer


 Chief Finance Officer