

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION TO THE COUNTRY MANAGER OF BANK ALFALAH LIMITED AFGHANISTAN

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **Bank Alfalah Limited Afghanistan** (the Bank) as at **30 June 2023**, and the related condensed interim statement of comprehensive income, changes in equity and cash flows for the six months then ended, and notes to the condensed interim financial information ('here-in-after referred to as the condensed interim financial information'). Management is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with the requirement of the Law of Banking in Afghanistan and International Accounting Standards 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed 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 International Standards on Auditing 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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared in all material respects, in accordance with the requirements of Law of Banking in Afghanistan and International Accounting Standards 34 "Interim Financial Reporting".


Chartered Accountants
Engagement Partner: Muhammad Saqlain Siddiqui
Date: 14 August 2023
Place: Kabul, Afghanistan




BANK ALFALAH LIMITED AFGHANISTAN
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)
AS AT 30 JUNE 2023

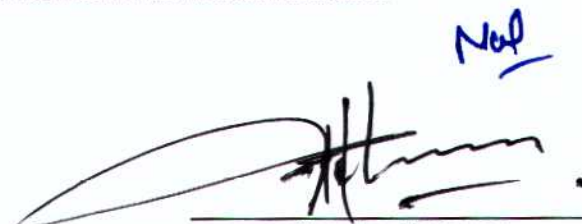
	Note	30 June 2023 (Un-audited) AFN '000'	31 December 2022 (Audited)
ASSETS			
Cash and cash equivalents		3,441,372	4,598,711
Investments - net	4	4,013,331	4,064,456
Property and equipment	5	12,181	17,844
Deferred tax assets - net		99,310	123,658
Other assets	6	1,826,192	1,813,930
Total assets		9,392,385	10,618,599
LIABILITIES			
Deposits from customers	7	7,652,318	8,936,639
Lease liabilities		11,268	15,449
Other liabilities	8	392,664	441,505
Total liabilities		8,056,250	9,393,593
EQUITY			
Capital contributed by Head Office		1,000,000	1,000,000
Capital reserve		77,706	75,654
Retained earnings		340,860	301,878
Revaluation reserve on financial instruments at FVOCI		(82,431)	(152,526)
Total equity		1,336,135	1,225,006
Total liabilities and equity		9,392,385	10,618,599
Contingencies and commitments	9		

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

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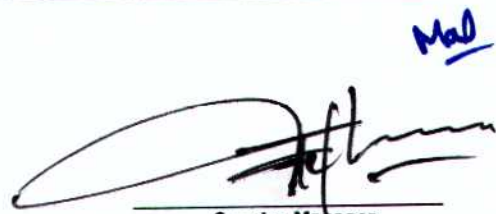
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BANK ALFALAH LIMITED AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

Note	Six months ended		Three months ended	
	30-Jun-23	30-Jun-22	30-Jun-23	30-Jun-22
	(Un-audited) AFN '000'	(Un-audited) AFN '000'	(Un-audited) AFN '000'	(Un-audited) AFN '000'
Interest income	158,852	119,239	81,040	73,837
Interest expense	(822)	(37,321)	(384)	(32,513)
Net interest income	158,030	81,918	80,656	41,324
Fee and commission income	6,253	6,060	3,429	2,695
Fee and commission expense	(12,457)	(1,769)	(10,633)	(952)
Net fee and commission income	(6,204)	4,291	(7,204)	1,743
Losses from dealing in foreign currencies	(41,795)	(61,301)	(7,185)	(3,128)
Other income	19,181	18,855	-	18,855
Total operating income	129,213	43,763	66,268	58,793
Impairment gain on investments and off balance sheet items	1,229	3,721	(1,560)	1,246
Net gain on re-measurement of IRS	8,611	-	3,732	(10,463)
Provision on interest receivable	-	(7,072)	-	(653)
Net operating income	139,053	40,412	68,439	48,923
Personnel expenses	(55,541)	(50,795)	(23,329)	(20,869)
Depreciation	(6,008)	(7,097)	(3,000)	(3,535)
Other operating expenses	(19,213)	(23,788)	(9,135)	(10,325)
Total operating expenses	(80,763)	(81,680)	(35,464)	(34,729)
Profit / (Loss) before taxation	58,290	(41,268)	32,976	14,194
Taxation	(17,256)	7,985	(6,492)	(1,923)
Profit / (Loss) for the period	41,034	(33,283)	26,484	12,271
Other comprehensive income / (loss)				
Items that may be reclassified to profit or loss subsequently				
Mark to market adjustment on investments at FVOCI	113,204	(696,563)	84,601	(339,785)
Related deferred tax	(22,641)	139,313	(16,920)	67,957
Mark to market adjustment on interest rate SWAP	(25,585)	343,528	47,311	110,812
Related deferred tax	5,117	(68,706)	(9,462)	(22,162)
Other comprehensive profit, net of tax	70,095	(282,428)	105,530	(183,178)
Total comprehensive profit for the period / (loss)	111,129	(315,711)	132,013	(170,907)

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.


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BANK ALFALAH LIMITED AFGHANISTAN
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Capital contributed by Head Office	Revaluation reserve on financial instrument at FVOCI	Capital reserve	Retained earnings	Total
Note	AFN '000'				
Balance as at 01 January 2022 - (Audited)	1,000,000	115,761	75,654	343,099	1,534,514
Total comprehensive income:					
Loss for the period	-	-	-	(33,283)	(33,283)
Other comprehensive losses	-	(282,428)	-	-	(282,428)
	-	(282,428)	-	(33,283)	(315,710)
Transferred to capital reserve	-	-	-	-	-
Transactions with shareholders					
Profits remitted to Head Office	-	-	-	-	-
As at 30 June 2022 - (Un-audited)	<u>1,000,000</u>	<u>(166,667)</u>	<u>75,654</u>	<u>309,816</u>	<u>1,218,804</u>
Balance as at 01 January 2023 - (Audited)	1,000,000	(152,526)	75,654	301,878	1,225,006
Total comprehensive income:					
Profit for the period	-	-	-	41,034	41,034
Other comprehensive losses	-	70,095	-	-	70,095
	-	70,095	-	41,034	111,129
Transferred to capital reserve	-	-	2,052	(2,052)	-
Transactions with shareholders					
Profits remitted to Head Office	-	-	-	-	-
As at 30 June 2023 (Un-audited)	<u>1,000,000</u>	<u>(82,431)</u>	<u>77,706</u>	<u>340,860</u>	<u>1,336,135</u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.


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BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June 2023	Six months ended 30 June 2022
Note AFN '000'	
Cash flows from operating activities		
Profit / (Loss) before taxation	58,290	(41,268)
Adjustments for:		
Depreciation	5 6,008	7,097
Finance cost on lease liabilities	822	2,008
Impairment gain on investments and off balance sheet items	(1,229)	-
Provision against interest receivable	-	6,419
Gain on disposal of property and equipment	-	-
Exchange loss on lease liabilities	-	-
Gain on settlement of Interest rate swaps - net	-	(10,464)
Net gain on re-measurement of IRS	(8,611)	-
	<u>55,280</u>	<u>(36,208)</u>
Adjustments for changes in operating assets and liabilities:		
Other assets	(30,407)	14,593
Deposits from customers	(1,284,321)	(1,955,245)
Other liabilities	(48,841)	105,908
	<u>(1,363,568)</u>	<u>(1,834,744)</u>
Net cash flow used in operating activities before tax	(1,308,288)	(1,870,952)
Tax paid	-	-
Net cash flow used in operating activities	(1,308,288)	(1,870,952)
Investing activities		
Investments	153,274	1,002,097
Net cash flow generated from investing activities	153,274	1,002,097
Cash flows from financing activities		
Payment against lease liabilities	(2,325)	(3,753)
Net cash used in financing activities	(2,325)	(3,753)
Net decrease in cash and cash equivalents	(1,157,339)	(872,608)
Cash and cash equivalent at beginning of the period	4,598,711	6,596,740
Cash and cash equivalents at end of the period	3,441,372	5,724,132

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.


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BANK ALFALAH LIMITED AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

1 STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited Afghanistan ("the Bank") is a foreign branch of Bank Alfalah Limited, Pakistan and is registered and operating in Afghanistan as a commercial bank. The Bank obtained business license from Afghanistan Investment Support Agency which has been renewed by Ministry of Commerce and Industries (MoCI) on 23 July 2017. The Bank commenced its operations on 05 September 2005 under the license for commercial banking issued by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank has two conventional banking branches at Kabul and Herat.

The registered office of the Bank is located in Kabul, Afghanistan.

2. BASIS OF PREPARATION

- 2.1** This condensed interim financial information of the Bank for the six months period ended 30 June 2023 has been prepared in accordance with the requirements of the International Accounting Standard 34 - "Interim Financial Reporting" and the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank. Whenever the requirement of the Law of Banking in Afghanistan differs with the requirements of the IAS 34, the requirement of the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank takes precedence.
- 2.2** The disclosures made in this condensed interim financial information have been limited based on the format prescribed by the International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, this condensed interim financial information should be read in conjunction with the annual financial statements of the Bank for the year ended 31 December 2022.
- 2.3** Comparative statement of financial position is extracted from the annual financial statements as at 31 December 2022 whereas comparative statement of comprehensive income, statement of changes in equity and statement of cash flows have been taken from un-audited condensed interim financial statements for the six months period ended 30 June 2022.

Standards, interpretations and amendments to published approved accounting standards that are effective in the current period

There are certain new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after 1 January 2023 but are considered not to be relevant or do not have any significant effect on the Bank's operations.

3. ACCOUNTING POLICIES

- 3.1** The accounting policies adopted in preparation of this condensed interim financial information are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2022.
- 3.2** The estimates / judgments assumptions used in the preparation of this condensed interim financial information is consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended 31 December 2022.
- 3.3** The financial risk management policies and procedures are the same as those disclosed in annual financial statements of the Bank for the year ended 31 December 2022.

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BANK ALFALAH LIMITED AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		30 June 2023 (Un-audited)	31 December 2022 (Audited)
	Note AFN '000'	
4. INVESTMENTS - NET			
Debt instruments at fair value through OCI:			
Investment bonds	4.1	4,118,355	4,170,668
		4,118,355	4,170,668
Allowance for ECL / impairment losses		(105,024)	(106,211)
		4,013,331	4,064,457

4.1 The breakup of debt instruments at fair value through OCI is as follows:

	Rating	Rating Agency	30-Jun-23	31-Dec-22
			AFN '000'	
Bonds at FVOCI:				
African Finance Corp.	A3	Moody's	399,821	418,635
Pakistan Euro Bond	Caa3	Moody's	234,044	194,157
Islamic Republic of Pakistan 2031	Caa3	Moody's	179,531	159,277
Oman Government International Bond	Ba2	Moody's	543,017	561,490
South Africa	Ba2	Moody's	381,152	400,579
Republic of Italy	Baa3u	Moody's	41,161	42,000
Sharjah Sukuk	Ba1	Moody's	462,158	474,098
Kingdom of Saudi Sukuk	A1	Moody's	465,116	485,787
Italy Government International Bond	Baa3u	Moody's	301,548	296,551
Perusahaan Penerbit SBSN 2025	Baa2	Moody's	81,694	84,561
Perusahaan Penerbit SBSN 2030	Baa2	Moody's	381,258	392,543
Dubai DOF Sukuk	Unrated		393,208	405,309
Republic of Turkey	B3	Moody's	245,687	246,638
Republic of Chile	A2	Moody's	8,962	9,042
			4,118,355	4,170,668

4.1.1 These represent investments in sovereign bonds having maturity ranging from April 2024 to April 2031 (31 December 2022: April 2024 to April 2031) and carrying interest rates ranging from 1.625% to 8.25% (31 December 2022: 1.625% to 8.25%) per annum. These investments are managed by Treasury head office of Alfalah Bank.

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BANK ALFALAH LIMITED AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

5. PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture & fixtures	Electrical, office and computer equipment	Vehicles	Right-of-use Assets (Building)	Total
----- (AFN '000') -----						
Cost						
Balance at 1 January 2022	28,342	8,934	31,698	20,155	57,951	147,079
Additions	-	-	-	-	346	346
Lease modifications	-	-	-	-	(13,481)	(13,481)
Balance at 31 December 2022	28,342	8,934	31,698	20,155	44,816	133,944
Balance at 1 January 2023	28,341	8,934	31,698	20,155	44,816	133,944
Additions	-	-	-	-	-	-
Lease modifications	-	-	-	-	343	343
Balance at 30 June 2023	28,341	8,934	31,698	20,155	45,159	134,287
Depreciation						
Balance at 1 January 2022	28,197	7,747	28,881	15,374	22,218	102,418
Charge for the period	55	281	909	2,608	9,828	13,681
Balance at 31 December 2022	28,252	8,028	29,790	17,982	32,046	116,099
Balance at 1 January 2023	28,252	8,027	29,790	17,982	32,046	116,098
Charge for the period	17	128	404	1,293	4,166	6,008
Balance at 30 June 2023	28,269	8,156	30,194	19,276	36,212	122,106
Carrying amounts						
Balance at 31 December 2022	89	906	1,908	2,173	12,769	17,845
Balance at 30 June 2023	72	778	1,505	879	8,947	12,181
Depreciation rate	20%	10% to 25%	20% to 25%	25%	17% to 100%	

- 5.1** The cost of property and equipment includes the fully depreciated assets that are still in use having cost of AFN 72,380 thousands (31 December 2022: AFN 71,792 thousands).

		30 June 2023 (Un-audited) AFN '000'	31 December 2022 (Audited)
6. OTHER ASSETS	Note		
Advances, deposits and prepayments		31	-
Required reserve with DAB	6.1	599,495	692,414
Receivable from overseas units (Related party)	6.2	745,605	628,651
Accrued interest		171,680	144,622
Interest receivable on interest rate swaps (Related party)		-	20,716
Advance tax -net		4,517	4,517
Unrealized gain on IRS		400,510	418,655
		1,921,836	1,909,575
Provision against other asset	6.3	(95,645)	(95,645)
		1,826,192	1,813,930

- 6.1** Required reserve account is being maintained with DAB which is denominated in respective currencies to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. These balances are interest free.
- 6.2** This amount represents receivable from BAFL Dubai against interest received on bonds and from BAFL Bahrain against interest received and Call margin on IRS on behalf of Bank Alfalah Limited Afghanistan. Due to restrictions on transactions through NOSTRO, bank is not able to transfer these funds from counter parts to Afghanistan."
- 6.3** This represents provision against interest receivable on capital notes from DAB.

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BANK ALFALAH LIMITED AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		30 June 2023	31 December 2022
	Note	(Un-audited)	(Audited)
	 AFN '000' AFN '000'
7. DEPOSITS FROM CUSTOMERS			
Current deposits		6,429,905	7,717,845
Saving deposits		1,195,587	1,191,240
Margin deposits	7.1	<u>26,826</u>	<u>27,554</u>
		<u>7,652,318</u>	<u>8,936,639</u>

7.1 This represents cash margin deposits from customers against issuance of letter of guarantees.

		30 June 2023	31 December 2022
		(Un-audited)	(Audited)
	 AFN '000' AFN '000'
8. OTHER LIABILITIES			
Call margin on Interest rate swaps	8.1	361,410	369,040
Interest payable on Interest Rate Swap		10,942	14,723
Payable to overseas units (Related party)		-	1,277
Accrued expenses		13,926	9,828
Interest payable on term deposit		-	41,000
DAB assessment fee		1,116	1,512
Professional charges		3,638	2,450
Others		1,110	1,110
Provision on for expected credit loss against letter of guarantees		<u>522</u>	<u>565</u>
		<u>392,664</u>	<u>441,505</u>

8.1 This represents call margin received from First Abu Dhabi Bank (FAB) against the interest rate swap agreements (IRS). These interest rate swaps hedge the foreign currency exposure of Head Office and its certain overseas branches, including Bank Alfalah Limited Afghanistan. Due to decrease in LIBOR rates, gains accrued on interest rate swaps during the period. The call margin amount of AFN 361 Million (2022: 369 Million - liability) represents the Bank's share in the call margin received from FAB to ensure the margin requirements.

		30 June 2023	31 December 2022
	Note	(Un-audited)	(Audited)
	 AFN '000' AFN '000'
9. CONTINGENCIES AND COMMITMENTS			
Contingencies			
Financial guarantees	9.1	<u>225,122</u>	<u>233,205</u>
Commitments	9.2	<u>3,218,270</u>	<u>3,333,836</u>

9.1 These represent performance guarantees issued by the Bank in the normal course of business. These are 100% secured against counter guarantees. The Bank is also facing certain litigations on which no provision is required as per the opinion of legal advisor.

9.2 This represents interest rate swap contract amounting to AFN 3.218 billion and contingency regarding IRS principal amount payable/receivable against notional amount of AFN 3.218 billion. The Bank has hedged 8 bonds which are Pakistan Euro Bond, Islamic Republic of Pakistan 2031, South Africa, Sharjah Sukuk, Kingdom of Saudi Sukuk, Italy Government International Bond, Perusahaan Penerbit SBSN 2030 - Indonesia and Dubai DOF Sukuk.

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BANK ALFALAH LIMITED AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

10 RELATED PARTY TRANSACTIONS

The Bank is a fully owned branch of Bank Alfalah Limited Pakistan. Related parties comprise associated undertakings, majority shareholders, retirement benefit plans, directors of the Head Office of the Bank and the key management personnel of the Bank and its Head Office. Transactions with key management personnel have been carried out as per terms of their employment. Details of transactions and balances with related parties are as follows:

10.1 Transactions with related parties

Name of group companies	Nature of transactions	Six months ended 30 June 2023	Six months ended 30 June 2022
		(Un-audited)	(Un-audited)
		----- (AFN '000') -----	
Bank Alfalah Limited - Pakistan	Alfalah Insurance Company Limited	-	1,012

10.2 Key management compensation

Salaries and benefits	23,301	19,046
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In addition to their salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation.

10.3 Balances with related party

The bank had outstanding interest earned on bonds, which was received by BAFL Dubai and Bahrain on the behalf of the bank, amounting to Afn 276mn (31 December 2022: Afn 196mn), due to challenges in remitting the funds to the nostro accounts of the bank, the balance was maintained with aforementioned related parties without any interest. These balances are accumulating since October 2021.

11 FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 13 requires the Bank to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

11.1 The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable.

	Level 1	Level 2	Level 3	Total
----- AFN '000' -----				
Investments in bonds - available for sale investments				
As at 30 June 2023 (Un-audited)	4,118,355	-	-	4,118,355
As at 31 December 2022 (Audited)	4,170,668	-	-	4,170,668

Valuation techniques and key inputs used for investment in bonds were quoted market bid price in active market.

12 CORRESPONDING FIGURES

12.1 Corresponding figures have been re-arranged / reclassified, wherever necessary, to facilitate comparisons. However, there were no significant re-arrangements / reclassifications made during the period.

12.2 The figures in this condensed interim financial information have been rounded off to the nearest thousands.

13 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information has been authorized for issue by the Country Finance Manager and Officiating Country Manager of the Bank on 14 August 2023.


Country Finance Manager


Country Manager