

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 September 2023**, and the related condensed interim statement of comprehensive income, changes in equity and cash flows for the nine 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".


Manas Afshar
Chartered Accountants
Engagement Partner, Muhammad Saqlain Siddiqui
Date: 14 November 2023
Place: Kabul, Afghanistan

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

	Note	30 September 2023 (Un-audited) AFN '000'	31 December 2022 (Audited)
ASSETS			
Cash and cash equivalents	4	3,313,688	4,598,711
Investments - net	5	3,563,708	4,064,456
Property and equipment	6	9,184	17,844
Deferred tax assets - net		88,425	123,658
Other assets	7	1,429,634	1,813,930
Total assets		8,404,638	10,618,599
LIABILITIES			
Deposits from customers	8	6,570,289	8,936,639
Lease liabilities		9,261	15,449
Other liabilities	9	444,009	441,505
Total liabilities		7,023,559	9,393,593
EQUITY			
Capital contributed by Head Office		1,000,000	1,000,000
Capital reserve		78,153	75,654
Retained earnings		349,352	301,878
Revaluation reserve on financial instruments at FVOCI		(46,427)	(152,526)
Total equity		1,381,078	1,225,006
Total liabilities and equity		8,404,638	10,618,599
Contingencies and commitments	10		

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

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 Country Finance Manager



 Country Manager

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

Note	Nine months ended		Three months ended	
	30-Sep-23	30-Sep-22	30-Sep-23	30-Sep-22
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
 AFN '000' AFN '000' AFN '000' AFN '000'
Interest income	236,354	144,280	77,502	56,580
Interest expense	-	(3,774)	-	-
Net interest income	236,354	140,506	77,502	56,580
Fee and commission income	9,792	8,355	3,539	2,295
Fee and commission expense	(16,019)	(4,653)	(3,562)	(2,883)
Net fee and commission income	(6,227)	3,702	(23)	(589)
Loss from dealing in foreign currencies	(83,994)	(60,651)	(42,199)	651
Other income	19,181	25,759	-	6,904
Total operating income	165,314	109,316	35,280	63,547
Reversal / charge of provision on investments and off balance sheet items	7,147	(853)	5,917	(4,574)
Net gain on re-measurement of IRS	12,928	-	4,317	-
Provision on interest receivable	-	(7,072)	-	-
Net operating income	185,389	101,391	45,515	58,973
Personnel expenses	(78,243)	(71,676)	(22,701)	(20,881)
Depreciation	(9,005)	(10,642)	(2,996)	(3,545)
Other operating expenses	(27,895)	(35,062)	(8,682)	(11,274)
Finance cost on lease liability	(1,133)	(2,919)	(311)	(911)
Total operating expenses	(116,276)	(120,299)	(34,691)	(36,611)
Profit / (Loss) before taxation	69,113	(18,908)	10,824	22,362
Taxation	(19,140)	3,407	(1,883)	(4,578)
Profit / (Loss) for the period	49,973	(15,501)	8,940	17,784
Other comprehensive income / (loss)				
Items that may be reclassified to profit or loss subsequently				
Mark to market adjustment on investments at FVOCI	140,491	(1,011,134)	27,287	(314,572)
Related deferred tax	(28,098)	202,227	(5,457)	62,914
Mark to market adjustment on interest rate SWAP	(7,867)	480,150	17,718	136,622
Related deferred tax	1,573	(96,030)	(3,544)	(27,324)
Other comprehensive income / (loss), net of tax	106,099	(424,787)	36,004	(142,360)
Total comprehensive income for the period / (loss)	156,072	(440,288)	44,944	(124,576)

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

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Country Finance Manager



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BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2023

	Nine months ended 30 September 2023	Nine months ended 30 September 2022
	(Un-audited)	(Un-audited)
Note AFN '000'	
Cash flows from operating activities		
Profit / (Loss) before taxation	69,113	(18,908)
Adjustments for:		
Depreciation	6 9,005	10,642
Finance cost on lease liabilities	1,133	2,919
Impairment gain on investments and off balance sheet items	(7,147)	853
Provision against interest receivable	-	7,072
Gain on settlement of Interest rate swaps - net	-	(25,759)
Net gain on re-measurement of IRS	(12,928)	-
	<u>59,177</u>	<u>(23,181)</u>
Adjustments for changes in operating assets and liabilities:		
Other assets	384,164	(134,055)
Deposits from customers	(2,366,350)	(2,685,337)
Other liabilities	2,504	364,344
	<u>(1,979,682)</u>	<u>(2,455,048)</u>
Net cash flow used in operating activities before tax	(1,920,505)	(2,478,229)
Tax paid	-	-
Net cash flow used in operating activities	(1,920,505)	(2,478,229)
Investing activities		
Investments	645,523	1,018,938
Net cash flow generated from investing activities	645,523	1,018,938
Cash flows from financing activities		
Payment against lease liabilities	(10,041)	(10,524)
Net cash used in financing activities	(10,041)	(10,524)
Net decrease in cash and cash equivalents	(1,285,023)	(1,469,816)
Cash and cash equivalent at beginning of the year	4,598,711	6,596,740
Cash and cash equivalents at end of the period	3,313,688	5,126,924

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 NINE MONTHS ENDED 30 SEPTEMBER 2023

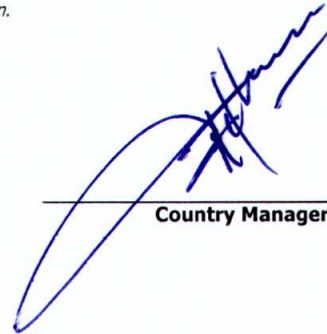
	Capital contributed by Head Office	Revaluation reserve on financial instrument at FVOCI	Capital reserve	Retained earnings	Total
	AFN '000'				
Balance as at 01 January 2022 - (Audited)	1,000,000	115,761	75,654	343,099	1,534,514
Total comprehensive income:					
Loss for the period	-	-	-	(15,501)	(15,501)
Other comprehensive losses	-	(424,787)	-	-	(424,787)
	-	(424,787)	-	(15,501)	(440,288)
Transferred to capital reserve	-	-	(775)	775	-
As at 30 September 2022 - (Un-audited)	<u>1,000,000</u>	<u>(309,026)</u>	<u>74,879</u>	<u>328,373</u>	<u>1,094,226</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	-	-	-	49,973	49,973
Other comprehensive income	-	106,099	-	-	106,099
	-	106,099	-	49,973	156,072
Transferred to capital reserve	-	-	2,499	(2,499)	-
As at 30 September 2023 (Un-audited)	<u>1,000,000</u>	<u>(46,427)</u>	<u>78,153</u>	<u>349,352</u>	<u>1,381,078</u>

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

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Country Finance Manager



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BANK ALFALAH LIMITED AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 Industry and Commerce (MoIC) on 20 August 2023. 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 nine months period ended 30 September 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 nine months period ended 30 September 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 NINE MONTHS ENDED 30 SEPTEMBER 2023

4	Cash and cash equivalents	Note	30 September	31 December
			2023	2022
			(Un-audited)	(Audited)
			----- (AFN '000') -----	
	Cash in hand			
	Local currency		30,864	46,167
	Foreign currency		40,318	42,695
			71,182	88,862
	Current accounts with Da Afghanistan Bank			
	Local currency		2,235,389	1,931,711
	Foreign currency		140,485	696,155
			2,375,874	2,627,866
	Balances with other banks and financial institutions			
	Current accounts		866,632	1,881,983
	Capital notes with DAB		-	-
	Less: Provision for expected credit losses		-	-
			866,632	1,881,983
			3,313,688	4,598,711
5	INVESTMENTS - NET			
	Debt instruments at fair value through OCI:			
	Investment bonds	5.1	3,662,870	4,170,668
			3,662,870	4,170,668
	Allowance for ECL / impairment losses		(99,162)	(106,211)
			3,563,708	4,064,457

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

	Rating	Rating Agency	30-Sep-23	31-Dec-22
			AFN '000'	
Bonds at FVOCI:				
African Finance Corp.	A3	Moody's	356,373	418,635
Pakistan Euro Bond	Caa3	Moody's	233,521	194,157
Islamic Republic of Pakistan 2031	Caa3	Moody's	169,671	159,277
Oman Government International Bond	Ba2	Moody's	485,874	561,490
South Africa	Ba2	Moody's	331,009	400,579
Republic of Italy	Baa3u	Moody's	37,105	42,000
Sharjah Sukuk	Ba1	Moody's	405,094	474,098
Kingdom of Saudi Sukuk	A1	Moody's	408,603	485,787
Italy Government International Bond	Baa3u	Moody's	263,690	296,551
Perusahaan Penerbit SBSN 2025	Baa2	Moody's	72,717	84,561
Perusahaan Penerbit SBSN 2030	Baa2	Moody's	327,396	392,543
Dubai DOF Sukuk	Unrated		338,553	405,309
Republic of Turkey	B3	Moody's	225,360	246,638
Republic of Chile	A2	Moody's	7,905	9,042
			3,662,870	4,170,668

5.1.1 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 NINE MONTHS ENDED 30 SEPTEMBER 2023

6 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	28,342	8,934	31,698	20,155	44,816	133,944
Additions	-	-	-	-	-	-
Lease modifications	-	-	-	-	343	343
Balance at 30 September 2023	28,342	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	56	281	909	2,608	9,828	13,682
Balance at 31 December 2022	28,253	8,028	29,790	17,982	32,046	116,100
Balance at 1 January 2023	28,253	8,028	29,790	17,982	32,047	116,100
Charge for the period	25	190	590	1,951	6,248	9,005
Balance at 30 September 2023	28,277	8,218	30,380	19,933	38,295	125,103
Carrying amounts						
Balance at 31 December 2022	88	906	1,908	2,173	12,769	17,844
Balance at 30 September 2023	64	716	1,318	222	6,863	9,184
Depreciation rate %	20	10 to 25	20 to 25	25	17 to 100	

- 6.1 The cost of property and equipment includes the fully depreciated assets that are still in use having cost of AFN 72,548 thousands (31 December 2022: AFN 71,792 thousands).

		30 September 2023 (Un-audited)	31 December 2022 (Audited)
..... AFN '000'			
7 OTHER ASSETS	Note		
Advances, deposits and prepayments		278	-
Required reserve with DAB	7.1	496,103	692,414
Receivable from overseas units (Related party)	7.2	425,024	628,651
Accrued interest		157,793	144,622
Interest receivable on interest rate swaps (Related party)		23,041	20,716
Advance tax -net		4,517	4,517
Unrealized gain on IRS		418,523	418,655
		1,525,279	1,909,575
Provision against other asset	7.3	(95,645)	(95,645)
		1,429,634	1,813,930

- 7.1 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.
- 7.2 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."
- 7.3 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 NINE MONTHS ENDED 30 SEPTEMBER 2023

		30 September 2023	31 December 2022
		(Un-audited)	(Audited)
	 AFN '000'	
8	DEPOSITS FROM CUSTOMERS		
	Current deposits	5,510,485	7,717,845
	Saving deposits	1,035,124	1,191,240
	Margin deposits	24,680	27,554
		6,570,289	8,936,639

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

		30 September 2023	31 December 2022
		(Un-audited)	(Audited)
	 AFN '000'	
9	OTHER LIABILITIES		
	Call margin on Interest rate swaps	407,330	369,040
	Interest payable on Interest Rate Swap	17,074	14,723
	Payable to overseas units (Related party)	-	1,277
	Accrued expenses	12,875	9,828
	Interest payable on term deposit	-	41,000
	DAB & ABA annual fee	1,674	1,512
	Professional charges	3,608	2,450
	Others	1,448	1,675
		444,009	441,505

9.1 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 changes in underlying assets' rates, gains accrued on interest rate swaps during the period. The call margin amount of AFN 407 Million (2022: 369 Million - liability) represents the Bank's share in the call margin received from FAB to ensure the margin requirements. Currently these funds are parked with Bank Alfalah Bahrain and presented in "Other Assets" as Receivable from Overseas Units.

		30 September 2023	31 December 2022
		(Un-audited)	(Audited)
	 AFN '000'	
10	CONTINGENCIES AND COMMITMENTS		
	Contingencies		
	Financial guarantees	201,445	233,205
	Commitments	2,879,800	3,333,836

10.1 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.

10.2 This represents interest rate swap contract amounting to AFN 2.879 billion and contingency regarding IRS principal amount payable/receivable against notional amount of AFN 2.879 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 NINE MONTHS ENDED 30 SEPTEMBER 2023

11 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:

11.1 Transactions with related parties

Name of group companies	Nature of transactions	Nine months ended 30 September 2023	Nine months ended 30 September 2022
		(Un-audited)	(Un-audited)
		----- (AFN '000') -----	
Bank Alfalah Limited - Pakistan	Alfalah Insurance Company Limited	-	2,378

11.2 Key management compensation

Salaries and benefits	33,040	26,710
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In addition to their salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation.

12 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

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

Level 3: Unobservable inputs for the asset or liability.

12.1 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 September 2023 (Un-audited)	3,662,870	-	-	3,662,870
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.

13 CORRESPONDING FIGURES

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

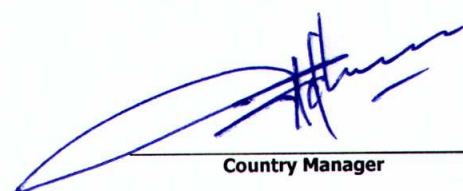
13.2 The figures in this condensed interim financial information have been rounded off to the nearest thousands.

14 DATE OF AUTHORISATION FOR ISSUE

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

Handwritten initials


 Country Finance Manager


 Country Manager