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Report on Review of Interim Financial Information to the Shareholders of Bank Alfalah Limited Afghanistan

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Introduction

We have reviewed the accompanying condensed interim statement of financial position of **Bank Alfalah Limited Afghanistan** ("the Bank") as at June 30, 2019 and the related condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows, and the notes to the condensed interim financial statements for the six months then ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with the International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan. Our responsibility is to express a conclusion on these interim financial statements 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 interim financial statements 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.



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Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not give a true and fair view of the financial position of the Bank as at June 30, 2019, and of its financial performance and its cash flows for the six months period then ended in accordance International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan.

Other Matters

The condensed interim financial statements for the six months ended June 30, 2018 and the financial statements for the year ended December 31, 2018 were reviewed and audited, respectively, by another auditor who expressed an unmodified review conclusion on the condensed interim financial statements for the six months ended June 30, 2018 on August 17, 2018 and unmodified audit opinion on the financial statements for the year ended December 31, 2018 on March 23, 2019.

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Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi

Location: Kabul, Afghanistan

Date *06/08/2019*



BANK ALFALAH LIMITED AFGHANISTAN
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)
AS AT 30 JUNE 2019

		30 June 2019 (Un-audited)	31 December 2018 (Audited)
	Note	----- (AFS '000') -----	-----
ASSETS			
Cash and cash equivalents	3	7,904,818	10,651,486
Investments - net	4	853,731	792,828
Loans and advances to banks - net		951,190	117,664
Loans and advances to customers - net		1,051	1,508
Property and equipment	5	21,046	5,081
Deferred tax assets		32,566	-
Advance tax - net		1,329	-
Other assets	6	984,827	1,196,113
Total assets		10,750,558	12,764,680
LIABILITIES			
Deposits from banks	7	18	690
Deposits from customers	8	9,139,485	11,001,887
Deferred tax liability		-	120
Current tax liabilities - net		-	13,500
Lease liability		16,796	-
Other liabilities	9	13,886	16,830
Total liabilities		9,170,185	11,033,027
EQUITY			
Capital contributed by Head Office		1,000,000	1,000,000
Capital reserve		55,066	50,791
Surplus on revaluation of FVOCI / AFS		5,388	131
Retained earnings		519,919	680,731
Total equity		1,580,373	1,731,653
Total liabilities and equity		10,750,558	12,764,680
Contingencies	10		

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

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 Acting Country Finance Manager




 Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR SIX MONTHS ENDED 30 JUNE 2019

	Six months ended		Three months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
	AFS '000'		AFS '000'	
Interest income	105,264	114,066	52,997	42,046
Interest expense	(397)	(11,677)	(196)	(11,677)
Net interest income	104,867	102,388	52,801	30,368
Fee and commission income	44,475	46,827	22,026	23,145
Fee and commission expense	(5,173)	(7,770)	(2,720)	(3,571)
Net fee and commission income	39,302	39,057	19,306	19,574
Income from dealing in foreign currencies	6,499	4,176	5,392	1,273
Total operating income	150,668	145,622	77,499	51,216
Other income	12,492	277,347	6,381	-
Reversal / (charge) of credit losses on:				
Cash and cash equivalents	-	16,942	-	-
Investments	280	49,729	(23)	8,664
Loans and advances to customers	22	29	-	-
Loans and advances to banks	(1,099)	6,292	(3,181)	1,313
Other assets	-	725	-	-
Off balance sheet items	1,626	151	671	(5)
Net operating income	163,989	496,838	81,347	61,188
Personnel expenses	(46,464)	(62,979)	(22,244)	(22,706)
Depreciation	(8,161)	(1,471)	(4,045)	(700)
Finance cost on lease	(1,021)	-	(461)	-
Other operating expenses	(38,006)	(41,037)	(15,695)	(31,035)
Total operating expenses	(93,652)	(105,487)	(42,445)	(54,441)
Profit before taxation	70,337	391,350	38,902	6,747
Taxation	15,161	(70,847)	(8,068)	(30,393)
Net profit	85,498	320,503	30,834	(23,646)
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Surplus / (Deficit) on revaluation of FVOCI / AFS	6,571	(86,231)	5,385	9,520
Related deferred tax	(1,314)	17,246	(1,077)	(1,904)
Other comprehensive income, net of tax	5,257	(68,985)	4,308	7,616
Total comprehensive income, net of tax	90,755	251,518	35,142	(16,030)

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.


 Acting Country Finance Manager



 Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR SIX MONTHS ENDED 30 JUNE 2019

	Capital contributed by Head Office	(Deficit) / surplus on revaluation of FVOCI / AFS	Capital reserve	Retained earnings	Total
	----- AFS '000' -----				
Balance as at 01 January 2018 - as previously reported (Audited)	1,000,000	69,051	30,813	302,116	1,401,980
Effect due to adoption of IFRS 9 - net of tax	-	-	-	(964)	(964)
Restated opening balance under IFRS 9	1,000,000	69,051	30,813	301,152	1,401,016
Profit for the period	-	-	-	320,503	320,503
Transferred to capital reserve	-	-	16,025	(16,025)	-
Total comprehensive income:					
Other comprehensive income for six months	-	(86,231)	-	-	(86,231)
Related tax	-	17,246	-	-	17,246
Reclassification adjustments relating to FVOCI / AFS investments disposed off during the period - net	-	-	-	-	-
Related tax on disposal of FVOCI / AFS investments during the year	-	-	-	-	-
	-	(68,985)	16,025	304,478	251,518
As at 30 June 2018 (Un-audited)	1,000,000	66	46,838	605,630	1,652,534
Balance as at 1 January 2019 - (Audited)	1,000,000	131	50,791	680,731	1,731,653
Profit for the period	-	-	-	85,498	85,498
Transferred to capital reserve	-	-	4,275	(4,275)	-
Total comprehensive income:					
Net change in fair value	-	6,571	-	-	6,571
Related tax	-	(1,314)	-	-	(1,314)
Reclassification adjustments relating to FVOCI / AFS investments disposed off during the period - net	-	-	-	-	-
Related tax on disposal of FVOCI / AFS investments during the year	-	-	-	-	-
	-	5,257	4,275	81,223	90,755
Transactions with owners of the Bank					
Profits remitted to Head Office	-	-	-	(242,035)	(242,035)
As at 30 June 2019 (Un-audited)	1,000,000	5,388	55,066	519,919	1,580,373

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.


 Acting Country Finance Manager


 Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)
FOR SIX MONTHS ENDED 30 JUNE 2019

	Notes	Six months ended 30 June 2019 (Un-audited) ----- (AFS '000) -----	Six months ended 30 June 2018 (Un-audited) -----
Cash flows from operating activities			
Profit before taxation		70,337	391,350
Adjustments for:			
Depreciation	5	8,161	1,471
Provisions/(reversals)			
Investments		(280)	(73,869)
Loans and advances to banks		1,099	-
Loans and advances to the customers		(22)	-
Other assets		-	-
Off balance sheet items		(1,626)	-
		<u>77,669</u>	<u>318,952</u>
Changes in:			
Loans and advances to banks		(834,626)	585,676
Loans and advances to customers		479	(1,357)
Advance tax - net		(27,175)	(43,560)
Other assets		211,286	(59,303)
Deposits from banks		(672)	(1,634,349)
Deposits from customers		(1,862,402)	(1,013,272)
Lease liability		16,796	-
Other liabilities		(1,319)	12,068
		<u>(2,497,633)</u>	<u>(2,154,097)</u>
Net cash (used in) / generated from operating activities		(2,419,964)	(1,835,145)
Cash flows from investing activities			
Decrease / (Increase) in investments - net		(60,623)	4,220,387
Acquisition of property and equipment	5	(24,132)	-
Proceeds from disposal of property and equipment		86	-
Net cash generated from / (used in) investing activities		<u>(84,669)</u>	<u>4,220,387</u>
Cash flows from financing activities			
Remittances to the Head Office		(242,035)	-
Net cash generated from financing activities		<u>(242,035)</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalents		(2,746,668)	2,385,242
Cash and cash equivalent at beginning of the period		<u>10,651,486</u>	<u>9,952,809</u>
Cash and cash equivalents at end of the period	3	<u><u>7,904,818</u></u>	<u><u>12,338,051</u></u>

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The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



 Acting Country Finance Manager



 Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR SIX MONTHS ENDED 30 JUNE 2019

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 2019 has been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting and the Banking Law of Afghanistan. In case, where requirements differ, the requirement of Law of Banking of Afghanistan takes precedence.

The disclosures made in this condensed financial information have been limited based on the requirements 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 2018.

- 2.2** During the year 2018, Bank Alfalah Limited, Pakistan signed a Business Transfer Agreement with the potential buyer for the sale of the Afghanistan operations and subsequently an application for approval of the transaction was made to the Da Afghanistan Bank (DAB).

The application for the approval of the transaction was declined by DAB on 27 February 2019 and as a result the Bank will continue its operations as normal.

- 2.3 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 01 January 2019 but are considered not to be relevant or do not have any significant effect on the Bank's operations except for IFRS 16 'Leases' and therefore not detailed in this condensed interim financial information. IFRS 16 "Leases" became effective from 01 January 2019, its impact has been incorporated in these condensed interim financial statements.

At the date of adoption of IFRS 16 i.e. 1 January 2019, the bank has 'grand fathered' its assessment of the property leases which were carried out previously under IAS 17 or IFRIC 4. There were no finance leases previously and all property leases were treated as operating leases. The bank has adopted modified retrospective approach for adoption of IFRS 16 whereby right of use asset is recognized equivalent to the amount of lease liability recognized as of 1 January 2019 and prepaid rent amounts.

- 2.4 Accounting policies, significant accounting judgements, estimates and assumptions**

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 2018, except change in accounting policy resulting from opting of IFRS 16.

The estimates / judgments and assumptions used in the preparation of this condensed interim financial information are consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended 31 December 2018.

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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 2018.

3 CASH AND CASH EQUIVALENTS

	Note	30 June 2019 (Un-audited) AFS '000'	31 December 2018 (Audited) AFS '000'
Cash in hand:			
Local currency		20,651	13,320
Foreign currency		41,278	56,409
		<u>61,929</u>	<u>69,729</u>
Current accounts with Da Afghanistan Bank in:			
Local currency		438,186	613,704
Foreign currency		559,967	728,613
		<u>998,153</u>	<u>1,342,318</u>
Balances with other banks and financial institutions:			
Current accounts		2,334,886	1,861,215
Short term placements with banks:			
Capital notes (maturity less than three months)		1,199,920	1,699,850
Time deposits with other banks		3,309,930	5,678,374
		<u>4,509,850</u>	<u>7,378,224</u>
Less: General provision held		-	-
		<u><u>7,904,818</u></u>	<u><u>10,651,486</u></u>

4 INVESTMENTS - NET

		30 June 2019 (Un-audited) AFS '000'	31 December 2018 (Audited) AFS '000'
At FVOCI / AFS Investments:			
Foreign bonds	4.1	453,153	43,039
At Amortizes cost:			
Foreign bonds	4.2	400,614	750,105
		<u>853,767</u>	<u>793,144</u>
Less: Provision for expected credit losses		(36)	(316)
		<u><u>853,731</u></u>	<u><u>792,828</u></u>

4.1 The breakup of foreign bonds is as follows:

	Rating	Rating Agency		
United Mexican States	A3	Moody's	47,319	43,458
Africa Finance Corp	A3	Moody's	405,834	35,916
			<u>453,153</u>	<u>79,374</u>
			<u><u>453,153</u></u>	<u><u>79,374</u></u>

4.1.1 These bonds are listed at various stock exchanges including London Stock Exchange. The interest rate on these bond is 1.625% to 4.375% (31 December 2018: 1.68%) per annum maturing latest by 6 March 2024.

4.2 This represents investment in the State of Qatar bonds amounting to USD 5 million equivalent to Afs 403,650 thousands (31 December 2018: USD 5 million equivalent to Afs 376,550 thousands each for Islamic Republic of Pakistan and State of Qatar bonds) carrying interest rate of 3.25% (31 December 2018: 7.25% and 3.25%) per annum respectively.

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5 PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture & fixtures	Electrical, office and computer equipment	Vehicles	Right-to-use Assets (Leased assets)	Total
----- (AFS '000') -----						
Cost						
Balance at 1 January 2018	22,099	11,123	38,664	9,722	-	81,608
Additions	-	-	260	-	-	260
Balance at 31 December 2018	<u>22,099</u>	<u>11,123</u>	<u>38,924</u>	<u>9,722</u>	<u>-</u>	<u>81,868</u>
Balance at 1 January 2019	22,099	11,123	38,924	9,722	-	81,868
Additions	-	127	464	-	23,541	24,132
Disposals	-	-	(86)	-	-	(86)
Prior year adjustments	-	-	(3,316)	-	-	(3,316)
Balance at 30 June 2019	<u>22,099</u>	<u>11,250</u>	<u>35,986</u>	<u>9,722</u>	<u>23,541</u>	<u>102,598</u>
Depreciation						
Balance at 1 January 2018	21,508	8,662	34,190	9,722	-	74,082
Charge for the year	317	425	1,963	-	-	2,705
Balance at 31 December 2018	<u>21,825</u>	<u>9,087</u>	<u>36,153</u>	<u>9,722</u>	<u>-</u>	<u>76,787</u>
Balance at 1 January 2019	21,825	9,087	36,153	9,722	-	76,787
Charge for the year	145	177	691	-	7,148	8,161
Depreciation on disposals	-	-	(80)	-	-	(80)
Prior year adjustments	-	-	(3,316)	-	-	(3,316)
Balance at 30 June 2019	<u>21,970</u>	<u>9,264</u>	<u>33,448</u>	<u>9,722</u>	<u>7,148</u>	<u>81,552</u>
Carrying amounts						
Balance at 31 December 2018	274	2,036	2,771	-	-	5,081
Balance at 30 June 2019	<u>129</u>	<u>1,986</u>	<u>2,538</u>	<u>-</u>	<u>16,393</u>	<u>21,046</u>
Depreciation rate	20%	10% - 25%	20% - 25%	25%		

5.1 Included in cost of property and equipment are fully depreciated assets still in use having cost of Afs 67,970 thousands (31 December 2018: Afs 62,418 thousands).

6 OTHER ASSETS

	Note	30 June 2019 (Un-audited) AFS '000'	31 December 2018 (Audited) AFS '000'
Accrued interest		16,075	14,378
Advances, deposits and prepayments		2,140	2,274
Restricted deposits with DAB	6.1	958,974	1,172,107
Receivable against credit card transactions		4,167	5,052
Commission receivable		3,471	2,302
		<u>984,827</u>	<u>1,196,113</u>
Less: Provision against other assets		-	-
		<u>984,827</u>	<u>1,196,113</u>

6 Required reserve account is being maintained with DAB to meet minimum reserve requirement in accordance with revised "Reserve Requirement for Monetary Policy Purposes" of the Banking Regulations issued by DAB. These balances are interest free (31 December 2018: Interest free).

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7. DEPOSITS FROM BANKS

	30 June 2019 (Un-Audited) AFS '000'	31 December 2018 (Audited) AFS '000'
Citi Bank, New York	1	666
The First MicroFinance Bank - Afghanistan	17	24
	<u>18</u>	<u>690</u>

- 7.1 These represent current accounts maintained by the mentioned banks for their operational activities. These balances are interest free (31 December 2017: interest free).

8. DEPOSITS FROM CUSTOMERS

	30 June 2019 (Un-audited) AFS '000'	31 December 2018 (Audited) AFS '000'
Current deposits	8,744,346	10,612,582
Saving deposits	314,567	306,141
Term deposits	-	22,593
Margin and other deposits	80,572	60,571
	<u>9,139,485</u>	<u>11,001,887</u>

- 8.1 Saving deposits carry interest rate ranging from 0% to 0.10% for AFN and 0.25% on USD balances (31 December 2018: from 0% to 0.25% for AFN and 0.25% on USD) per annum.

9. OTHER LIABILITIES

	30 June 2019 (Un-audited) AFS '000'	31 December 2018 (Audited) AFS '000'
Unearned commission on letters of guarantee	-	2,776
Branch adjustment account	1,814	721
Accrued expenses	6,969	4,739
Interest payable	1	34
DAB assessment fee payable	1,530	3,060
Professional charges	730	1,131
Bills payable	235	226
Provision for expected credit loss provision on off balance sheet items	-	1,626
Others	2,607	2,517
	<u>13,886</u>	<u>16,830</u>

10. CONTINGENCIES

	30 June 2019 (Un-audited) AFS '000'	31 December 2018 (Audited) AFS '000'
10.1 Guarantees	228,595	640,392

- 10.1.1 These represent bid bonds and performance based guarantees issued by the Bank.

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:

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11.1 Transactions with related parties

Name of group companies	Nature of transactions	Six months ended 30 June 2019	Six months ended 30 June 2018	Three months ended 30 June 2019	Three months ended 30 June 2018
		(Un-audited) AFS '000'	(Un-audited) AFS '000'	(Un-audited) AFS '000'	(Un-audited) AFS '000'
Bank Alfalah Limited Bahrain	Interest expense on Borrowing	-	-	-	-
	Interest income on Interest Rate Swap	-	3,622	-	-
	Interest receivable on Interest Rate Swap	-	-	-	-
	Interest expense on Interest Rate Swap	-	4,902	-	-
	Interest payable on Interest Rate Swap	-	-	-	-
Alfalah Insurance Company Limited	Profit remitted to Head Office	242,035	-	-	-
	Insurance premium paid to Alfalah Insurance Company Limited	-	-	-	-

11.2 Key management compensation

Salaries and benefits	-	18,532	-	7,921
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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

12.1 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.

12.2 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
	----- AFS '000' -----			
Investments in bonds - debt instruments at fair value through other comprehensive income				
As at 30 June 2019 (Un-audited)	453,153	-	-	453,153
Investments in bonds - available for sale investments				
As at 31 December 2018 (Audited)	43,039	-	-	43,039


13 CORRESPONDING FIGURES

13.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. No significant reclassifications were 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 Acting Country Finance Manager and Country Manager of the Bank on August 6, 2019.


Acting Country Finance Manager


Country Manager

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