

## Independent Auditors' Report

To the shareholders of Bank Alfalah Limited Afghanistan

### Opinion

We have audited the financial statements of Bank Alfalah Limited Afghanistan ("the Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal controls as management determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations or has no realistic alternative but to do so.

### Auditors' Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are





considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Other Matter**

The financial statements for the year ended 31 December 2020 were audited by another auditor who expressed unqualified audit opinion on the financial statements for the year ended 31 December 2020 on 30 March 2021.

The engagement partner on the audit resulting in this independent auditor's report is Muhammad Najmussaib Shah – FCA (R-5618)

*Crowe Horwath Afghanistan*

**Crowe Horwath Afghanistan**

Place: Kabul, Afghanistan

Date:



**BANK ALFALAH LIMITED AFGHANISTAN**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2021**

	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20
<b>ASSETS</b>			
Cash and cash equivalents	5	6,596,740	4,958,936
Investments - net	6	5,850,358	8,182,083
Loans and advances to customers - net		-	30
Property and equipment	7	44,663	46,158
Deferred tax asset - net	8	46,658	-
Advance tax - net		4,517	-
Other assets	9	1,117,483	1,192,069
<b>Total assets</b>		<b>13,660,419</b>	<b>14,379,276</b>
<b>LIABILITIES</b>			
Borrowings from banks		-	154,200
Deposits from customers	10	11,955,820	12,106,227
Deferred tax liabilities - net		-	25,988
Current tax liability - net		-	9,920
Lease liabilities	11	37,826	34,655
Other liabilities	12	132,259	157,980
<b>Total liabilities</b>		<b>12,125,905</b>	<b>12,488,970</b>
<b>EQUITY</b>			
Capital contributed by Head Office	13	1,000,000	1,000,000
Capital reserve	14	75,654	65,500
Retained earnings		343,099	718,155
Revaluation reserve on financial instruments at FVOCI		115,761	106,651
<b>Total equity</b>		<b>1,534,514</b>	<b>1,890,305</b>
<b>Total liabilities and equity</b>		<b>13,660,419</b>	<b>14,379,276</b>
<b>Contingencies and commitments</b>	15		

The annexed notes 1 to 27 form an integral part of these financial statements.



Country Finance Manager




Country Manager




**BANK ALFALAH LIMITED AFGHANISTAN**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 .....
Interest income		238,919	256,210
Interest expense		(49,212)	(21,021)
Net interest income	16	<b>189,707</b>	<b>235,189</b>
Fee and commission income		62,391	84,888
Fee and commission expense		(5,697)	(7,944)
Net fee and commission income	17	<b>56,694</b>	<b>76,944</b>
Income from dealing in foreign currencies		70,764	9,944
Other income	18	97,796	4,633
Total operating income		<b>414,961</b>	<b>326,710</b>
Impairment (loss)/reversal on financial assets and off balance sheet items	19	(9,328)	2,468
Loss on re-measurement of Interest Rate Swaps - net		(6,639)	-
Provision against interest receivable		(88,573)	-
<b>Net operating income</b>		<b>310,421</b>	<b>329,178</b>
Personnel expenses		(101,567)	(95,117)
Depreciation	7	(19,411)	(20,207)
Other operating expenses	20	(61,282)	(70,225)
Total operating expenses		<b>(182,260)</b>	<b>(185,549)</b>
<b>Profit before taxation</b>		<b>128,161</b>	<b>143,629</b>
Taxation	21	74,923	(31,737)
<b>Profit for the year</b>		<b>203,084</b>	<b>111,892</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss subsequently</b>			
Mark to market adjustment on investments at FVOCI		(58,426)	196,498
Related deferred tax		11,685	(39,300)
Mark to market adjustment on interest rate SWAP		69,815	(133,202)
Related deferred tax		(13,963)	26,640
<b>Other comprehensive income, net of tax</b>		<b>9,111</b>	<b>50,637</b>
<b>Total comprehensive income for the year</b>		<b>212,195</b>	<b>162,528</b>

The annexed notes 1 to 27 form an integral part of these financial statements.

  
Country Finance Manager

  
Country Manager



**BANK ALFALAH LIMITED AFGHANISTAN**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

		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 2020	1,000,000	56,014	59,905	611,858	1,727,777
	<b>Total comprehensive income:</b>					
	Profit for the year	-	-	-	111,892	111,892
	Other comprehensive income	-	50,637	-	-	50,637
		-	50,637	-	111,892	162,528
	Transferred to capital reserve	14	-	5,595	(5,595)	-
	<b>Transactions with shareholders</b>					
	Profits remitted to Head Office	-	-	-	-	-
	As at 31 December 2020	<b>1,000,000</b>	<b>106,651</b>	<b>65,500</b>	<b>718,155</b>	<b>1,890,305</b>
	<b>Balance as at 01 January 2021</b>	1,000,000	106,651	65,500	718,155	1,890,305
	<b>Total comprehensive income:</b>					
	Profit for the year	-	-	-	203,084	203,084
	Other comprehensive income	-	9,111	-	-	9,111
		-	9,111	-	203,084	212,195
	Transferred to capital reserve	14	-	10,154	(10,154)	-
	<b>Transactions with shareholders</b>					
	Profits remitted to Head Office	-	-	-	(567,986)	(567,986)
	As at 31 December 2021	<b>1,000,000</b>	<b>115,761</b>	<b>75,654</b>	<b>343,099</b>	<b>1,534,514</b>

The annexed notes 1 to 27 form an integral part of these financial statements.


  
Country Finance Manager


  
Country Manager

**BANK ALFALAH LIMITED AFGHANISTAN**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>Cash flows from operating activities</b>			
Profit before taxation		128,161	143,629
<b>Adjustments for:</b>			
Depreciation	7	19,411	20,207
Finance cost on lease liabilities	18	4,039	3,237
Credit losses (reversal) / expense - excluding cash and cash equivalents	19	9,328	2,443
Provision against interest receivable		88,573	-
Gain on disposal of property and equipment		(786)	-
Exchange loss on lease liabilities		238	-
(Gain) / Loss on settlement of Interest rate swaps - net		(24,373)	5,658
Loss on re-measurement of Interest Rate Swaps - net		6,639	-
		<b>231,230</b>	<b>175,174</b>
<b>Changes in:</b>			
Loans and advances to financial institutions - net		-	589,800
Loans and advances to customers - net		30	890
Other assets		74,585	(168,143)
Borrowings from banks		(154,200)	154,200
Deposits from customers		(150,407)	1,179,281
Other liabilities		48,113	138,049
		<b>(181,880)</b>	<b>1,894,078</b>
<b>Net cash generated from operations</b>		<b>49,351</b>	<b>2,069,251</b>
Tax paid		(14,437)	7,538
<b>Cash flows generated from operating activities</b>		<b>34,914</b>	<b>2,076,789</b>
Acquisition of operating fixed assets	7	(411)	(2,654)
Proceeds from disposal of property and equipment	7	786	-
Investment sold/ (made) - net		2,189,110	(2,323,893)
<b>Net cash generated from / (used in) investing activities</b>		<b>2,189,485</b>	<b>(2,326,548)</b>
<b>Cash flows from financing activities</b>			
Payment against lease liabilities		(18,608)	(18,700)
Remittances to the Head Office	15	(567,986)	-
<b>Net cash used in financing activities</b>		<b>(586,594)</b>	<b>(18,700)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,637,804</b>	<b>(268,459)</b>
Cash and cash equivalent at beginning of the year		4,958,936	5,227,395
<b>Cash and cash equivalents at end of the year</b>	5	<b>6,596,740</b>	<b>4,958,936</b>

The annexed notes 1 to 27 form an integral part of these financial statements.

  
Country Finance Manager

  
Country Manager



**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**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 the Ministry of Commerce and Industries (MoCI) on 23 September 2020. Under the license of Commercial banking issued by the Da Afghanistan Bank (DAB), the Bank commenced its operations on 5 September 2005.

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 and measurement**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the Law of Banking and Afghanistan and other laws and regulations issued by Da Afghanistan Bank. Whenever the requirement of the law of Banking in Afghanistan, other laws and regulations issued by Da Afghanistan Bank, differs with the requirements of the IFRS, the requirement of the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank takes precedence.

These financial statements have been prepared under the historical cost convention except that certain investments and derivative financial instruments are stated at fair value.

These financial statements comprise statement of financial position, statement of comprehensive income as a single statement, statement of changes in equity, statement of cash flows and the accompanying notes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

**2.1 Amendments to published accounting and reporting standards which became effective for the year ended December 31, 2021**

Amendment to standards issued and effective during the financial year beginning 1 January 2021:

- Covid-19-Related Rent Concessions (Amendment to IFRS 16)
- Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The adoption of above amendments did not have a material impact on the financial statements of the Bank.

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**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**2.2 Standards and amendments to published accounting and reporting standard that are not yet effective and have not been early adopted by the Bank**

Standard or interpretation	Effective date (annual
<ul style="list-style-type: none"> <li>IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)</li> <li>IFRS 17: Insurance Contracts and related amendments to IFRS 17</li> <li>Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)</li> <li>Reference to the Conceptual Framework - Amendments to IFRS 3</li> <li>Onerous Contracts - Cost of Fulfilling a Contract - amendments to IAS 37</li> <li>Annual Improvements to IFRS Standards 2018–2020</li> <li>Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)</li> <li>Definition of Accounting Estimates (Amendments to IAS 8)</li> <li>Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)</li> <li>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</li> <li>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</li> </ul>	<p>Not yet finalized</p> <p>1 January 2023</p> <p>1 April 2021</p> <p>1 January 2022</p> <p>1 January 2022</p> <p>1 January 2022</p> <p>1 January 2022</p> <p>1 January 2023</p> <p>1 January 2023</p> <p>1 January 2023</p> <p>1 January 2023</p>

Management does not intend to adopt any of the above standards, interpretations and amendments earlier than the applicable date. Management is currently in process of assessing the impact of the above standards and amendments to published and reporting standards.

**3 Summary of significant accounting policies**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

**3.1 Leased assets**

**a) The Bank as a Lessee**

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of contract, that conveys the right to use an asset (the underlying asset) for a period in exchange for consideration'. To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- The Bank has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and



**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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- The Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

**b) Measurement and recognition of leases as lessee**

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment within operating fixed assets and lease liabilities have been disclosed in the statement of financial position.

**c) Extension option for leases**

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

**3.2 Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity including cash in hand and at ATM, unrestricted balances with the DAB, balances with banks and placements.

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**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**3.3 Financial instruments**

**3.3.1. Financial instruments - initial recognition**

**Date of recognition**

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognize balances due to customers when funds are transferred to the Bank.

*Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

*Day 1 profit or loss*

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when inputs become observable, or when the instrument is derecognized.

**3.3.2. Measurement categories of financial assets and liabilities**

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either;

- Amortized cost, as explained in note (a) below
- FVOCI, as explained in notes (b) and (c) below
- FVPL, as explained in note (e) below

The Bank classifies and measures its trading portfolio at FVPL as explained in note (f) below. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in note (f) below.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in note (e) below.

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**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**a) Due from banks, Loans and advances to Customers, Financial investments at amortized cost**

The bank measures Due from bank and loans and advances to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

The Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

***Business model assessment***

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument -by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model and, in particular, the way those risks are managed).
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on contractual cash flow collected).
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

***The SPPI test***

Second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

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**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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Principal' for the purpose of this test is defined as the fair value of the financial asset (for example, if there are repayments of principal or amortization of the premium / discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cash flows that are unrelated to basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

**b) Debt instruments at FVOCI**

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in the fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss. The ECL for Debt instruments at FVOCI is explained in 3.3.4. Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

**c) Equity instruments at FVOCI**

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

**d) Debt issued and other borrowed funds**

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR). A compound financial instrument which contains both a liability and an equity component is separated at the issue date. *cha*



**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**e) Financial assets and financial liabilities at fair value through profit or loss**

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities (or financial assets), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount / premium and qualifying transaction costs being an integral part of the instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as operating income when the right to get payment has been established.

**f) Financial assets or financial liabilities held for trading**

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit making. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

**3.3.3. Reclassification of financial assets and liabilities**

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2021.

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**3.3.4. Impairment of financial assets**

**a) Overview of the ECL principles**

The Bank measures loan loss impairment by using forward-looking ECL approach. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the life time expected credit losses or TECL), unless there has been no significant increase in credit risk origination, in which case, the allowance based on the 12 months' expected credit loss (12m ECL) as outlined in note (b) below. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 23.1.1.

The 12mECL portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12m ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 23.1.1.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1	When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
Stage 2	Where a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
Stage 3	Loans considered credit-impaired. The Bank records an allowance for LTECLS.
POCI	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on credit-adjusted EIR. ECLs are only recognized or released to the extent that there is subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

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**b) Considerations in calculation of ECL**

The Bank calculates ECL based on three-probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in note 23.1.1.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 23.1.1.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. the LGD is further explained in note 23.1.1.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside, downside, ('average base')). When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

The mechanics of the ECL method are summarized below:

Stage 1	The 12m ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12m ECL allowance based on expectation of a default occurring in the 12 months following the reporting date.
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These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

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Stage 2	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3	For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.

*Loan commitments and letters of credit*

When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment ECLs are calculated and present together with the loan. For loan commitments and letters of credit, the ECL is recognized within provisions, as disclosed in note 12.2 to the financial statements.

*Financial guarantee contracts*

The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognized within provisions, as disclosed in note 12.2 to the financial statements.

*Credit cards and other revolving facilities*

The Bank's product offering includes a variety of corporate and retail overdraft and credit card facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year for corporate and 3 years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in note 23.1.1. but greater emphasis is also given to qualitative factors such as changes in usage.

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The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolio of facilities with similar credit risk characteristics.

*Forward looking information*

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Consumer price indices

The Bank maintains provision higher of expected credit loss determined under IFRS 9 and provision required under Asset Classification Provisioning Regulation (ACPR).

**3.3.5. Impairment provision under local regulations**

**a) Loans and advances to banks and customers**

The outstanding principal of the advances are classified in accordance with the Asset classification and Provisioning Regulation issued by DAB as follows:

*Standard:*

These are loans and advances, which are paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor. Standard assets are sufficiently secured with respect to the repayment of both the principal amount and interest. An overdraft would be regarded as standard if monthly payments and other charges are past due for 1-30 days, and there was regular activity on the account with no sign of a hard core of debt developing.

*Watch:*

These are loans and advances which are adequately protected but are potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

*Substandard:*

These are loans and advances which show clear manifestations of credit weaknesses that jeopardize the liquidation of the debt. Substandard loans and advances include loans to borrowers whose cash flows are not sufficient to meet currently maturing debts, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs.

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Further, all loans and advances which are past due by 61 to 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans.

*Doubtful:*

These are loans and advances which display all the weaknesses inherent in loans and advances classified as Substandard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information highly questionable and improbable. The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening the facility, its classification as an estimated loss is postponed until its more defined status is ascertained. Further all loans and advances which are past due by 121 to 480 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

*Loss:*

These are loans and advances which are considered uncollectable and of such little value their continuation as recoverable facilities is not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recovery in future may not be entirely ruled out. Loans and advances classified as Loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgement debtors with no means or foreclosable collateral to settle the debts. further, all loans and advances which are past due over 481 days for principal and interest payments are classified as Loss. This category of loans shall be retained in bank balance sheet for the period of 6 months for recovery purposes and 100% loan loss provisioning should be made. After 6 months, they shall be immediately written off with the provisioning made.

The Bank maintains provision higher of expected credit loss determined under IFRS 9 and provision under Asset Classification Provisioning Regulation (ACPR).

**b) Cash and cash equivalents, Investments, other assets and Off-balance sheet item**

The Bank currently maintains 0% general provision on cash and cash equivalents, investments and other assets under ACPR since 1% general provision under ACPR is optional. However, the provision for expected credit losses determined under IFRS 9 is also calculated and recorded in financial statements for these categories as disclosed in note 5.4, 6.3, 9 and 12.2 to the financial statements.

**3.4. Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at the date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (refer note 22.1).

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If there is no quoted price in an active market, then the Bank uses valuation techniques that maximizes the use of relevant observable inputs and minimize the use of unobservable all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit and loss in an appropriate basis over the life of the instrument but no later than when valuation is wholly supported by observable market data or transaction is closed out.

If an asset or a liability is measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the next exposure to either market risk or credit risk or measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognizes transfer between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### **3.5. Property and equipment**

These are stated at historical cost less accumulated depreciation and impairment, if any, except for land and capital work in progress which is stated at cost less impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the depreciable amount of the assets over their useful life as per the depreciation rates disclosed in note 7 to the financial statements.

Depreciation is charged on additions during the year from the month they become available for their intended use while no depreciation is charged in the month of disposal of assets. In accordance with IFRS, the depreciation should be charged from the date the asset become available for intended use of management, however, this departure has not material impact on the financial statements.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in other income in the statement of comprehensive income.

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**3.6. Impairment of non-financial assets**

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation / amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing the impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Reversal of impairment losses is restricted to the original cost of the assets.

**3.7. Taxation**

***Current***

The current income tax charge is calculated in accordance with Income Tax Law, 2009. Management periodically evaluates position taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts and 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 taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are recognized if the temporary differences arises from the goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

**3.8. Revenue recognition**

- a) Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.





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- b) Due but unpaid interest income is accrued on overdue advances for period up to 120 days in compliance with the Banking regulations issued by DAB. After 120 days, overdue advances are classified as non-performing and further accrual of unpaid interest income ceases.
- c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.
- d) Fees and commission income and expenses are recognized in the period in which disposal is made.
- e) Fee and commission income that are integral part to the effective interest rate on financial assets and liability are included in the measurement of effective interest rate. Other fee and commission expenses related mainly to the transactions are services fee, which are expensed as the services are received.

**3.9. Foreign currency transactions and translation**

*Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (AFN). All amounts have been rounded to the nearest thousands, except when otherwise indicated.

*Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end-exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.


The exchange rate for following currencies against AFN were:

	1 USD	1 EURO	1 GBP
As at 31 December 2021	103.73	113.36	130.44
As at 31 December 2020	77.1	94.03	103.23

**3.10. Provisions**

Provisions are recognized when they are present, legal or constructive obligations as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off-balance-sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

**3.11. Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognized amounts and the Bank intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously. 

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**3.12. Employee benefits**

*Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

**4. Use of critical accounting estimates and judgements**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgements will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgements used to measure and classify the carrying amounts of assets and liabilities are outlined below:

**a) Impairment losses on financial assets**

The Bank's accounting framework considers both the provision described under local regulations in Afghanistan and IFRS 9. Therefore, the Bank's level of provision for impairment against financial asset considers the requirements of both regimes.

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The Bank's internal credit grading model
- The segmentation of financial assets when their ECL is assessed on a collective basis development of ECL models, including the various formulas and the choice of inputs to such models.
- Determination of associations between macroeconomics scenarios and, economic inputs, such as GDP growth.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The Bank assesses financial assets on a quarterly basis for possible impairment and records the provision for possible loan losses as per IFRS 9 or ACPR whichever is higher.

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**b) Provision for income taxes**

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment by Ministry of Finance, Government of Islamic Republic of Afghanistan.

**c) Useful life of property and equipment**

The Bank reviews the useful life, depreciation method and residual value of property and equipment and intangible assets at each statement of financial position date. Any change in estimates may effect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

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<b>5. CASH AND CASH EQUIVALENTS</b>			
<b>Cash in hand</b>			
Local currency		41,157	27,489
Foreign currency		104,477	58,383
		<b>145,634</b>	<b>85,872</b>
<b>Unrestricted balances with Da Afghanistan Bank</b>			
Local currency		1,079,888	434,690
Foreign currency		256,466	1,443,359
		<b>1,336,354</b>	<b>1,878,049</b>
<b>Balances with other banks and financial institutions</b>			
Current accounts	5.1	<b>4,153,857</b>	1,025,315
<b>Short term placements with banks</b>			
Capital notes (maturity less than three months)	5.2	960,895	905,720
Time deposits with other banks	5.3	-	1,063,980
		<b>960,895</b>	<b>1,969,700</b>
Provision for expected credit losses	5.4	-	-
		<b>6,596,740</b>	<b>4,958,936</b>
<b>5.1</b>	These represent balances in nostro accounts with various banks including Citi Bank New York, USA, Habib American Bank New York, USA and National Bank of Pakistan, Frankfurt, Germany. These balances are interest free.		
<b>5.2</b>	These represent investments in capital notes issued by DAB having maturity up to three months. Investment in these capital notes were made at interest rates ranging from 3.95% to 4.10% (31 December 2020: 0.85% to 2.20%) per annum. However, subsequent to change in regime, DAB has stopped interest payment on these.		
<b>5.3</b>	These represented USD denominated fixed term placements with financial institutions outside Afghanistan maturing in three months and carried interest at rates ranging from 1.15% to 2.60% (31 December 2020: 1.00% to 2.90%) per annum. These instruments were matured in January 2021 and bank stopped further investment in compliance to DAB regulation.		
<b>5.4</b>	These balances are held with DAB and banks having highest credit rating. Therefore, management is of the view that provision for expected credit losses would be negligible in this case. The Bank does not maintain optional provision of 1% under ACPR.		

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	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>6. INVESTMENTS - NET</b>			
<b>At FVOCI</b>			
Foreign bonds	6.1	5,729,254	6,457,254
<b>At Amortized cost:</b>			
Capital Notes with DAB - net	6.2	141,467	1,352,028
Foreign bonds		-	383,181
		<b>5,870,721</b>	<b>8,192,463</b>
Less: Provision for expected credit losses	6.3	(20,363)	(10,380)
		<b>5,850,358</b>	<b>8,182,083</b>

6.1 The breakup of foreign bonds is as follows:

	Rating	Rating Agency	Gross Amount AFN '000'	Gross Amount AFN '000'
<b>Foreign bonds at FVOCI:</b>				
African Finance Corp.	A3	Moody's	560,635	423,510
Pakistan Euro Bond	B3	Moody's	376,428	539,295
Islamic Republic of Pakistan 2031	B3	Moody's	309,612	-
Oman Government International Bond	Ba1	Moody's	692,478	504,555
South Africa	Ba2	Moody's	535,459	409,401
Republic of Italy	Baa3	Moody's	53,147	162,407
Sharjah Sukuk	A3	Moody's	655,690	485,536
Kingdom of Saudi Sukuk	A1	Moody's	654,831	499,858
Italy Government International Bond	Baa3	Moody's	423,389	325,276
Perusahaan Penerbit SBSN 2025	Baa2	Moody's	106,737	80,761
Perusahaan Penerbit SBSN 2030	Baa2	Moody's	535,703	409,497
Dubai DOF Sukuk	Unrated		526,725	390,909
Republic of Turkey	B2	Moody's	286,550	-
Republic of Chile	A1	Moody's	11,868	10,054
African Export-Import	Baa1	Moody's	-	490,019
Asian Development Bank	Aaa	Moody's	-	231,434
Abu Dhabi Government	Aa2	Moody's	-	162,228
Abu Dhabi Government International	Aa2	Moody's	-	250,260
China Government Bonds	A1	Moody's	-	476,348
Export Import Bank of Korea	A3	Moody's	-	78,714
Industrial Bank of Korea	Aa2	Moody's	-	273,023
Malaysia Sukuk	A3	Moody's	-	157,495
United Mexican States	A3	Moody's	-	49,179
Kazakhstan	Baa3	Moody's	-	47,495
			<b>5,729,254</b>	<b>6,457,254</b>
<b>Foreign bonds at Amortized cost:</b>				
Qatar Sovereign	Aa2	Moody's	-	383,181
			<b>5,729,254</b>	<b>6,840,435</b>

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6.1.1 These bonds are listed on various stock exchanges including London Stock Exchange. The interest rate on these bonds ranges from 1.625% to 8.25% (31 December 2020: 0.25% to 8.25%) per annum maturing by 08 April 2031.

6.2 These represent investments in capital notes issued by DAB having maturity upto one year. Investment in these capital notes were made at interest rates ranging from 5.50% to 6.20% (31 December 2020: 2.99% to 3.90%) per annum. However, subsequent to change in regime DAB has stopped interest payment on all such financial instruments.

**6.3 Impairment allowance for investments**

6.3.1 The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2021 and 2020, respectively.

	31 December 2021			31 December 2020
	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	
<b>Internal Rating Grade</b>				
<b>Performing</b>				
Investment Grade	3,288,551	-	-	5,282,856
Below-Investment Grade	2,440,703	-	-	1,557,579
<b>Non-performing</b>	-	-	-	-
<b>Total</b>	<b>5,729,254</b>	<b>-</b>	<b>-</b>	<b>6,840,435</b>
Provision for expected credit losses - (note 6.3.2)	(20,363)	-	-	(10,380)
<b>Net balance</b>	<b>5,708,891</b>	<b>-</b>	<b>-</b>	<b>6,830,055</b>

6.3.2 The Bank does not maintain optional provision of 1% under ACPR, This represents provision for expected credit losses calculated under IFRS 9.

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**7. PROPERTY AND EQUIPMENT**

	Leasehold improvements	Furniture & fixtures	Electrical, office and computer equipment	Vehicles	Right-of- use Assets (Building)	Total
	(AFN '000')					
<b>Cost</b>						
Balance at 1 January 2020	28,175	8,934	31,856	20,155	23,541	112,659
Additions	167	-	2,488	-	40,449	43,103
Balance at 31 December 2020	<b>28,342</b>	<b>8,934</b>	<b>34,344</b>	<b>20,155</b>	<b>63,990</b>	<b>155,762</b>
Balance at 1 January 2021	28,342	8,934	34,344	20,155	63,990	155,764
Additions	-	-	411	-	5,654	6,065
Lease modifications	-	-	-	-	11,847	11,847
Disposals / adjustments	-	-	(3,057)	-	(23,541)	(26,598)
Balance at 31 December 2021	<b>28,342</b>	<b>8,934</b>	<b>31,698</b>	<b>20,155</b>	<b>57,951</b>	<b>147,079</b>
<b>Depreciation</b>						
Balance at 1 January 2020	28,175	7,122	29,563	10,151	14,386	89,397
Charge for the year	5	317	1,145	2,608	16,132	20,207
Balance at 31 December 2020	<b>28,180</b>	<b>7,439</b>	<b>30,708</b>	<b>12,759</b>	<b>30,518</b>	<b>109,604</b>
Balance at 1 January 2021	28,180	7,439	30,708	12,759	30,518	109,604
Charge for the year	17	308	1,230	2,615	15,241	19,411
Depreciation on disposals	-	-	(3,057)	-	(23,541)	(26,598)
Balance at 31 December 2021	<b>28,197</b>	<b>7,747</b>	<b>28,881</b>	<b>15,374</b>	<b>22,218</b>	<b>102,417</b>
<b>Carrying amounts</b>						
Balance at 31 December 2020	161	1,495	3,636	7,396	33,472	46,158
Balance at 31 December 2021	<b>144</b>	<b>1,187</b>	<b>2,817</b>	<b>4,781</b>	<b>35,733</b>	<b>44,663</b>
<b>Depreciation rate</b>	<b>20%</b>	<b>10% - 25%</b>	<b>20%-25%</b>	<b>25%</b>	<b>17% - 100%</b>	

7.1 Included in cost of property and equipment are fully depreciated assets still in use having cost of AFN 70,138 thousands (31 December 2020: AFN 71,606 thousands).

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	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>8 DEFERRED TAX ASSET/(LIABILITIES) - NET</b>			
Deferred tax liability arising out of taxable temporary differences			
Mark to market adjustment on investments at FVOCI		(39,679)	(51,364)
Accelerated tax depreciation and amortization		(1,601)	(1,604)
		<u>(41,280)</u>	<u>(52,968)</u>
Deferred tax asset arising out of deductible temporary differences			
Revaluation reserve on IRS		10,739	24,701
Provision for expected credit losses on financial assets and off-balance sheet items		4,145	2,279
Loss for the year		<u>73,054</u>	<u>-</u>
		<u>87,938</u>	<u>26,980</u>
	8.1	<u>46,658</u>	<u>(25,988)</u>

**8.1 Movement in temporary differences during the year**

	Balance as at 01 January 2020	Charge to profit or loss	Recognized in other comprehensive income	Balance at 31 December 2020 (AFN '000')	Charge to profit or loss	Recognized in other comprehensive income	Balance at 31 December 2021
<b>Deferred tax liabilities arising in respect of:</b>							
Mark to market adjustment on investments at FVOCI	(12,065)	-	(39,299)	(51,364)	-	11,685	(39,679)
Accelerated tax depreciation	(1,119)	(485)	-	(1,604)	3	-	(1,601)
<b>Deferred tax assets arising in respect of:</b>							
Revaluation reserve on IRS	(1,939)	-	26,640	24,701	-	(13,963)	10,739
Unrealised (gain)/ loss on interest rate SWAP	2,099	(2,099)	-	-	-	-	-
ECL charge	2,773	(494)	-	2,279	1,866	-	4,145
Loss for the Year	10,350	(10,350)	-	-	73,054	-	73,054
	<u>99</u>	<u>(13,428)</u>	<u>(12,659)</u>	<u>(25,988)</u>	<u>74,923</u>	<u>(2,278)</u>	<u>46,658</u>

	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>9. OTHER ASSETS</b>			
Advances, deposits and prepayments		107	1,411
Restricted deposits with DAB	9.1	883,104	1,001,428
Receivable against credit card transactions		-	115
Receivable from overseas units	9.2	70,799	-
Branch adjustment account		-	3,973
Accrued Interest		56,999	51,800
Interest receivable on Interest Rate Swaps		666	730
Call margin	9.3	105,808	132,612
Less: Provision for expected credit losses		-	-
		<u>1,117,483</u>	<u>1,192,069</u>
<b>9.1 RESTRICTED DEPOSITS WITH DAB:</b>			
- Local currency		16,797	34,344
- Foreign currency		866,307	967,084
	9.1.1	<u>883,104</u>	<u>1,001,428</u>

**9.1.1** This represents statutory reserves maintained with DAB as minimum reserves in accordance with Banking Regulations issued by DAB. After regime change, these minimum reserves are interest free and requirements for maintenance of minimum reserves were revised so as to reduce percentage for local currency deposits from 8% to 6% and for foreign currency deposits from 10% to 8%.

**9.2** This amount represents receivable from BAFL Dubai against interest received on bonds on behalf of Bank Alfalah Limited Afghanistan. Due to restrictions on inward and outward remittances in Afghanistan, the bank is not able to transfer these funds from counter parts to Afghanistan.

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9.3 This represents call margin deposited with 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 reduction in LIBOR rates, losses accrued on interest rate swaps during the year. The call margin amount of AFN105 million (2020: 132 Million) represents the Bank's share in the call margin deposit with FAB to meet the margin requirements.

		31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>10. DEPOSITS FROM CUSTOMERS</b>			
Current deposits		10,719,500	10,715,479
Saving deposits		705,302	197,192
Term deposits	10.1	500,000	1,170,770
Margin deposits		31,018	22,786
		<u>11,955,820</u>	<u>12,106,227</u>

10.1 Term deposits carry interest rate ranging from 1.90% to 4.5% (31 December 2020: 1.90% to 3.7%) per annum with maturity upto 3 months (31 December 2020: 6 to 12 months).

10.2 Post 15 August 2021, DAB imposed strict limits on the cash withdrawals. An individual can only withdraw maximum of USD 400 per week or USD 1,200 per month and in case of local currency the withdrawal limit is AFN 30,000 per week or AFN 120,000 per month. A business entity can withdraw maximum of 5% of their deposits per week or USD 25,000 per month or equivalent other currencies.

	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>11. LEASE LIABILITIES</b>			
Opening balance as at		34,655	50,118
Recognition of lease liability during the year		5,654	-
Lease modifications		11,847	-
Repayment of principal		(18,608)	(18,700)
Finance cost		4,039	3,237
Exchange loss		238	-
		<u>37,826</u>	<u>34,655</u>

**12. OTHER LIABILITIES**

Unearned commission on letters of guarantees		-	1,085
Interest payable on Interest Rate Swap		12,026	5,582
Payable to overseas units	12.1	19,484	-
Accrued expenses		4,248	8,606
Interest payable		37,268	6,786
DAB assessment fee payable		1,512	3,060
Professional charges		720	720
Bills payable		1,153	118
Provision for expected credit loss against off-balance sheet items	12.2	360	1,016
Unrealized loss on re-measurement of Interest Rate Swaps		55,285	128,463
Others		203	2,544
		<u>132,259</u>	<u>157,980</u>

12.1 This amount represents amount payable to BAFL Bahrain against Interest/Call Margin settlement with FAB on IRS as paid by BAFL Bahrain on behalf of the Bank. Due to restrictions on inward and outward remittances in Afghanistan, the Bank is not able to transfer these funds from counter parts to Afghanistan.

12.2 This represents provision for expected credit losses calculated as per IFRS 9 on letter of guarantees classified in stage 1.

**13. CAPITAL CONTRIBUTED BY HEAD OFFICE**

Da Afghanistan Bank (DAB) vide its Letter No. 3783/3971 dated 7 January 2014 directed all branches of foreign banks to convert their minimum equity from other currencies to local currency equivalent to AFN 1 billion gradually till 31 March 2014. Accordingly, the Board of Directors (BOD) of the Head Office, in its meeting held on 2 March 2014 approved capitalization of unappropriated profit to meet the minimum equity requirements of AFN 1 billion. The BoD had also approved the remittance of the then remaining unappropriate profit to the Head Office to the extent as may be decided by the management of the Bank.

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**14. CAPITAL RESERVES**

Article 79 "Reserve Capital" of Limited Liability Companies Law of Afghanistan, requires the Bank to transfer 5% of its profit to Capital Reserve to compensate for future possible losses until balance of capital reserves reaches up to 25% of the Bank's capital.

Note 31-Dec-21 31-Dec-20  
..... AFN '000' .....

**15. CONTINGENCIES AND COMMITMENTS**

15.1 Guarantees 329,398 336,116

These represent performance and advance payment guarantees issued by the Bank.

15.2 Commitments 4,149,200 2,002,666

These represent forward exchange contract amounting to AFN 4.149 billion and contingency regarding IRS principal amount payable/receivable against notional amount of AFN 4.149 billion. The Bank has hedged 7 bonds which are 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.

31-Dec-21 31-Dec-20  
..... AFN '000' .....

**16. NET INTEREST INCOME**

**INTEREST INCOME**

Cash and cash equivalents  
Loans and advances to financial institutions and customers  
Investments  
Net interest expense on Interest Rate Swaps

94,609	75,715
13	5,518
187,009	190,083
(42,712)	(15,106)
238,919	256,210

**INTEREST EXPENSE**

Deposits from customers  
Interest on term deposits  
Interest expense on borrowings / REPO  
Interest on saving deposits  
Finance cost on lease liabilities  
Net interest expense

(44,887)	(13,020)
(108)	-
(178)	(4,764)
(4,039)	(3,237)
(49,212)	(21,021)

Net Interest income

189,707	235,189
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**17. NET FEE AND COMMISSION INCOME**

**FEE AND COMMISSION INCOME**

Commission on letters of guarantees issued  
Commission on credit cards  
Funds transfer fee  
Accounts servicing fee  
Customer charges

3,514	5,673
858	2,413
43,991	57,214
223	448
13,805	19,140
62,391	84,888

**FEE AND COMMISSION EXPENSE**

**NET FEE AND COMMISSION INCOME**

(5,697)	(7,944)
56,694	76,944

**18. OTHER INCOME**

Gain on sale of foreign currency bonds - net  
Unrealized gain on remeasurement of Interest rate swaps - net  
Gain on disposal of property and equipment  
Recovery of loans written-off

72,637	3,101
24,373	-
786	-
-	1,532
97,796	4,633

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**19. IMPAIRMENT LOSS ON FINANCIAL ASSETS AND OFF-BALANCE SHEET ITEMS**

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

	Note	31 December 2021					31 December 2020 AFN '000'
		Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Regulatory AFN '000'	Total AFN '000'	
Cash and cash equivalents	5.4	-	-	-	-	-	(4,911)
Investments	6.3	9,984	-	-	-	9,984	7,032
Loans and advances to financial institutions		-	-	-	-	-	(1,347)
Loans and advances to customers		-	-	-	-	-	-
Other assets		-	-	-	-	-	-
Other liabilities	12.2	(656)	-	-	-	(656)	(3,242)
Impairment charge/(reversal) for the year		<u>9,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,328</u>	<u>(2,468)</u>

**20. OTHER OPERATING EXPENSES**

	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
Rent, taxes, insurance and utilities		28,839	31,164
Legal and professional charges		3,246	3,121
Communications		4,515	4,236
Repairs and maintenance		1,805	3,271
Stationery and printing		976	969
Auditors' remuneration		1,523	2,482
Entertainment		3,154	3,497
Travelling and conveyance		2,045	2,209
Security		11,579	12,783
Penalties paid to DAB		338	170
Loss on settlement of Interest rate swaps - net		-	5,660
Other operating expenses		3,262	663
		<u>61,282</u>	<u>70,225</u>

**21. TAXATION**

*Amounts recognized in profit and loss*

Current		-	18,309
Prior		-	-
		-	18,309
Deferred	8.1	(74,923)	13,428
		<u>(74,923)</u>	<u>31,737</u>

**21.1 Reconciliation of effective tax rate**

	2021		2020	
	Rate	(AFN '000')	Rate	(AFN '000')
Accounting profit for the year		128,161		143,629
Applicable tax @ 20%	20%	25,632	20%	28,726
Effect of tax on dividend to shareholders	-88.64%	(113,597)	-52.41%	-
Effect of inadmissible expenses	13.87%	17,782	0.02%	34
Deferred tax effect relating to:				
Reversal and (origination) of temporary differences	-3.70%	(4,740)	1.37%	2,977
	-58.46%	<u>(74,923)</u>	-31.02%	<u>31,737</u>

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**22. FINANCIAL ASSETS AND LIABILITIES**

**Accounting classification and fair values**

The following table shows the carrying amounts and classification of financial assets and financial liabilities:

	Note	Financial assets (other than investments)- At amortized cost	Debt investments at amortized cost	Debt investments at fair value through OCI	Financial liabilities at amortized cost	Total
----- AFN "000" -----						
<b>31 December 2021</b>						
<b>Assets</b>						
Cash and cash equivalents	5	6,596,740	-	-	-	6,596,740
Investments - net	6	-	141,467	5,708,891	-	5,850,358
Loans and advances to customers - net		-	-	-	-	-
Other assets	9	1,117,376	-	-	-	1,117,376
		<u>7,714,116</u>	<u>141,467</u>	<u>5,708,891</u>	<u>-</u>	<u>13,564,474</u>
<b>Liabilities</b>						
Deposits from customers	10	-	-	-	11,955,820	11,955,820
Lease liabilities	11	-	-	-	37,826	37,826
Other liabilities	12	-	-	-	75,102	75,102
		<u>-</u>	<u>-</u>	<u>-</u>	<u>12,068,748</u>	<u>12,068,748</u>
<b>31 December 2020</b>						
<b>Assets</b>						
Cash and cash equivalents	5	4,958,936	-	-	-	4,958,936
Investments - net	6	-	1,735,209	6,446,874	-	8,182,083
Loans and advances to customers - net		-	30	-	-	30
Other assets	9	1,188,096	-	-	-	1,188,096
		<u>6,147,032</u>	<u>1,735,239</u>	<u>6,446,874</u>	<u>-</u>	<u>14,329,145</u>
<b>Liabilities</b>						
Deposits from banks		-	-	-	-	-
Deposits from customers	10	-	-	-	12,106,227	12,106,227
Lease liabilities	11	-	-	-	34,655	34,655
Other liabilities	12	-	-	-	27,416	27,416
		<u>-</u>	<u>-</u>	<u>-</u>	<u>12,168,298</u>	<u>12,168,298</u>

**22.1 Fair value of financial assets and financial liabilities**

**(a) Financial instruments measured at fair value using a valuation technique**

The table below analyses financial instruments carried at fair value, by valuation method. The various fair value levels have been defined as follows:

**Level 1** : quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

**Level 3** : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
----- AFN "000" -----			
Debt investments at fair value through OCI (December 31, 2021)	5,729,254	-	-
Debt investments at fair value through OCI (December 31, 2020)	6,457,254	-	-

Valuation technique and key inputs used for investments in bonds were quoted market bid price in active market.

**(b) Fair values**

Set out below is a comparison of the carrying amounts and fair value of the Bank's financial assets and liabilities, other than those with carrying amounts that are reasonable approximations of fair values:

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	Carrying Value		Fair Value	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	AFN '000			
<b>Financial assets</b>				
Cash and cash equivalents	6,596,740	4,958,936	6,596,740	4,958,936
Investments	5,908,784	7,985,585	5,850,358	8,182,083
Loans and advances to customers	-	30	-	30
Other assets	1,117,376	1,188,096	1,117,376	1,188,096
<b>Financial liabilities</b>				
Deposits from customers	11,955,820	12,106,227	11,955,820	12,106,227
Lease liabilities	37,826	34,655	37,826	34,655
Other liabilities	75,102	27,416	75,102	27,416

**23. Risk management policies**

The Bank is a foreign branch of Bank Alfalah Limited Pakistan (Head Office), therefore, the Board of Directors of the Head Office (the Board) has overall responsibility for the establishment and oversight of risk management framework of the Head Office as well as overseas branches. The Head Office has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk, and operational risk as evidenced by its Board approved "Risk Management Policy" and "Risk Management Manual". The Board has established the Management Board, Asset and Liability Committee (ALCO), a Credit Committee and Board Risk Management Committee and Board Audit Committee which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Management Board assists in these functions by the Internal Audit, compliance and Risk Management Division at the Head Office. Internal audit function is an independent risk review function that reports directly to the Board Audit Committee at the Head Office. The Head Office appoints Country Head specifically to oversee operations in Afghanistan and to manage the risks in accordance with the risk management policies of the Head Office.

The Bank's Internal Audit and Compliance Departments in Afghanistan are responsible for monitoring compliance with the risk management policies and procedures, and for reviewing adequacy of risk management framework in relation to the risks faced by the Bank. As a policy, the reporting line of the risk management function has been kept completely independent of the business division.

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk
- Operational risk

**23.1 Credit risk**

Credit risk management processes encompass identification, assessment, measurement, monitoring and control of credit risk exposure. In the Bank's experience, a key to effective credit risk management is a well thought out business strategy. The Bank's focus over the coming years will be to further enhance risk models, processes and systems infrastructure, in line with its ambition to bring maximum sophistication to the risk management function. The Board has delegated responsibility for the management of credit risk to its Head Office Credit Committee. A separate credit department has been established by the Bank for its Afghanistan operations that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Group Head Credit along with credit department staff who looks after credit risk matters and conduct portfolio analysis and stress testing on regular basis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board of Directors. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. The function is also supported by Credit Administration and Credit Monitoring Departments at Head Office level to ensure segregation of duties and efficient management of credit risk. The Banks manages its portfolio of loan assets with a view to limit its concentrations in terms of risk quality, geography, industry, maturity and large exposure.

The amount of credit risk in this regard is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk managed through regular analysis of borrower to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property duly registered with the Court of Law and hypothecation over stock and current assets duly verified by the Bank's Credit Officer on monthly basis.

A sophisticated Internal Credit Rating System has been developed by the Bank, which is capable of quantifying counter-party and transaction risk in accordance with the best practices. The system takes into consideration qualitative and quantitative factors of the counter-party, transaction structure, security etc. and generates an internal rating vis-a-vis anticipated customer behavior.

The adherence to Risk-appetite statement approved by the Board is monitored by RMD. Further the compliance of regulatory & internal limits is also monitored and any deviations are ratified from the competent authorities.

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### 23.1.1 Credit risk measurement

#### Impairment assessment under IFRS 9

##### Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The bank is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

##### Credit ratings and PD estimation process

The Bank's Credit Risk Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. PDs for rated portfolios are determined using migration of rating grades from one period to other within the PD observation period. Consumer lending comprises credit cards. PDs models of these products are primarily driven by days past due.

Estimated historical realized default rates are adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenarios as appropriate. For debt securities in the Treasury portfolio, external rating agency credit grades are used. The PDs associated with each grade are determined based on realized default rates as published by the rating agency.

##### Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

The EADs are determined based on the expected payment profile, which varies by product type. For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over the 12 months and lifetime basis. This is also adjusted for any prepayments made by the borrower. For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

##### Loss given default

The bank has used 46% LGD for sovereign whereas 45% LGD for corporate and bank exposures, as per the Basel III standard credit risk guidance.

##### Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at reporting date. The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

##### Measuring expected credit losses - ECL

PD, EAD and LGD are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in earlier year) on annual basis. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in ECL computation is the original effective interest rate or an approximation thereof.

Forward looking economic information is also included in determining the 12 month and lifetime ECL. The bank has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecast of these economic variables (the "base economic scenario") are obtained from external sources on a monthly basis.

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In addition to the base economic scenario, the management also estimate other possible scenarios along with scenarios weighting. The scenario weighting are determined by an expert credit judgment. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The bank considers these estimates of the possible outcomes. The bank has used base, upside and downside scenarios for its ECL estimation.

**Impairment under local regulations**

(i) Over due balances on loans to banks / customers are segmented into five categories as described in note 3.3.5. The percentage of provision created on such over due balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

(ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value.

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

**Other than loans and advances to banks and customers**

Other than loans and advances includes balances with other banks and financial institutions and placements with other banks, investments in bonds and held with DAB and other assets. Judgments and instructions from the Bank's treasury are being used by the Bank's management in placing funds with other banks and are viewed as a way to gain better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time when required.

**Concentration of risk of financial assets with credit risk exposure**

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, Da Afghanistan Bank has prescribed regulatory limits on bank's maximum exposure to single borrower and group borrowers. The Bank's annual credit plan spells out the maximum allowable exposure that it can take on specific industries for every business group.

	Notes	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
Credit risk relating to on-balance sheet items are as follows:			
Balances with DAB and other banks	5	4,153,857	2,089,295
Investments	6	5,708,891	6,830,055
Loans and advances to customers		-	30
Other assets	9	234,379	186,668
		<u>10,097,127</u>	<u>9,106,048</u>
Credit risk relating to off-balance sheet items is as follows:			
Guarantees	15.1	329,398	336,116
		<u>329,398</u>	<u>336,116</u>

The above table represents credit risk exposure to the Bank at 31 December 2021 and 31 December 2020, without taking account of any collateral held or other enhancements attached. For on-balance sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

**Credit quality of financial assets**

The credit qualities of Bank's financial assets have been assessed below by reference to the external credit ratings of counter parties determined by various international credit rating agencies. The counterparties for which external credit ratings were not been available have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations.

**Cash and cash equivalents**

Cash and cash equivalent includes balances held with the Central Bank which amount to AFN 2,297,249 thousands (31 December 2020: AFN 2,783,769 thousands) having limited credit risk.

**Investments**

Investments held carries various credit rating and ranges from Aaa to B3. These investments are made on defined investment criteria of the Bank. The credit quality and the maximum exposure to credit risk for under expected credit losses model is based on external credit rating grades and year-end stage classification as at 31 December 2021 and 2020 as disclosed in note 6.3.1 to the financial statements.

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	Note	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>Loans and advances</b>			
<b>Loans and advances to customers and financial institutions</b>		-	30
Neither past due but nor impaired:			
Gross amount		-	30
Provision for expected credit losses		-	-
Carrying amount		-	30

**Past due but not impaired loans**

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate. As at 31 December 2021, there is no loan to be classified in the category as per IFRS 9 or ACPR issued by DAB.

**Write-off policy**

The Bank writes off loans or advances and any related allowances for impairment losses, when the Bank's Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

The Bank holds collateral against loans and advances in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

As at 31 December 2021, an estimate of the fair value of the collateral and other security enhancements held against loans and advances has adequately covered the amount of loans and advances.

**23.1.2 Industry sectors**

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers and banks (gross) at reporting date is as follows:

	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>Segments by class of business-Gross amount</b>		
Banks and financial institutions	-	-
Individuals	-	30
	-	30

**Settlement risk**

The Bank's activities may give rise to risk at the time of settlement of transactions and trades, if any. Settlement risk is the risk of loss due to failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigate this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades require transactions specific or counterparty specific approvals from the Bank's risk department.

**23.2 Liquidity risk**

Liquidity risk is the potential for loss to the bank arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

The Bank's Asset and Liability Committee (ALCO) manages the liquidity position on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. ALCO monitors the maintenance of liquidity ratios, depositors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Moreover, as a core retail deposits form a considerable part of the Bank's overall funding mix therefore significant importance is being given to the stability and growth of these deposits. The BOD has approved a comprehensive liquidity management policy which stipulates the early warning indicators of liquidity risk and maintenance of various ratios. Further, the Bank has designed different scenarios of cash outflows to stress test efficacy of its liquid assets and its impact on profit and loss. The results are regularly reviewed by ALCO for taking appropriate measures.

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

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The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2021	2020
At 31 December	55%	41%
Average for the period	49%	42%
Maximum for the period	56%	48%
Minimum for the period	31%	36%

**23.2.1 Maturity analysis for financial liabilities**

The tables below set out the remaining contractual maturities of the Bank's financial liabilities.

Note	Gross nominal	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Carrying amount
AFN '000'							
<b>As at 31 December 2021</b>							
<b>Liabilities</b>							
Borrowings from banks	-	-	-	-	-	-	-
Deposits from customers	10	11,955,821	213,856	867,681	1,654,351	3,755,288	11,955,820
Lease liabilities	11	37,826	2,006	961	7,341	27,517	37,826
Other liabilities	12	76,613	20,891	18,164	37,449	109	76,613
		<u>12,070,260</u>	<u>236,754</u>	<u>886,806</u>	<u>1,699,141</u>	<u>3,782,914</u>	<u>12,070,259</u>
<b>As at 31 December 2020</b>							
<b>Liabilities</b>							
Borrowings from banks	-	154,200	154,200	-	-	-	154,200
Deposits from customers	10	12,106,227	203,923	360,132	2,791,303	3,620,674	12,106,227
Lease liabilities	11	34,655	1,580	1,444	6,116	25,514	34,655
Other liabilities	12	27,416	6,093	14,387	6,786	150	27,416
		<u>12,322,498</u>	<u>365,796</u>	<u>375,963</u>	<u>2,804,205</u>	<u>3,646,338</u>	<u>12,322,498</u>

The Bank conducted a behavioral study of non-maturity deposits (non-contractual deposits) and performed regression analysis to determine deposits withdrawal pattern on Current and Savings Accounts (CASA). Regression analysis is used to investigate the relationship between time, the amount of deposits and deposits withdrawals in order to arrive at an estimated deposits withdrawals pattern in line with the best practices.

A significant variation in future maturities is imputed due to uncertain economic environments and limits imposed by DAB on withdrawals and capital controls.

**23.3 Market risk**

Market risk is the risk of loss in earnings and capital due to on and off balance sheet positions arising out of adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. It also includes investments and structural positions in the banking books of the Bank. To manage and control market risk a well defined limits structure is in place. These limits received, adjusted and approved periodically. Market risk can be further divided as follows:

**23.3.1 Interest rate risk exposure**

The interest rate risk arises from the fluctuation in the value of financial instruments consequent to the changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. In order to ensure that this risk is managed within acceptable limits, the Bank's Asset and Liability Committee (ALCO) monitors the re-pricing of the assets and liabilities on a regular basis. The Bank's interest rate risk is limited since the majority of customer deposits are retrospectively re-priced on a biannual basis on the profit and loss sharing principles. The Bank's interest rate gap position on its financial assets and financial liabilities is as follows:

	Note	Interest rates (%)	Interest bearing					Non-interest bearing	Total (Gross)	
			Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years			
										AFN '000'
<b>31 December 2021</b>										
<b>Assets</b>										
Cash and cash equivalents	5		-	-	-	-	-	6,596,740	6,596,740	
Investments	6	1.625-8.25 20	-	-	-	1,240,659	4,488,594	141,467	5,870,720	
Loans and advances to customers			-	-	-	-	-	-	-	
Other assets	9		-	-	-	-	-	1,117,483	1,117,483	
			-	-	-	1,240,659	4,488,594	7,855,690	13,584,943	
<b>Liabilities</b>										
Deposits from banks			-	-	-	-	-	-	-	
Deposits from customers	10	0.1 - 2.0	524,192	24,051	48,102	208,206	400,753	10,750,516	11,955,820	
Lease liabilities	11		2,968	1,874	5,466	27,518	-	-	37,826	
Other liabilities	12		-	-	-	-	-	75,102	75,102	
			527,160	25,925	53,568	235,724	400,753	10,825,618	12,068,748	
<b>On balance sheet interest sensitivity gap</b>			527,160	25,925	53,568	1,004,935	4,087,841	2,969,927	1,516,196	
<b>31 December 2020</b>										
<b>Assets</b>										
Cash and cash equivalents	5	0.85 - 2.60	1,969,700	-	-	-	-	2,989,236	4,958,936	
Investments	6	0.25 - 8.25 20	-	1,352,028	-	-	6,840,435	-	8,192,463	
Loans and advances to customers			30	-	-	-	-	-	30	
Other assets	9		-	-	-	-	-	1,192,069	1,192,069	
			1,969,730	1,352,028	-	6,840,435	6,840,435	4,181,305	14,343,498	
<b>Liabilities</b>										
Deposits from banks	-		-	-	-	-	-	-	-	
Deposits from customers	10	0.1 - 3.7	2,189	4,378	1,190,410	57,777	113,208	10,738,265	12,106,227	
Lease liabilities	11		3,025	1,469	4,647	25,514	-	-	34,655	
Other liabilities	12		-	-	-	-	-	27,416	27,416	
			5,213	5,847	1,195,058	83,291	113,208	10,765,681	12,168,298	
<b>On balance sheet interest sensitivity gap</b>			1,964,517	1,346,181	1,195,058	6,757,144	6,727,227	6,584,376	2,175,200	

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**Variable rate instruments**

31-Dec-21      31-Dec-20  
..... AFN '000' .....

**Financial assets and liabilities at variable interest rates**

Loans and advances to financial institutions

-	-
-	-

**Cash flow sensitivity analysis for variable rate instruments**

The Bank does not have any such instruments therefore there will be no impact for the current year on profit or loss (2020: Nil). This analysis assumes that all other variables remain constant.

**Fixed rate instruments**

31-Dec-21      31-Dec-20  
..... AFN '000' .....

**Financial assets and liabilities at fixed interest rates**

Investments

Loans and advances to customers

Deposits from customers

5,708,891	6,840,435
-	30
500,000	1,367,962

**Fair value sensitivity analysis for fixed rate instruments**

The Bank does not account for any fixed rate financial assets at fair value through profit and loss account, therefore a change in interest rates at the reporting date would not affect profit and loss account of the Bank.

**23.4 Currency risk**

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off-balance sheet financial instruments.

Off-balance sheet financial instruments are contracts which are the resultant outcome of the IRS and clean placements transactions. Moreover, counterparties enter into forward transactions in inter-bank market on behalf of customers to cover-up their position against stipulated risks. The buy and sell transactions are matched in view of their maturities in the different predefined time buckets.

The Bank's exposure to foreign currency risk, based on notional amount, is as follows:

	USD	EURO	GBP	Total
<b>31 December 2021</b>				
<b>Financial assets</b>				
Cash and cash equivalents	4,494,164	20,527	109	4,514,800
Investments	5,717,385	11,869	-	5,729,254
Other assets	876,320	1,600	-	877,920
	<b>11,087,870</b>	<b>33,996</b>	<b>109</b>	<b>11,121,974</b>
<b>Financial liabilities</b>				
Deposits from banks	-	-	-	-
Deposits from customers	10,652,538	12,112	247	10,664,897
Other liabilities	288	-	994	1,282
	<b>10,652,826</b>	<b>12,112</b>	<b>1,241</b>	<b>10,666,179</b>
<b>Net foreign currency exposure</b>	<b>435,044</b>	<b>21,884</b>	<b>(1,133)</b>	<b>455,795</b>

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	USD	EURO	GBP	Total
<b>31 December 2020</b>				
<b>Financial assets</b>				
Cash and cash equivalents	3,383,943	207,007	87	3,591,037
Investments	6,447,031	383,168	-	6,830,199
Loans and advances to customers	30	-	-	30
Other assets	13,969	843	-	14,812
	<u>9,844,974</u>	<u>591,017</u>	<u>87</u>	<u>10,436,077</u>
<b>Financial liabilities</b>				
Deposits from banks	-	-	-	-
Deposits from customers	10,885,549	298,226	196	11,183,970
Other liabilities	143,588	-	786	144,374
	<u>11,029,137</u>	<u>298,226</u>	<u>983</u>	<u>11,328,345</u>
<b>Net foreign currency exposure</b>	<u>(1,184,163)</u>	<u>292,792</u>	<u>(896)</u>	<u>(892,267)</u>

**23.4.1 Sensitivity analysis on foreign currency financial assets and liabilities**

A 1% strengthening of the Afghani, as indicated below, against the USD, GBP, Euro at 31 December 2021 would have decreased profit before tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	USD	EURO	GBP	Total
<b>31 December 2021</b>				
<b>Effect of 1% increase in exchange rate</b>				
<b>Financial assets</b>				
Cash and cash equivalents	(44,942)	(205)	(1)	(45,148)
Investments	(57,174)	(119)	-	(57,293)
Other assets	(8,763)	(16)	-	(8,779)
<b>Losses from financial assets</b>	<u>(110,879)</u>	<u>(340)</u>	<u>(1)</u>	<u>(111,220)</u>
<b>Financial liabilities</b>				
Deposits from banks	-	-	-	-
Deposits from customers	106,525	121	2	106,648
Other liabilities	3	-	10	13
<b>Gains from financial liabilities</b>	<u>106,528</u>	<u>121</u>	<u>12</u>	<u>106,661</u>
<b>Net-unrealized gains / (losses) on foreign currency</b>	<u>(4,351)</u>	<u>(219)</u>	<u>11</u>	<u>(4,559)</u>

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	USD	EURO	GBP	Total
<b>31 December 2020</b>				
<b>Effect of 1% increase in exchange rate</b>				
<b>Financial assets</b>				
Cash and cash equivalents	(33,839)	(2,070)	(1)	(35,910)
Investments	(64,470)	(3,832)	-	(68,302)
Loans and advances to customers	-	-	-	-
Other assets	(140)	(8)	-	(148)
<b>Losses from financial assets</b>	<b>(98,449)</b>	<b>(5,910)</b>	<b>(1)</b>	<b>(104,360)</b>
<b>Financial liabilities</b>				
Deposits from banks	-	-	-	-
Deposits from customers	108,855	2,982	2	111,839
Other liabilities	1,436	-	8	1,444
<b>Gains from financial liabilities</b>	<b>110,291</b>	<b>2,982</b>	<b>10</b>	<b>113,283</b>
<b>Net-unrealized gains / (losses) on foreign currency</b>	<b>11,842</b>	<b>(2,928)</b>	<b>9</b>	<b>8,923</b>

**23.5 Operational risk**

Operational Risk is the risk of loss resulting from inadequate internal processes, people and systems, or from external events including legal risks. This excludes strategic and reputational risk.

Embedding a sustainable risk culture remains the bank's core objective that includes effective management of operational issues and emerging risks across the bank and in our overseas operations via deployment of required resources, tools and continuous supervision. The new Operational Risk Framework, Policy and Standards, duly approved by the Board, have been rolled out along with new system platforms (Operational Risk System) for recording and tracking of risk events including non-financial risks. The bank aim to implement a new process based Risk and Control Self-Assessment method across the group in order to effectively manage operational risks and continuously monitor effectiveness of defined controls through first line self-assessment reviews especially for the processes and activities which may significantly impact the bank's risk appetite. Further, new and amended products, systems, activities and processes are subject to comprehensive operational risk assessments before implementation or launch.

**24. Related parties**

The Bank is a fully owned branch of Bank Alfalah Limited Pakistan. Related parties comprise Head Office, associated undertakings, majority shareholders, directors of the Head Office of the Bank and the key management personnel of the Bank. Key management personnel includes Country Manager, Country Operation Manager, Country Credit Manager, Country Finance Manager, Treasury Manager, HR Manager, Country Internal Audit Manager, Country Compliance Manager and Country Risk Manager.

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:

**24.1 Transactions with other related parties**

Name of group companies	Nature of transactions	31-Dec-21	31-Dec-20
		..... AFN '000'	.....
Bank Alfalah Limited - Pakistan	Profit remitted to Head Office	567,986	-
Alfalah Insurance Company Ltd.	Insurance premium	1,933	2,268

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**24.2 Transactions with key management personnel**

**(a) Deposits from key management personnel**

Deposits at the beginning of the year	937	1,273
Deposits received during the year	42,083	37,910
Deposits repaid during the year	(41,345)	(38,246)
Exchange rate difference	-	-
Deposits at the end of the year	<u>1,675</u>	<u>937</u>

**(b) Salaries and benefits**

<u>42,083</u>	<u>37,910</u>
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In addition to salaries and remuneration, the Bank also provides non-cash benefits to executives which include furnished accommodation, meals and travel.

**25. Capital Management**

**Regulatory Capital**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- (i) to comply with the capital requirements set by the DAB;
- (ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to be; and
- (iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. DAB requires each bank to maintain its Tier 1 Capital ratio and Regulatory Capital ratio to be at least 6 % and 12 % respectively. The Bank is maintaining this ratio well above the required level.

The table below summarizes the composition of the regulatory capital and ratio of the Bank:

	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>Tier 1 (Core) Capital:</b>		
Total equity capital	1,534,514	1,890,306
Less:		
Revaluation surplus on financial instruments at FVOCI	115,761	106,651
Profit for the year	203,084	111,892
Deferred tax asset	46,658	-
<b>Total tier 1 (core) capital</b>	<u><b>1,169,011</b></u>	<u><b>1,671,763</b></u>
<b>Tier 2 (Supplementary) Capital:</b>		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	-	-
Revaluation reserve on bonds (45%)	52,093	47,993
Profit for the year	203,084	111,892
<b>Total Tier 2 (Supplementary) Capital</b>	<u><b>255,176</b></u>	<u><b>159,885</b></u>
<b>Regulatory Capital = Tier 1 + Tier 2</b>	<u><b>1,424,187</b></u>	<u><b>1,831,648</b></u>

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**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>Risk-weight categories</b>		
<b>0% risk weight:</b>		
Cash in Afghani and fully-convertible foreign currencies	145,634	85,872
Direct claims on Central Banks and Central Governments of Category A countries	-	-
Precious metals and precious stones	-	-
Direct claims on DAB	3,321,820	5,119,847
Loans collateralized by blocked deposits	-	-
Other	-	-
<b>Total</b>	<b>3,467,454</b>	<b>5,205,719</b>
<b>0% risk-weight total (above total x 0%)</b>	<b>-</b>	<b>-</b>
<b>20% risk weight:</b>		
Loans Collateralized by Claims on Central Banks and Central Governments of Category A Countries	-	-
Direct Claims on banks licensed in Category A countries	3,558,483	1,020,497
Short-term Claims on Banks Licensed In Non-Category A Countries Guaranteed by Multilateral Lending Institutions	701,182	1,201,410
Cash Items in Process of Collection	-	-
Other	-	-
<b>Total</b>	<b>4,259,665</b>	<b>2,221,907</b>
<b>20% risk-weight total (above total x 20%)</b>	<b>851,933</b>	<b>444,381</b>
<b>50% risk weight:</b>		
Qualifying Residential Mortgage Loans	-	-
Qualifying Real Estate Construction Loans	-	-
Other	5,729,254	6,840,435
<b>Total</b>	<b>5,729,254</b>	<b>6,840,435</b>
<b>50% risk-weight total (above total x 50%)</b>	<b>2,864,627</b>	<b>3,420,218</b>
<b>100% risk weight:</b>		
All other assets	224,409	121,595
Less: Deferred tax assets	46,658	-
<b>Total</b>	<b>177,751</b>	<b>121,595</b>
<b>100% risk-weight total (above total x 100%)</b>	<b>177,751</b>	<b>121,595</b>
<b>Credit conversion factor</b>		
<b>Off-balance-sheet items with 0% Credit Conversion Factor</b>		
Unused Portions of Commitments with Original Maturity of 1 Year or Less	-	-
Unused Portions of Commitments that are Unconditionally Cancelable	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>0% Credit Conversion Factor Total (Above Total x 0%)</b>	<b>-</b>	<b>-</b>
<b>Off-balance-sheet items with 20% Credit Conversion Factor</b>		
Commercial Letter of Credits		
0 % Risk Weight	-	-
20% Risk Weight	-	-
50% Risk Weight	-	-
100% Risk Weight	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>20% risk-weight total (above total x 20%)</b>	<b>-</b>	<b>-</b>

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**BANK ALFALAH LIMITED AFGHANISTAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	31-Dec-21 ..... AFN '000' .....	31-Dec-20 ..... AFN '000' .....
<b>Off-balance sheet items with 100% Credit Conversion Factor</b>		
Guarantees and Standby Letter of Credits		
0 % Risk Weight	-	-
20% Risk Weight	329,398	368,155
50% Risk Weight	4,149,200	1,970,627
100% Risk Weight	-	-
<b>Total</b>	<b>4,478,598</b>	<b>2,338,782</b>
<b>100% credit conversion factor total (risk-weighted total x 100%)</b>	<b>2,140,480</b>	<b>1,058,944</b>
<b>Total risk-weighted assets</b>	<b>6,034,791</b>	<b>5,045,138</b>
<b>Tier 1 Capital Ratio</b>		
(Tier 1 capital as % of total risk-weighted assets)	<b>19.37%</b>	<b>33.14%</b>
<b>Regulatory Capital Ratio</b>		
(Regulatory capital as % of total risk-weighted assets)	<b>23.60%</b>	<b>36.31%</b>

**26. General**

The figures in these financial statements have been rounded off to the nearest in thousands in AFN.

**27. Date of authorization of financial statements**

These financial statements were authorized for issue by the Country Finance Manager and Country Manager of the Bank on \_\_\_\_\_.

*CMA*

  
 \_\_\_\_\_  
 Country Finance Manager

  
 \_\_\_\_\_  
 Country Manager