

* As mentioned in note 46.1 of Consolidated Financial Statements, full disclosures on the Capital Adequacy, Leverage Ratio & Liquidity Requirements as per SBP instructions has been placed below;

1 CAPITAL ASSESSMENT AND ADEQUACY

1.1 Scope of Applications

Amounts subject to Pre - Basel III treatment

The Basel-III Framework is applicable to the Group at the consolidated level (comprising of wholly/partially owned subsidiaries & associates) and also on stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Group using full consolidation method whereas associates in which the Group has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risks, whereas, higher of Alternative Standardized Approach (ASA) or 70% of Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purpose.

1.2 Capital Management

1.2.1 Objectives and goals of managing capital

The Group manages its capital to attain following objectives and goals:

- an appropriately capitalized status, as defined by Banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities; and
- retain flexibility to harness future investment opportunities, build and expand even in stressed times.

1.2.2 Statutory Minimum Capital Requirement and Capital Adequacy Ratio

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) of all locally incorporated Banks to be raised to Rs. 10 billion. The paid up capital of the Bank for the year ended December 31, 2018 stands at Rs. 17.744 billion and is in compliance with the SBP requirement for the said year.

The capital adequacy ratio of the Group is subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines Banks are required to maintain the following ratios on an ongoing basis:

Phase-in arrangement and full implementation of the minimum capital requirements:

Sr. No	Ratio	2015	2016	2017	2018	31-Dec-19
1	CET 1	6.0%	6.0%	6.0%	6.0%	6.0%
2	ADT 1	1.5%	1.5%	1.5%	1.5%	1.5%
3	Tier 1	7.5%	7.5%	7.5%	7.5%	7.5%
4	Total Capital	10.0%	10.0%	10.0%	10.0%	10.0%
5	*CCB	0.25%	0.65%	1.28%	1.90%	2.50%
6	Total Capital Plus CCB	10.25%	10.65%	11.28%	11.90%	12.50%

* Capital conservation buffer

1.2.3 Group's regulatory capital is analysed into three tiers

Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer note 1.4).

Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference (AT) shares and share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1 (refer to note 1.4).

Tier 2 capital, which includes Subordinated debt/ Instruments, share premium on issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), net reserves on revaluation of fixed assets and equity investments is availed at the rate 100% per annum and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer to note 1.4).

The required capital adequacy ratio (11.90% of the risk-weighted assets) is achieved by the Group through improvement in the capital base, asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Group. As the Group carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Group to particular operations. The Group remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the Group's management of capital during the year.

1.2.4 Leverage Ratio

The leverage ratio of the Group as at December 31, 2018 is 5.69 % (2017: 4.10%). The ratio has been computed as prescribed by State Bank of Pakistan through Instructions for Basel-III Implementation in Pakistan.

As on December 31, 2017; Total Tier 1 capital of the Group amounts to Rs. 67,532,004 thousand (2017: Rs. 54,227,146 thousand) whereas the total exposure measure amounts to Rs. 1,187,593,074 thousand (2017: Rs. 1,322,273,942 thousand).

Favourable shift in leverage ratio is mainly due to an increase in Group's Tier 1 capital as compared to the last year.

1.3 Capital Adequacy

Group's approach for assessing the adequacy of the capital to support current and future business operations based on the following:

- a. Capital Adequacy plays key consideration for not only arriving at the business projections / plans but is religiously monitored while undertaking transactions.
- b. The Group has demonstrated the capability to comfortably meet new & enhanced capital adequacy standards, therefore it is now following controlled growth strategy. The TFC was issued to support the growth but gradually the bank is enriching the Tier 1 capital while ensuring regular dividend to share holders.
- c. To further augment its capital base of the Group, the Bank has issued listed Additional Tier I Capital amounting to PKR 7 Billion.
- d. The capital base forms the very basic foundation of business plans. The capital base is sufficient to support the envisaged business growth and this would be monitored regularly.
- e. Current and potential risk exposures across all the major risk types are:

Risk Type	Materiality Level for Bank– High/Medium/Low	Adequacy of controls (Adequate / Partially adequate/ Not adequate)
Credit	High	Adequate
Market	Medium	Adequate
Credit rate risk in Banking Book - Investments	High	Adequate
Interest rate risk in Banking Book - Investments	High	Adequate
Liquidity	High	Adequate
Country	Medium	Adequate
Operational	High	Adequate
Reputation	Medium	Adequate
Concentration	Medium	Adequate
Legal	Medium	Adequate
Strategic / Business	Medium	Adequate
Model	Low	Adequate
Step in Risk	Low	Adequate

- f. The Group enjoys strong sponsor support from Abu Dhabi Group and IFC, leading to increased investor confidence. Moreover, the Holding Company has been issuing TFCs successfully on a regular basis, demonstrating Bank's capacity to raise capital when required.
- g. Bank follows Standardised Approach for Credit and Market Risk, and Alternative Standardized Approach for Operational Risk. The assessment of capital adequacy is based on regulatory requirements.

1.4 Capital Adequacy Ratio as at December 31, 2018

	Note	2018	2017
(Rupees in '000)			
Common Equity Tier 1 capital (CET1): Instruments and reserves			
1		17,743,629	16,075,720
2		4,695,600	4,612,991
3		30,590	-
4		-	-
5		13,273,115	11,466,871
6		-	-
7		28,323,588	24,865,748
8		68,219	106,800
9		64,134,741	57,128,130
10		3,436,465	2,900,985
11		60,698,276	54,227,146
Additional Tier 1 (AT 1) Capital			
12		7,000,000	-
13		-	-
14		7,000,000	-
15		12,039	4,071
16		-	-
17		7,012,039	4,071
18		178,311	142,457
19		6,833,728	-
20		6,833,728	-
21		67,532,004	54,227,146
Tier 2 Capital			
22		1,994,400	2,992,200
23		-	-
24		17,489	6,888
25		-	-
26		939,815	907,449
27		7,260,245	6,391,959
28		7,210,344	4,046,349
29		49,901	2,345,611
30		5,051,449	2,076,807
31		-	-
32		15,263,399	12,375,303
33		-	234,479
34		15,263,399	12,140,824
35		15,263,399	12,140,824
36		-	-
37		15,263,399	12,140,824
38		82,795,402	66,367,970
39		557,494,636	497,554,057
Capital Ratios and buffers (in percentage of risk weighted assets)			
40		10.89%	10.90%
41		12.11%	10.90%
42		14.85%	13.34%
43		7.90%	7.28%
44		1.90%	1.28%
45		-	-
46		-	-
47		4.89%	4.90%
National minimum capital requirements prescribed by SBP			
48		6.00%	6.00%
49		7.50%	7.50%
50		11.90%	11.28%

Regulatory Adjustments and Additional Information	Note	2018	2017	Amounts subject to Pre- Basel III treatment*
		Amount	Amount	
(Rupees in '000)				
1.4.1 Common Equity Tier 1 capital: Regulatory adjustments				
1 Goodwill (net of related deferred tax liability)		-	-	
2 All other intangibles (net of any associated deferred tax liability)		1,317,271	1,508,765	
3 Shortfall in provisions against classified assets		-	-	
4 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		-	-	
5 Defined-benefit pension fund net assets		923,633	583,637	
6 Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities		1,099,258	632,863	
7 Cash flow hedge reserve		-	-	
8 Investment in own shares/ CET1 instruments		96,303	37,334	
9 Securitization gain on sale		-	-	
10 Capital shortfall of regulated subsidiaries		-	-	
11 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS		-	-	
12 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-	
13 Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		-	-	
14 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		-	-	
15 Amount exceeding 15% threshold		-	-	
16 of which: significant investments in the common stocks of financial entities		-	-	
17 of which: deferred tax assets arising from temporary differences		-	-	
18 National specific regulatory adjustments applied to CET1 capital		-	-	
19 Investments in TFCs of other banks exceeding the prescribed limit		-	-	
20 Any other deduction specified by SBP (mention details)		-	-	
21 Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-	138,386	
22 Total regulatory adjustments applied to CET1 (sum of 1 to 21)		3,436,465	2,900,985	
1.4.2 Additional Tier-1 & Tier-1 Capital: regulatory adjustments				
23 Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]		178,311	109,504	
24 Investment in own AT1 capital instruments		-	-	
25 Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities		-	-	
26 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-	
27 Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation		-	-	
28 Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital		-	32,953	(32,953)
29 Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-	-	
30 Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)		178,311	142,457	
1.4.3 Tier 2 Capital: regulatory adjustments				
31 Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital		-	32,953	(32,953)
32 Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities		-	201,526	
33 Investment in own Tier 2 capital instrument		-	-	
34 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-	
35 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		-	-	
36 Total regulatory adjustment applied to T2 capital (sum of 31 to 35)		-	234,479	

*The amount represents regulatory deductions that are still subject to pre-Basel-III treatment during the transitional period.

1.4.4 Additional Information	2018	2017
	Amount (Rupees in '000)	
Risk Weighted Assets subject to pre-Basel III treatment		
37 Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	492,890,809	431,618,916
(i) of which: deferred tax assets	-	-
(ii) of which: Defined-benefit pension fund net assets	-	145,909
(iii) of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	416,577	-
(iv) of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	65,905
Amounts below the thresholds for deduction (before risk weighting)		
38 Non-significant investments in the capital of other financial entities	416,577	-
39 Significant investments in the common stock of financial entities	340,921	255,780
40 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2		
41 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	939,815	907,449
42 Cap on inclusion of provisions in Tier 2 under standardized approach	6,166,342	5,397,884
43 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
44 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

1.5 Capital Structure Reconciliation

Table: 1.5.1

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	2018 (Rupees in '000)	
Assets		
Cash and balances with treasury banks	82,407,736	82,407,736
Balanced with other banks	3,911,554	3,911,554
Lending to financial institutions	62,172,287	62,172,287
Investments	279,251,731	279,251,731
Advances	501,639,727	501,639,727
Fixed assets	18,317,042	18,317,042
Intangible assets	1,317,271	1,317,271
Deferred tax assets	-	-
Assets held for sale	23,589,489	23,589,489
Other assets	35,998,315	35,998,315
Total assets	1,008,605,152	1,008,605,152
Liabilities & Equity		
Bills payable	35,988,225	35,988,225
Borrowings	124,017,735	124,017,735
Deposits and other accounts	702,847,125	702,847,125
Sub-ordinated loans	11,989,000	11,989,000
Deferred tax liabilities	2,500,097	2,500,097
Liabilities directly associated with the assets held for sale	20,435,396	20,435,396
Other liabilities	33,805,722	33,805,722
Total liabilities	931,583,300	931,583,300
Share capital	17,743,629	17,743,629
Reserves	23,050,754	23,050,754
Unappropriated profit	28,323,585	28,323,585
Non-controlling interest	514,757	514,757
Surplus on revaluation of assets	7,389,127	7,389,127
Total equity	77,021,852	77,021,852
Total liabilities & equity	1,008,605,152	1,008,605,152

Capital Adequacy Ratio, Leverage Ratio and Liquidity Requirements
Bank Alfalah Limited
Table: 1.5.2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	
	2018 (Rupees in '000)		Reference
Assets			
Cash and balances with treasury banks	82,407,736	82,407,736	
Balanced with other banks	3,911,554	3,911,554	
Lending to financial institutions	62,172,287	62,172,287	
Investments	279,251,731	279,251,731	
<i>of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold</i>	-	-	a
<i>of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold</i>	-	-	b
<i>of which: Mutual Funds exceeding regulatory threshold</i>	178,311	178,311	c
<i>of which: reciprocal crossholding of capital instrument</i>	-	-	
CET1	1,099,258	1,099,258	d
AT1	-	-	
T2	-	-	
<i>of which: others (mention details)</i>	-	-	e
Advances	501,639,727	501,639,727	
<i>shortfall in provisions/ excess of total EL amount over eligible provisions under IRB</i>	-	-	f
<i>general provisions reflected in Tier 2 capital</i>	873,315	873,315	g
Fixed Assets	18,317,042	18,317,042	
Intangible assets	1,317,271	1,317,271	k
Deferred Tax Assets	-	-	
<i>of which: DTAs that rely on future profitability excluding those arising from temporary differences</i>	-	-	h
<i>of which: DTAs arising from temporary differences exceeding regulatory threshold</i>	-	-	i
Assets held for sale	23,589,489	23,589,489	
Other assets	35,998,315	35,998,315	
<i>of which: Goodwill</i>	-	-	j
<i>of which: Defined-benefit pension fund net assets</i>	923,633	923,633	l
Total assets	1,008,605,152	1,008,605,152	
Liabilities & Equity			
Bills payable	35,988,225	35,988,225	
Borrowings	124,017,735	124,017,735	
Deposits and other accounts	702,847,125	702,847,125	
Sub-ordinated loans	11,989,000	11,989,000	
<i>of which: eligible for inclusion in AT1</i>	6,833,728	6,833,728	m
<i>of which: eligible for inclusion in Tier 2</i>	1,994,400	1,994,400	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	2,500,097	2,500,097	
<i>of which: DTLs related to goodwill</i>	-	-	o
<i>of which: DTLs related to intangible assets</i>	-	-	p
<i>of which: DTLs related to defined pension fund net assets</i>	-	-	q
<i>of which: other deferred tax liabilities</i>	-	-	r
Liabilities directly associated with the assets held for sale	20,435,396	20,435,396	
Other liabilities	33,805,722	33,805,722	
Total liabilities	931,583,300	931,583,300	
Share capital	17,743,629	17,743,629	
<i>of which: amount eligible for CET1</i>	17,743,629	17,743,629	s
<i>of which: amount eligible for AT1</i>	-	-	t
Reserves	23,050,755	23,050,755	
<i>of which: portion eligible for inclusion in CET1</i>	17,999,305	17,999,305	
General Reserve	13,273,115	13,273,115	u
Reserve For Employee Stock Option Scheme	30,590	30,590	
Share Premium	4,695,600	4,695,600	
<i>of which: portion eligible for inclusion in Tier 2</i>	5,051,449	5,051,449	v
Unappropriated profit/ (losses)	28,323,585	28,323,585	w
Minority Interest	514,757	514,757	
<i>of which: portion eligible for inclusion in CET1</i>	68,219	68,219	x
<i>of which: portion eligible for inclusion in AT1</i>	12,039	12,039	y
<i>of which: portion eligible for inclusion in Tier 2</i>	17,489	17,489	z
Surplus on revaluation of assets	7,389,127	7,389,127	
<i>of which: Revaluation reserves on Fixed Assets</i>	7,210,343	7,210,343	
<i>of which: Non-banking assets acquired in satisfaction of claims</i>	128,877	128,877	aa
<i>of which: Unrealized Gains/Losses on AFS</i>	49,907	49,907	
<i>In case of Deficit on revaluation (deduction from CET1)</i>	-	-	ab
Total equity	77,021,852	77,021,853	
Total liabilities & Equity	1,008,605,152	1,008,605,153	

Table: 1.5.3

	Component of regulatory capital reported by bank	Source based on reference number from step 2
2018		
Rupees in '000		
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital/ Capital deposited with SBP	17,743,629	
2 Balance in Share Premium Account	4,695,600	(s)
3 Reserve for issue of Bonus Shares	30,590	
4 General/ Statutory Reserves	13,273,115	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/ (losses)	28,323,588	(w)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	68,219	(x)
8 CET 1 before Regulatory Adjustments	64,134,741	
Common Equity Tier 1 capital: Regulatory adjustments		
9 Goodwill (net of related deferred tax liability)	-	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	1,317,271	(k) - (p)
11 Shortfall of provisions against classified assets	-	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	{(h) - (r)} * 100%
13 Defined-benefit pension fund net assets	923,633	{(l) - (q)} * 100%
14 Reciprocal cross holdings in CET1 capital instruments	1,099,258	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	96,303	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	(ab)
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28 of which: Any other deduction specified by SBP (mention details)	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30 Total regulatory adjustments applied to CET1 (sum of 9 to 29)	3,436,465	
31 Common Equity Tier 1	60,698,276	

Additional Tier 1 (AT 1) Capital			
32	Qualifying Additional Tier-1 instruments plus any related share premium	7,000,000	
33	of which: Classified as equity	-	(t)
34	of which: Classified as liabilities	7,000,000	(m)
35	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	12,039	(y)
36	of which: instrument issued by subsidiaries subject to phase out	-	
37	AT1 before regulatory adjustments	14,012,039	
Additional Tier 1 Capital: regulatory adjustments			
38	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	178,311	
39	Investment in own AT1 capital instruments	-	
40	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
41	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
42	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
43	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	
44	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
45	Total of Regulatory Adjustment applied to AT1 capital (sum of 38 to 43)	178,311	
46	Additional Tier 1 capital	6,833,728	
47	Additional Tier 1 capital recognized for capital adequacy	6,833,728	
48	Tier 1 Capital (CET1 + admissible AT1) (31+47)	67,532,004	
Tier 2 Capital			
49	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	1,994,400	
50	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(n)
51	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	17,489	(z)
52	of which: instruments issued by subsidiaries subject to phase out	-	
53	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	939,815	(g)
54	Revaluation Reserves	7,260,245	
55	of which: Revaluation reserves on fixed assets	7,210,344	portion of (aa)
56	of which: Unrealized Gains/Losses on AFS	49,901	
57	Foreign Exchange Translation Reserves	5,051,449	(v)
58	Undisclosed/Other Reserves (if any)	-	
59	T2 before regulatory adjustments	15,263,399	
Tier 2 Capital: regulatory adjustments			
60	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	
61	Reciprocal cross holdings in Tier 2 instruments	-	
62	Investment in own Tier 2 capital instrument	-	
63	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
64	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65	Amount of Regulatory Adjustment applied to T2 capital (sum of 60 to 64)	-	
66	Tier 2 capital (T2)	15,263,399	
67	Tier 2 capital recognized for capital adequacy	15,263,399	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	Total Tier 2 capital admissible for capital adequacy	15,263,399	
70	TOTAL CAPITAL (T1 + admissible T2) (48+69)	82,795,402	

1.6 Main Features Template of Regulatory Capital Instruments

Disclosure template for main features of regulatory capital instruments				
S. No.	Main Features	Common Shares	Instrument - 2	ADT 1
1	Issuer	Bank Alfalah Limited	Bank Alfalah Limited	Bank Alfalah Limited
2	Unique identifier (eg PSX Symbol or Bloomberg identifier etc.)	BAFL	BAFL TFC 5	BAFL TFC 6
3	Governing law(s) of the instrument	Laws of Islamic Republic of Pakistan	Laws of Islamic Republic of Pakistan	Laws of Islamic Republic of Pakistan
	Regulatory treatment			
4	Transitional Basel III rules	Common Equity Tier 1	Tier 2	Additional Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1	Eligible	Additional Tier 1
6	Eligible at solo/ group/ group&solo	Solo and Group	Solo and Group	Standalone & Group
7	Instrument type	Ordinary shares	Subordinated debt	Subordinated debt
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	17,743,629	1,994,400	6,833,728
9	Par value of instrument	Rs. 10	Rs. 5,000	Rs. 5,000
10	Accounting classification	Share holders' equity	Liability	Liability
11	Original date of issuance	21-Jun-92	Feb 19 & 20, 2013	26-Mar-18
12	Perpetual or dated	Perpetual	Dated	Perpetual
13	Original maturity date	NA	Feb 2021	NA
14	Issuer call subject to prior supervisory approval	NA	No	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	26-Mar-23
16	Subsequent call dates, if applicable	NA	NA	On any date after 60 months from the date of issuance, subject to regulatory approval
	Coupons / dividends			
17	Fixed or floating dividend/ coupon	NA	Floating	Floating
18	Coupon rate and any related index/ benchmark	NA	Floating at 6 Months KIBOR*(Base Rate) plus 125 basis points per annum without any floor or CAP	6-Months KIBOR (ask side) plus 150 bps per annum
19	Existence of a dividend stopper	No	No	Yes
20	Fully discretionary, partially discretionary or mandatory	NA	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	No	No
22	Noncumulative or cumulative	NA	Cumulative	Non-Cumulative
23	Convertible or non-convertible	NA	Convertible	Convertible
24	If convertible, conversion trigger (s)	NA	At the option of supervisor it can be converted into common equity upon occurrence of certain trigger events , called point of non viability(PONV). The PONV is the earlier of; 1. A decision made by SBP that a conversion or temporary/ permanent write off is necessary without which the bank would become non viable. 2. the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non viable, as determined by SBP.	Upon occurrence of the PONV Trigger Event, CET 1 Trigger Event or Lock-in Clause, if directed by the SBP, the TFCs shall be converted into ordinary shares or permanently written off. 1. Point of Non-Viability Trigger Event (PONV Trigger Event) shall be earlier of: a. A decision made by the SBP that a conversion or permanent write-off is necessary without which the Issuer would become nonviable; or b. The decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become nonviable, as determined by SBP The SBP will have full discretion in declaring the PONV Trigger Event. 2. CET 1 Trigger Event: The pre-specified trigger for loss absorption through conversion shall be the Issuer's Shareholders Equity Tier 1 ratio falling to or below 6.625% of Risk Weighted Assets ("CET 1 Trigger Event"). The Issuer shall immediately notify the SBP upon the occurrence of the CET 1 Trigger Event 3. Lock-in Clause: any inability to exercise the lock-in clause or non-cumulative feature will subject these TFCs to mandatory conversion into ordinary shares/write off at the discretion of SBP Based on the above contingent events, SBP may ask the Bank to convert the TFCs into ordinary shares
25	If convertible, fully or partially	NA	May convert fully or partially	May convert fully or partially
26	If convertible, conversion rate	NA	To be determined in the case of trigger event	To be determined in the case of trigger event
27	If convertible, mandatory or optional conversion	NA	Optional	To be determined as per Basel III guidelines
28	If convertible, specify instrument type convertible into	NA	Common Equity Tier 1	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	NA	BAFL	BAFL
30	Write-down feature	No	Yes	Yes
31	If write-down, write-down trigger(s)	NA	At the option of supervisor it can be either written off upon occurrence of a certain trigger event , called point of non viability(PONV). The PONV is the earlier of; 1. A decision made by SBP that a conversion or temporary/ permanent write off is necessary without which the bank would become non viable. 2. the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non viable, as determined by SBP.	The Issuer shall, if directed by the SBP, write-off the Relevant Amount of the TFCs (i) upon the PONV Trigger Event; (ii) upon the CET 1 Trigger Event; (iii) upon the Lock-In Event; or (iv) if it is not possible to convert the TFCs into ordinary shares upon the CET 1 Trigger Event. A write off due to PONV Trigger Event shall occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.
32	If write-down, full or partial	NA	either may be written-down fully or may be written down partially;	Fully and Partially both
33	If write-down, permanent or temporary	NA	Temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA	As may be determined by reversal of trigger event and subject to regulator's approval	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Deposits	Depositors and general creditors
36	Non-compliant transitioned features	NA	No	No
37	If yes, specify non-compliant features	NA	N/A	NA

1.7 Risk Weighted Assets

The capital requirements for the banking group as per the major risk categories should be indicated in the manner given below:-

	Capital Requirements		Risk Weighted Assets	
	2018	2017	2018	2017
Credit Risk				
On-Balance sheet				
(Rupees in '000)				
<u>Portfolios subject to standardized approach (Comprehensive)</u>				
Cash & cash equivalents	-	-	-	-
Sovereign	2,974,365	3,521,120	24,994,661	31,229,449
Public Sector entities	594,175	679,475	4,993,069	6,026,385
Banks	2,312,599	2,347,307	19,433,603	20,818,685
Corporate	31,710,625	25,108,271	266,475,839	222,689,765
Retail	6,652,774	5,838,256	55,905,660	51,780,545
Residential Mortgages	468,621	401,194	3,937,988	3,558,258
Past Due loans	487,635	211,712	4,097,773	1,877,714
Operating Fixed Assets	2,180,843	1,827,770	18,326,411	16,210,821
Other assets	669,613	570,977	5,627,003	5,064,093
	48,051,250	40,506,082	403,792,007	359,255,715
<u>Portfolios subject to Internal Rating Based (IRB) Approach</u>				
e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.	-	-	-	-
Off-Balance sheet				
Non-market related				
Financial guarantees	5,594,342	3,598,542	47,011,279	31,916,112
Acceptances	-	-	-	-
Performance Related Contingencies	1,109,400	1,188,856	9,322,688	10,544,176
Trade Related Contingencies	1,106,005	1,255,893	9,294,157	11,138,740
	7,809,747	6,043,291	65,628,125	53,599,029
Market related				
Foreign Exchange contracts	95,195	70,360	799,960	624,033
Derivatives	6,023	4,980	50,610	44,168
	101,218	75,340	850,570	668,201
Equity Exposure Risk in the Banking Book				
Under simple risk weight method				
Listed Equity Investment	907,782	634,491	7,628,424	5,627,419
Unlisted Equity Investment	1,833,583	1,429,711	15,408,260	12,680,367
	2,741,365	2,064,202	23,036,684	18,307,786
Under Internal models approach				
	58,703,580	48,688,915	493,307,386	431,830,731
Market Risk				
<u>Capital Requirement for portfolios subject to Standardized Approach</u>				
Interest rate risk	185,952	193,327	2,324,400	2,416,588
Equity position risk	27,261	7,878	340,763	98,475
Foreign Exchange risk	9,503	95,048	118,788	1,188,100
	222,716	296,253	2,783,950	3,703,163
<u>Capital Requirement for portfolios subject to Internal Models Approach</u>				
Operational Risk [70% of BIA or ASA whichever is higher is taken as capital charge (2017-70%)]*				
<u>Capital Requirement for operational risks</u>	4,912,264	4,961,613	61,403,300	62,020,163
Total Risk Weighted Exposures	63,838,560	53,946,781	557,494,636	497,554,057

* SBP has accorded approval to the bank vide SBP letter No. BPRD/ BA&CP/ 614/ 17838/2013 dated December 03, 2013 for adoption of ASA based on the following capital floor i.e. operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under Basic Indicator Approach (BIA)

Capital Floor			
(for operational risk capital charge only)			
Year 2013 and 2014	Year 2015	Year 2016, 2017 and 2018	
90%	80%	70%	

Capital Adequacy Ratios	2018		2017	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	10.89%	6.00%	10.90%
Tier-1 capital to total RWA	7.50%	12.11%	7.50%	10.90%
Total capital to total RWA	11.90%	14.85%	11.28%	13.34%

2 Liquidity Coverage Ratio for the year 2018

	TOTAL UNWEIGHTED ^a VALUE (average)	TOTAL WEIGHTED ^b VALUE (average)
High Quality Liquid Assets	(Rupees in '000)	
1 Total high quality liquid assets (HQLA)		252,703,051
Cash Outflows		
2 Retail deposits and deposits from small business customers of which:	441,836,109	42,389,106
2.1 Stable deposit	35,890,092	1,794,505
2.2 Less stable deposit	405,946,018	40,594,602
3 Unsecured wholesale funding of which:	253,385,019	138,176,032
3.1 Operational deposits (all counterparties)	-	-
3.2 Non-operational deposits (all counterparties)	242,326,366	127,117,379
3.3 Unsecured debt	11,058,654	11,058,654
4 Secured wholesale funding	-	5,649,098
5 Additional requirements of which:	24,169,752	4,070,619
5.1 Outflows related to derivative exposures and other collateral requirements	1,837,382	1,837,382
5.2 Outflows related to loss of funding on debt products	-	-
5.3 Credit and Liquidity facilities	22,332,370	2,233,237
6 Other contractual funding obligations	149,490	149,490
7 Other contingent funding obligations	506,890,472	7,447,952
8 TOTAL CASH OUTFLOWS	-	197,882,297
Cash Inflows		
9 Secured lending	25,108,008	-
10 Inflows from fully performing exposures	43,756,512	32,557,147
11 Other Cash inflows	2,961,888	2,961,888
12 TOTAL CASH INFLOWS		35,519,036
	TOTAL ADJUSTED VALUE	
13 Total HQLA		252,703,051
14 Total Net Cash Outflows		162,363,261
15 Liquidity Coverage Ratio		156%

a unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows)

b Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows)

c Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (ie cap on level 2B and level 2 assets for HQLA and cap on inflows)

Liquidity Coverage Ratio for the year 2017

	TOTAL UNWEIGHTED ^a VALUE (average)	TOTAL WEIGHTED ^b VALUE (average)
High Quality Liquid Assets	(Rupees in '000)	
1 Total high quality liquid assets (HQLA)		234,488,065
Cash Outflows		
2 Retail deposits and deposits from small business customers of which:	415,719,968	41,571,997
2.1 Stable deposit	-	-
2.2 Less stable deposit	415,719,968	41,571,997
3 Unsecured wholesale funding of which:	224,761,158	134,978,873
3.1 Operational deposits (all counterparties)	-	-
3.2 Non-operational deposits (all counterparties)	212,614,296	122,832,011
3.3 Unsecured debt	12,146,862	12,146,862
4 Secured wholesale funding		6,754,570
5 Additional requirements of which:	28,305,702	3,023,760
5.1 Outflows related to derivative exposures and other collateral requirements	213,153	213,153
5.2 Outflows related to loss of funding on debt products	-	-
5.3 Credit and Liquidity facilities	28,092,549	2,810,607
6 Other contractual funding obligations	-	-
7 Other contingent funding obligations	455,722,662	6,912,420
8 TOTAL CASH OUTFLOWS		193,241,620
Cash Inflows		
9 Secured lending	9,587,551	-
10 Inflows from fully performing exposures	37,930,718	26,997,552
11 Other Cash inflows	440,821	440,821
12 TOTAL CASH INFLOWS		27,438,373
	TOTAL ADJUSTED VALUE	
13 Total HQLA		234,488,065
14 Total Net Cash Outflows		165,803,247
15 Liquidity Coverage Ratio		141%

a unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows)

b Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows)

c Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (ie cap on level 2B and level 2 assets for HQLA and cap on inflows)

3 Net Stable Funding Ratio for the year 2018

(Rupees. In '000)		unweighted value by residual maturity				weighted value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
ASF Item						
1	Capital:					
2	Regulatory capital	83,457,813	-	-	1,994,400	85,452,213
3	Other capital instruments		1,000	1,000	2,992,600	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	71,951,454	-	-	-	68,353,881
6	Less stable deposits	362,293,360	15,922,012	6,731,847	2,404,725	348,857,221
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	150,163,631	198,246,841	24,258,038	13,844,281	126,894,332
10	Other liabilities:					
11	NSFR derivative liabilities				971,671	-
12	All other liabilities and equity not included in other categories		69,805,615	2,070,702		1,035,351
13	Total ASF					630,592,999
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)					42,304,686
15	Deposits held at other financial institutions for operational purposes	7,306,850				3,653,425
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA		37,214,313			3,721,431
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	48,155,806	887,978	453,333	8,578,383
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	158,899,150	87,732,391	38,211,810	131,875,006	281,914,303
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	18,860,646	5,934,819	3,710,412	44,638,535	30,705,509
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	2,115,911	2,832,929		1,879,495	4,812,559
22	Other assets:					
23	Physical traded commodities, including gold	-				-
24	Assets posted as initial margin for derivative contracts				-	-
25	NSFR derivative assets				4,587,828	3,616,157
26	NSFR derivative liabilities before deduction of variation margin posted				194,334	194,334
27	All other assets not included in the above categories		66,658,799			66,658,799
28	Off-balance sheet items		164,286,600	108,190,891	259,514,365	26,599,593
29	Total RSF					472,759,179
30	Net Stable Funding Ratio (%)					133%

Net Stable Funding Ratio for the year 2017

(Rupees. In '000)		unweighted value by residual maturity				weighted value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
ASF Item						
1	Capital:					
2	Regulatory capital	65,696,345	-	-	2,992,200	68,686,545
3	Other capital instruments		2,000	-	1,996,800	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	401,062,889	12,914,358	6,245,704	2,425,510	380,626,165
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	147,443,582	274,048,950	31,398,362	8,569,633	104,387,656
10	Other liabilities:					
11	NSFR derivative liabilities				-	-
12	All other liabilities and equity not included in other categories		29,053,964	3,159,413		1,579,707
13	Total ASF					555,280,073
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)					59,155,466
15	Deposits held at other financial institutions for operational purposes	10,322,937				5,161,468
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA		11,848,536			1,184,854
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	6,116,797	1,141,414	-	8,536,731
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	122,329,221	84,482,871	41,982,211	103,042,496	224,377,475
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	8,078,351	5,079,067	150,000	29,753,885	24,543,557
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	1,195,060			8,033,759	7,844,496
22	Other assets:					
23	Physical traded commodities, including gold	-				-
24	Assets posted as initial margin for derivative contracts				-	-
25	NSFR derivative assets				-	-
26	NSFR derivative liabilities before deduction of variation margin posted				-	-
27	All other assets not included in the above categories		48,174,048			48,174,048
28	Off-balance sheet items		341,696,628	93,129,348	117,088,428	26,176,167
29	Total RSF					405,154,261
30	Net Stable Funding Ratio (%)					137%