

As mentioned in Note 46.1 of Financial Statements, Full Disclosure 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 bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates) and also on a stand alone basis. While calculating Consolidated Capital Adequacy for the Bank, Subsidiaries are included using full consolidation method whereas associates in which the Bank has significant influence, are included on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risks, whereas, higher of Alternate 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 Bank 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 major 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 PKR. 10 billion. The paid up capital of the Bank for the year ended December 31, 2020 stands at PKR. 17.77 billion and is in compliance with the SBP requirement.

The capital adequacy ratio of the Bank 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 in effect from December 31, 2013 in a phased manner with full implementation 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	2016	2017	2018	2019	2020*
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	0.65%	1.28%	1.90%	2.50%	1.50%
6	Total Capital Plus CCB	10.65%	11.28%	11.90%	12.50%	11.50%

In light of COVID-19 situation the Capital Conversation Buffer (CCB) as prescribed vide BPRD Circular No. 6 of August 15, 2013 has been reduced, for the time being, from its existing level of 2.50% to 1.50%, till further instructions; there by resulting in CAR requirement of 11.50%.

Bank's regulatory capital is analyzed 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.

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

-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, equity investments and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2.

The required capital adequacy ratio was achieved by the Bank through improvement in the capital base, asset quality, 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 Bank. As the Bank 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 Bank to particular operations. The Bank remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the **Bank's** management of capital during the year.

1.2.3 Leverage Ratio

Leverage ratio is defined as ratio of Bank's Eligible Tier 1 Capital to Total Exposure. For BAFL, the ratio as at December 31, 2020 stands 4.44% (2019: 5.83%). The ratio has been computed as prescribed by State Bank of Pakistan through Instructions for Basel-III Implementation in Pakistan.

As on December 31, 2020; Total Tier 1 capital of the Bank amounts to PKR 77.21 billion (2019: PKR 73.65 billion) whereas the total exposure measure amounts to PKR 1,737.69 billion (2019: PKR 1,263.84 billion).

1.2.4 Risk Appetite

In line with the corporate goal, mission and strategy, **bank's** risk exposure is maintained within the risk appetite of the stakeholders as defined by the Board of Directors. Risk Appetite Statement is an expression of the amount of risk that is prepared to achieve its strategic objectives. In effect, it is the maximum threshold beyond which bank does not take any additional risk. The Bank has defined its risk appetite in the form of '**Risk Appetite Statement**' which has duly been approved by the Board & monitored on quarterly basis.

1.2.5 Stress Testing

Stress testing examines the sensitivity of Bank's Capital for Regulatory as well as Economic capital under a number of scenarios and ensures that emerging risks stemming into its portfolio are appropriately accounted. The exercise is submitted to the regulator at regular intervals as per the requirements. The scope of this exercise has been expanded to incorporate internally developed scenarios based on macroeconomic situation & portfolio composition as well.

1.2.6 Capital Adequacy

Bank'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 it is well monitored while undertaking transactions.
- b. Bank has demonstrated the capability to comfortably meet new & enhanced capital adequacy standards, therefore it is now following controlled growth strategy. Gradually the bank is also enriching the Tier 1 capital while ensuring regular dividend to share holders.
- c. 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.
- d. Bank also performs ICAAP exercise on annual basis in order to assess the adequacy of capital internally which yields surplus capital inclusive of stress testing and pillar 2 risks.
- e. The Bank enjoys strong sponsor support from Abu Dhabi Group and IFC, leading to increased investor confidence. Moreover, the Bank has been issuing TFCs successfully on a regular basis, demonstrating Bank's capacity to raise capital when required.

1.3	Capital Adequacy Ratio as at Dec 31, 2020	Note	2020 ----(Rupees in '000)----	2019
	Common Equity Tier 1 capital (CET1): Instruments and reserves			
1	Fully Paid-up Capital/ Capital deposited with SBP		17,771,651	17,771,651
2	Balance in Share Premium Account		4,731,050	4,731,050
3	Reserve for issue of Bonus Shares		-	-
4	Discount on Issue of shares		-	-
5	General/ Statutory Reserves		15,590,158	14,542,667
6	Gain/(Losses) on derivatives held as Cash Flow Hedge		-	-
7	Unappropriated/unremitted profits/ (losses)		35,056,803	32,842,897
8	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		-	-
9	CET 1 before Regulatory Adjustments		73,149,662	69,888,265
10	Total regulatory adjustments applied to CET1 (Note 46.4.1)		2,939,108	3,238,368
11	Common Equity Tier 1		70,210,555	66,649,897
	Additional Tier 1 (AT 1) Capital			
12	Qualifying Additional Tier-1 capital instruments plus any related share premium		7,000,000	7,000,000
13	of which: Classified as equity		-	-
14	of which: Classified as liabilities		7,000,000	7,000,000
15	Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		-	-
16	of which: instrument issued by subsidiaries subject to phase out		-	-
17	AT1 before regulatory adjustments		7,000,000	7,000,000
18	Total regulatory adjustment applied to AT1 capital (Note 46.4.2)		-	-
19	Additional Tier 1 capital after regulatory adjustments		7,000,000	7,000,000
20	Additional Tier 1 capital recognized for capital adequacy		7,000,000	7,000,000
21	Tier 1 Capital (CET1 + admissible AT1) (11+20)		77,210,555	73,649,897
	Tier 2 Capital			
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-	997,000
23	Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules		-	-
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)		-	-
25	of which: instruments issued by subsidiaries subject to phase out		-	-
26	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets		5,412,207	1,103,370
27	Revaluation Reserves (net of taxes)	c=a+b	10,440,763	11,154,103
28	of which: Revaluation reserves on fixed assets	a	7,177,772	7,109,145
29	of which: Unrealized gains/losses on AFS	b	3,262,991	4,044,958
30	Foreign Exchange Translation Reserves		7,358,823	6,772,311
31	Undisclosed/Other Reserves (if any)		-	-
32	T2 before regulatory adjustments		23,211,792	20,026,784
33	Total regulatory adjustment applied to T2 capital (Note 46.4.3)		-	-
34	Tier 2 capital (T2) after regulatory adjustments		23,211,792	20,026,784
35	Tier 2 capital recognized for capital adequacy		23,211,792	20,026,784
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital		-	-
37	Total Tier 2 capital admissible for capital adequacy		23,211,792	20,026,784
38	TOTAL CAPITAL (T1 + admissible T2) (21+37)		100,422,347	93,676,681
39	Total Risk Weighted Assets (RWA) {for details refer Note 46.7}		607,662,637	554,835,945
	Capital Ratios and buffers (in percentage of risk weighted assets)			
40	CET1 to total RWA		11.55%	12.01%
41	Tier-1 capital to total RWA		12.71%	13.27%
42	Total capital to total RWA		16.53%	16.88%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		7.50%	8.50%
44	of which: capital conservation buffer requirement		1.50%	2.50%
45	of which: countercyclical buffer requirement		-	-
46	of which: D-SIB or G-SIB buffer requirement		-	-
47	CET1 available to meet buffers (as a percentage of risk weighted assets)		5.55%	6.01%
	National minimum capital requirements prescribed by SBP			
48	CET1 minimum ratio		6.00%	6.00%
49	Tier 1 minimum ratio		7.50%	7.50%
50	Total capital minimum ratio		11.50%	12.50%

Regulatory Adjustments and Additional Information	2020	2019
	Amount	Amount
	Amounts subject to Pre- Basel III treatment*	Amounts subject to Pre- Basel III treatment*
	------(Rupees in '000)-----	
1.3.1 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)	1,284,538	1,257,360
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	692,399	1,019,177
6 Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	896,402	896,038
7 Cash flow hedge reserve	-	-
8 Investment in own shares/ CET1 instruments	65,769	65,792
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	-	-
22 Total regulatory adjustments applied to CET1 (sum of 1 to 21)	2,939,108	3,238,368
1.3.2 Additional Tier-1 & Tier-1 Capital: regulatory adjustments		
23 Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-
24 Investment in own AT1 capital instruments	-	-
25 Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance	-	-
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	-	-
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)	-	-
1.3.3 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 Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-
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)	-	-

1.3.4 Additional Information		2020	2019
		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)	521,472,343	482,622,336
(i)	of which: deferred tax assets	-	-
(ii)	of which: Defined-benefit pension fund net assets	-	-
(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	896,207	949,334
(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	-	-
Amounts below the thresholds for deduction (before risk weighting)			
38	Non-significant investments in the capital of other financial entities	896,207	949,334
39	Significant investments in the common stock of financial entities	456,502	456,502
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)	5,412,207	1,103,370
42	Cap on inclusion of provisions in Tier 2 under standardized approach	6,529,607	6,044,646
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	-	-

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

1.4 Capital Structure Reconciliation

Table: 1.4.1

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	2020	
	------(Rupees in '000)-----	
Assets		
Cash and balances with treasury banks	99,348,197	99,348,197
Balanced with other banks	6,234,299	6,234,299
Lending to financial institutions	77,305,535	77,305,535
Investments	547,089,932	547,089,932
Advances	577,315,947	577,315,947
Operating fixed assets	30,976,236	30,976,236
Intangible assets	1,284,539	1,284,539
Deferred tax assets	-	-
Assets held for sale	-	-
Other assets	45,318,864	45,318,864
Total assets	1,384,873,549	1,384,873,549
Liabilities & Equity		
Bills payable	22,571,122	22,571,122
Borrowings	314,960,186	314,960,186
Deposits and other accounts	881,767,082	881,767,082
Sub-ordinated loans	7,000,000	7,000,000
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	1,361,152	1,361,152
Liabilities directly associated with the assets held for sale	-	-
Other liabilities	66,196,688	66,196,688
Total liabilities	1,293,856,230	1,293,856,230
Share capital/ Head office capital account	17,771,651	17,771,651
Reserves	27,680,022	27,680,022
Unappropriated/ Unremitted profit/ (losses)	35,056,809	35,056,809
Minority Interest	-	-
Surplus on revaluation of assets	10,508,837	10,508,837
Total equity	91,017,319	91,017,319
Total liabilities & equity	1,384,873,549	1,384,873,549

Table: 1.4.2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	2020		
	------(Rupees in '000)-----		
Assets			
Cash and balances with treasury banks	99,348,197	99,348,197	
Balance with other banks	6,234,299	6,234,299	
Lending to financial institutions	77,305,535	77,305,535	
Investments	547,089,932	547,089,932	
<i>of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold</i>	984,938	984,938	a
<i>of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold</i>	456,502	456,502	b
<i>of which: Mutual Funds exceeding regulatory threshold</i>	-	-	c
<i>of which: reciprocal crossholding of capital instrument</i>			
CET1	896,402	896,402	d
AT1	-	-	
T2	-	-	
<i>of which: others (mention details)</i>	-	-	e
Advances	577,315,947	577,315,947	
<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>	5,266,170	5,266,170	g
Fixed Assets	30,976,236	30,976,236	
<i>of which: Intangibles</i>	1,284,539	1,284,539	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	-	-	
Other assets	45,318,864	45,318,864	
<i>of which: Goodwill</i>	-	-	j
<i>of which: Defined-benefit pension fund net assets</i>	692,399	692,399	l
Total assets	1,384,873,549	1,384,873,549	

Liabilities & Equity			
Bills payable	22,571,122	22,571,122	
Borrowings	314,960,186	314,960,186	
Deposits and other accounts	881,767,082	881,767,082	
Sub-ordinated loans	7,000,000	7,000,000	
<i>of which: eligible for inclusion in AT1</i>	7,000,000	7,000,000	m
<i>of which: eligible for inclusion in Tier 2</i>	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	1,361,152	1,361,152	
<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	-	-	
Other liabilities	66,196,688	66,196,688	
Total liabilities	1,293,856,230	1,293,856,230	
Share capital	17,771,651	17,771,651	
<i>of which: amount eligible for CET1</i>	17,771,651	17,771,651	s
<i>of which: amount eligible for AT1</i>	-	-	t
Reserves	27,680,022	27,680,022	
<i>of which: portion eligible for inclusion in CET1</i>	20,321,208	20,321,208	
General Reserve	15,590,158	15,590,158	u
Reserve For Employee Stock Option Scheme	0	0	
Share Premium	4,731,050	4,731,050	
<i>of which: portion eligible for inclusion in Tier 2</i>	7,358,823	7,358,823	v
Unappropriated profit/ (losses)	35,056,809	35,056,809	w
Minority Interest	-	-	
<i>of which: portion eligible for inclusion in CET1</i>	-	-	x
<i>of which: portion eligible for inclusion in AT1</i>	-	-	y
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	z
Surplus on revaluation of assets	10,508,837	10,508,837	
<i>of which: Revaluation reserves on Fixed Assets</i>	7,177,772	7,177,772	
<i>of which: Non-banking assets acquired in satisfaction of claims</i>	68,077	68,077	aa
<i>of which: Unrealized Gains/Losses on AFS</i>	3,262,991	3,262,991	
<i>In case of Deficit on revaluation (deduction from CET1)</i>	-	-	ab
Total equity	91,017,319	91,017,319	
Total liabilities & Equity	<u>1,384,873,549</u>	<u>1,384,873,549</u>	

Table: 1.4.3

	Component of regulatory capital reported by bank 2020 Rupess in '000	Source based on reference number from step 2
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital/ Capital deposited with SBP	17,771,651	
2 Balance in Share Premium Account	4,731,050	(s)
3 Reserve For Employee Stock Option Scheme	0	
4 General/ Statutory Reserves	15,590,158	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/ (losses)	35,056,803	(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)	-	(x)
8 CET 1 before Regulatory Adjustments	73,149,662	
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)	1,284,538	(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	692,399	{{(l) - (q)} * 100%
14 Reciprocal cross holdings in CET1 capital instruments	896,402	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	65,769	
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	-	
30 Total regulatory adjustments applied to CET1 (sum of 9 to 29)	2,939,108	
31 Common Equity Tier 1	70,210,555	

Additional Tier 1 (AT 1) Capital		
32	Qualifying Additional Tier-1 instruments plus any related share premium	
33	of which: Classified as equity	(t)
34	of which: Classified as liabilities	(m)
35	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	(y)
36	of which: instrument issued by subsidiaries subject to phase out	
37	AT1 before regulatory adjustments	
Additional Tier 1 Capital: regulatory adjustments		
38	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	
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)	
46	Additional Tier 1 capital	
47	Additional Tier 1 capital recognized for capital adequacy	
48	Tier 1 Capital (CET1 + admissible AT1) (31+47)	
Tier 2 Capital		
49	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	
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)	(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	(g)
54	Revaluation Reserves	
55	of which: Revaluation reserves on fixed assets	portion of (aa)
56	of which: Unrealized Gains/Losses on AFS	
57	Foreign Exchange Translation Reserves	(v)
58	Undisclosed/Other Reserves (if any)	
59	T2 before regulatory adjustments	

	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)	23,211,792	
67	Tier 2 capital recognized for capital adequacy	23,211,792	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	Total Tier 2 capital admissible for capital adequacy	<u>23,211,792</u>	
70	TOTAL CAPITAL (T1 + admissible T2) (48+69)	<u>100,422,347</u>	

1.5 Main Features Template of Regulatory Capital Instruments

Disclosure template for main features of regulatory capital instruments

S. No.	Main Features	Common Shares	ADT 1
1	Issuer	Bank Alfalah Limited	Bank Alfalah Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	BAFL	BAFL TFC 6
3	Governing law(s) of the instrument	Laws of Islamic Republic of Pakistan	Laws of Islamic Republic of Pakistan
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1	Additional Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo/ group/ group&solo	Standalone & Group	Standalone & Group
7	Instrument type	Ordinary shares	Subordinated debt
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	17,771,651	7,000,000
9	Par value of instrument	Rs. 10	Rs. 5,000
10	Accounting classification	Share holders' equity	Liability
11	Original date of issuance	Jun-92	Mar-18
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	Not applicable	Not applicable
14	Issuer call subject to prior supervisory approval	Not applicable	Yes
15	Optional call date, contingent call dates and redemption amount	Not applicable	26-Mar-23
16	Subsequent call dates, if applicable	Not applicable	On any date after 60 months from the date of issuance, subject to regulatory approval
	Coupons / dividends		
17	Fixed or floating dividend/ coupon	Not applicable	Floating
18	Coupon rate and any related index/ benchmark	Not applicable	6-Months KIBOR (ask side) plus 150 bps per annum
19	Existence of a dividend stopper	No	Yes
20	Fully discretionary, partially discretionary or mandatory	not applicable	Fully discretionary
21	Existence of step up or other incentive to redeem	Not applicable	No
22	Noncumulative or cumulative	Not applicable	Non-Cumulative
23	Convertible or non-convertible	Not applicable	Convertible
24	If convertible, conversion trigger (s)	Not applicable	<p>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.</p> <p>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.</p> <p>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</p> <p>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</p> <p>Based on the above contingent events, SBP may ask the Bank to convert the TFCs into ordinary shares</p>
25	If convertible, fully or partially	Not applicable	May convert fully or partially
26	If convertible, conversion rate	Not applicable	To be determined in the case of trigger event
27	If convertible, mandatory or optional conversion	Not applicable	To be determined as per Basel III guidelines
28	If convertible, specify instrument type convertible into	Not applicable	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	Not applicable	BAFL
30	Write-down feature	Not applicable	Yes
31	If write-down, write-down trigger(s)	Not applicable	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	Not applicable	Fully and Partially both
33	If write-down, permanent or temporary	Not applicable	Permanent
34	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable	Depositors and general creditors
36	Non-compliant transitioned features	Not applicable	No
37	If yes, specify non-compliant features	Not applicable	Not applicable

1.6 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	
	2020	2019	2020	2019
------(Rupees in '000)-----				
Credit Risk				
On-Balance sheet				
<u>Portfolios subject to standardized approach (Simple or Comprehensive)</u>				
Cash & cash equivalents	-	-	-	-
Sovereign	4,867,271	3,721,777	42,324,103	29,774,222
Public Sector entities	590,664	737,785	5,136,214	5,902,286
Banks	2,136,792	2,805,838	18,580,803	22,446,711
Corporate	29,982,148	32,512,550	260,714,337	260,100,405
Retail	8,240,050	6,990,026	71,652,612	55,920,213
Residential Mortgages	651,703	574,270	5,666,989	4,594,166
Past Due loans	734,555	668,515	6,387,438	5,348,126
Operating Fixed Assets	3,593,113	3,667,563	31,244,462	29,340,511
Other assets	1,265,668	715,211	11,005,811	5,721,693
	52,061,964	52,393,535	452,712,769	419,148,333
<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	3,449,399	3,487,547	29,994,774	27,900,384
Acceptances	-	-	-	-
Performance Related Contingencies	1,081,559	1,168,968	9,404,862	9,351,749
Trade Related Contingencies	1,711,933	1,157,336	14,886,379	9,258,691
	6,242,891	5,813,851	54,286,014	46,510,824
Market related				
Foreign Exchange contracts	111,447	210,751	969,106	1,686,014
Derivatives	8,092	14,604	70,367	116,838
	119,539	225,355	1,039,473	1,802,852
Equity Exposure Risk in the Banking Book				
<u>Under simple risk weight method</u>				
Listed Equity Investment	629,893	897,456	5,477,332	7,179,653
Unlisted Equity Investment	1,018,090	1,116,251	8,852,961	8,930,009
	1,647,983	2,013,707	14,330,293	16,109,662
<u>Under Internal models approach</u>				
	60,072,377	60,446,448	522,368,550	483,571,670
Market Risk				
<u>Capital Requirement for portfolios subject to Standardized Approach</u>				
Interest rate risk	789,612	435,509	9,870,150	5,443,863
Equity position risk	78,604	72,742	982,550	909,275
Foreign Exchange risk	76,778	81,978	959,725	1,024,725
	944,994	590,229	11,812,425	7,377,863
<u>Capital Requirement for portfolios subject to Internal Models Approach</u>				
<i>Operational Risk [70% of BIA or ASA whichever is higher is taken as capital charge]*</i>				
Capital Requirement for operational risks	5,878,533	5,110,913	73,481,663	63,886,413
Total Risk Weighted Exposures	66,895,904	66,147,590	607,662,637	554,835,945

* 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 & 2014	Year 2015	From Year 2016 onwards
90%	80%	70%

Capital Adequacy Ratios	2020		2019	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	11.55%	6.00%	12.01%
Tier-1 capital to total RWA	7.50%	12.71%	7.50%	13.27%
Total capital to total RWA	11.50%	16.53%	12.50%	16.88%

2 Liquidity Coverage Ratio for the year 2020

	TOTAL UNWEIGHTED ^a VALUE (average)	TOTAL WEIGHTED ^b VALUE (average)
High Quality Liquid Assets	------(Rupees in '000)-----	
1 Total high quality liquid assets (HQLA)		285,456,439
Cash Outflows		
2 Retail deposits and deposits from small business customers of which:	514,690,497	47,771,474
2.1 Stable deposit	73,951,518	3,697,576
2.2 Less stable deposit	440,738,979	44,073,898
3 Unsecured wholesale funding of which:	321,836,816	169,598,023
3.1 Operational deposits (all counterparties)	-	-
3.2 Non-operational deposits (all counterparties)	312,976,186	160,737,393
3.3 Unsecured debt	8,860,630	8,860,630
4 Secured wholesale funding		6,436,467
5 Additional requirements of which:	34,256,700	6,667,600
5.1 Outflows related to derivative exposures and other collateral requirements	3,602,144	3,602,144
5.2 Outflows related to loss of funding on debt products	-	-
5.3 Credit and Liquidity facilities	30,654,556	3,065,456
6 Other contractual funding obligations	703,226	703,226
7 Other contingent funding obligations	797,387,417	8,415,269
8 TOTAL CASH OUTFLOWS		239,592,058
Cash Inflows		
9 Secured lending	21,173,858	-
10 Inflows from fully performing exposures	52,765,780	37,814,737
11 Other Cash inflows	8,825,698	2,461,035
12 TOTAL CASH INFLOWS		40,275,772
	TOTAL ADJUSTED VALUE	
13 Total HQLA		372,270,246
14 Total Net Cash Outflows		199,316,286
15 Liquidity Coverage Ratio		187%

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 (i.e. cap on level 2A and level 2B assets for HQLA and cap on inflows).

Liquidity Coverage Ratio for the year 2019

	TOTAL UNWEIGHTED ^a VALUE (average)	TOTAL WEIGHTED ^b VALUE (average)
High Quality Liquid Assets	----- (Rupees in '000) -----	
1 Total high quality liquid assets (HOLA)		285,456,439
Cash Outflows		
2 Retail deposits and deposits from small business customers of which:	471,254,204	43,559,624
2.1 Stable deposit	71,315,921	3,565,796
2.2 Less stable deposit	399,938,283	39,993,828
3 Unsecured wholesale funding of which:	284,880,928	155,742,902
3.1 Operational deposits (all counterparties)	-	-
3.2 Non-operational deposits (all counterparties)	273,231,663	144,093,637
3.3 Unsecured debt	11,649,265	11,649,265
4 Secured wholesale funding		6,114,158
5 Additional requirements of which:	35,595,563	6,120,542
5.1 Outflows related to derivative exposures and other collateral requirements	2,845,539	2,845,539
5.2 Outflows related to loss of funding on debt products	-	-
5.3 Credit and Liquidity facilities	32,750,024	3,275,002
6 Other contractual funding obligations	331,765	331,765
7 Other contingent funding obligations	512,542,005	7,270,054
8 TOTAL CASH OUTFLOWS		219,139,046
Cash Inflows		
9 Secured lending	68,701,293	-
10 Inflows from fully performing exposures	54,060,146	40,533,659
11 Other Cash inflows	11,027,793	3,990,458
12 TOTAL CASH INFLOWS		44,524,117
	TOTAL ADJUSTED VALUE	
13 Total HOLA		285,456,439
14 Total Net Cash Outflows		174,614,928
15 Liquidity Coverage Ratio		163%

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 HOLA) 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 (i.e. cap on level 2A and level 2B assets for HOLA and cap on inflows).

3 Net Stable Funding Ratio for the year 2020

(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	103,507,491				103,507,491
3	Other capital instruments					
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	75,429,621	-	-	-	71,658,140
6	Less stable deposits	423,470,062	41,606,278	9,018,538	2,162,478	428,847,868
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	146,836,952	78,607,161	47,736,284	900,745	137,490,944
10	Other liabilities:					
11	NSFR derivative liabilities				3,068,199	-
12	All other liabilities and equity not included in other categories	127,731,591	219,307,771	4,061,145	106,841,443	108,872,016
13	Total ASF					850,376,458
RSF item						
14	Total NSFR high-quality liquid assets (HOLA)					60,332,271
15	Deposits held at other financial institutions for operational purposes	5,667,840				2,833,920
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HOLA		51,833,504			5,183,350
18	Performing loans to financial institutions secured by non-Level 1 HOLA and unsecured performing loans to financial institutions		5,224,262	473,858	-	1,020,568
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:		239,671,726	91,980,830	175,790,438	315,248,150
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	61,898,796	40,234,217
21	Securities that are not in default and do not qualify as HOLA including exchange-traded equities.		-	2,100,546	27,996,113	24,846,969
22	Other assets:					
23	Physical traded commodities, including gold					-
24	Assets posted as initial margin for derivative contracts				-	-
25	NSFR derivative assets				1,319,187	-
26	NSFR derivative liabilities before deduction of variation margin posted				3,068,199	613,640
27	All other assets not included in the above categories	89,214,293	167,742,265	8,920,958	18,101,933	124,957,489
28	Off-balance sheet items		73,700,610	83,664,121	862,622,214	50,999,347
29	Total RSF					626,269,922
30	Net Stable Funding Ratio (%)					136%

Net Stable Funding Ratio for the year 2019

(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	95,918,049			997,000	96,915,049
3	Other capital instruments		1,000	1,000	3,988,000	3,988,000
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	68,950,614	-	-	-	65,503,083
6	Less stable deposits	393,639,582	15,569,392	8,690,941	1,654,033	377,763,956
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	118,368,787	89,864,041	20,876,157	2,242,300	116,796,793
10	Other liabilities:					
11	NSFR derivative liabilities				3,693,707	-
12	All other liabilities and equity not included in other categories	117,257,767	89,167,712	15,581,575	19,205,016	26,995,804
13	Total ASF					687,962,685
RSF item						
14	Total NSFR high-quality liquid assets (HOLA)					13,570,569
15	Deposits held at other financial institutions for operational purposes	4,709,968				2,354,984
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HOLA		24,931,724			2,493,172
18	Performing loans to financial institutions secured by non-Level 1 HOLA and unsecured performing loans to financial institutions		9,313,005	854,273	-	1,824,087
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:		281,541,506	24,944,172	143,939,831	280,197,749
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	46,960,933	30,524,606
21	Securities that are not in default and do not qualify as HOLA including exchange-traded equities.		-	4,061,090	13,052,185	13,124,902
22	Other assets:					
23	Physical traded commodities, including gold					-
24	Assets posted as initial margin for derivative contracts				-	-
25	NSFR derivative assets				2,457,277	-
26	NSFR derivative liabilities before deduction of variation margin posted				3,693,707	738,741
27	All other assets not included in the above categories	75,692,591	75,016,723	6,394,331	39,031,092	124,969,215
28	Off-balance sheet items		109,224,036	14,540,103	460,392,615	29,207,838
29	Total RSF					499,005,864
30	Net Stable Funding Ratio (%)					138%