

As mentioned in Note 44.1 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, 2022** stands at **PKR. 15.771 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:

Existing Minimum Capital Requirements:

Sr. No	Ratio	2022
1	CET 1	6.0%
2	ADT 1	1.5%
3	Tier 1	7.5%
4	Total Capital	10.0%
5	*CCB	1.50%
6	Total Capital Plus CCB	11.50%

**Starting March 2020, Capital Conversation Buffer (CCB) as prescribed vide BPRD Circular No. 6 of August 15, 2013 has been reduced from its existing level of 2.50% to 1.50%, till further instructions; thereby resulting in CAR requirement of 11.50%. The relaxation was provided on account of COVID-19 situation in the country*

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, 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 & AFS portfolio 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, adequate risk profile of asset mix, ensuring better recovery management and maintaining acceptance profit margins. 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 in multiple jurisdiction and segments, 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, 2022 stands 3.54% (2021: 3.85%) , calculated on three months average. The ratio has been computed as prescribed by State Bank of Pakistan through Instructions for Basel-III Implementation in Pakistan.

As on December 31, 2022; Total Tier 1 capital of the Bank amounts to PKR 95.911 billion (2021: PKR 83.25 billion) whereas the total exposure measure amounts to PKR 2,706.795 billion (2021: PKR 2,161.91 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. 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 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 is 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. The bank continues to remain sufficiently capitalized institution with the capital base above regulatory limits. Bank's total Capital Adequacy Ratio stands at **13.83%** against the requirement of 11.50% (including CCB of 1.50%); while supporting credit growth and steady dividend payout stream.
- c. The capital base forms the fundamental constituent-of Bank's business plans; which is at sufficient level to support the envisaged business growth and this would be monitored regularly.
- d. In line with enhanced Supervisory requirements under Domestic Systematically Important Bank framework by State Bank of Pakistan, Bank also performs ICAAP exercise on annual basis in order to assess the adequacy of capital internally which yields surplus capital (If any) inclusive of stress testing and pillar 2 risks.
- e. The Bank enjoys strong sponsor support from Abu Dhabi Group; leading to increased investor confidence

1.3 Capital Adequacy Ratio as at Dec 31, 2022

	Note	2022 (Rupees in '000)	2021
Common Equity Tier 1 capital (CET1): Instruments and reserves			
1 Fully Paid-up Capital/ Capital deposited with SBP		15,771,651	17,771,651
2 Balance in Share Premium Account		4,731,050	4,731,049
3 Reserve for issue of Bonus Shares		-	-
4 Discount on Issue of shares		-	-
5 General/ Statutory Reserves		18,832,465	17,011,825
6 Gain/(Losses) on derivatives held as Cash Flow Hedge		-	-
7 Unappropriated/unremitted profits/ (losses)		45,101,048	40,836,487
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		84,436,213	80,351,012
10 Total regulatory adjustments applied to CET1 (Note 46.4.1)		3,016,965	4,239,586
11 Common Equity Tier 1		81,419,248	76,111,426
Additional Tier 1 (AT 1) Capital			
12 Qualifying Additional Tier-1 capital instruments plus any related share premium		14,000,000	7,000,000
13 of which: Classified as equity		-	-
14 of which: Classified as liabilities		14,000,000	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		14,000,000	7,000,000
18 Total regulatory adjustment applied to AT1 capital (Note 46.4.2)		450,000	-
19 Additional Tier 1 capital after regulatory adjustments		13,550,000	7,000,000
20 Additional Tier 1 capital recognized for capital adequacy		13,550,000	7,000,000
21 Tier 1 Capital (CET1 + admissible AT1) (11+20)		94,969,248	83,111,426
Tier 2 Capital			
22 Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-	-
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		7,951,404	4,171,925
27 Revaluation Reserves (net of taxes)	c=a+b	4,776,218	12,580,193
28 of which: Revaluation reserves on fixed assets	a	12,321,092	12,580,193
29 of which: Unrealized gains/losses on AFS	b	(7,544,874)	-
30 Foreign Exchange Translation Reserves		10,719,687	8,211,089
31 Undisclosed/Other Reserves (if any)		-	-
32 T2 before regulatory adjustments		23,447,310	24,963,207
33 Total regulatory adjustment applied to T2 capital (Note 46.4.3)		-	-
34 Tier 2 capital (T2) after regulatory adjustments		23,447,310	24,963,207
35 Tier 2 capital recognized for capital adequacy		23,447,310	24,963,207
36 Portion of Additional Tier 1 capital recognized in Tier 2 capital		-	-
37 Total Tier 2 capital admissible for capital adequacy		23,447,310	24,963,207
38 TOTAL CAPITAL (T1 + admissible T2) (21+37)		118,416,558	108,074,633
39 Total Risk Weighted Assets (RWA) {for details refer Note 46.7}		856,023,788	749,049,736
Capital Ratios and buffers (in percentage of risk weighted assets)			
40 CET1 to total RWA		9.51%	10.16%
41 Tier-1 capital to total RWA		11.09%	11.10%
42 Total capital to total RWA		13.83%	14.43%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		7.50%	7.50%
44 of which: capital conservation buffer requirement		1.50%	1.50%
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)		3.51%	4.16%
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 [Inclusive of 1.5% CCB for 2022 (2021:1.50%)]		11.50%	11.50%

Regulatory Adjustments and Additional Information		Note	2022	2021
			Amounts subject to Pre-Basel III treatment* (Rupees in '000)	Amounts subject to Pre-Basel III treatment*
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)		1,296,297	1,116,442
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		153,707	744,324
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities		620,534	994,037
7	Cash flow hedge reserve		-	-
8	Investment in own shares/ CET1 instruments		154,860	157,481
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		-	1,227,301
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)		791,567	-
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)		3,016,965	4,239,586
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 entities		450,000	-
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)		450,000	-
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)		-	-
			2022	2021
1.3.4 Additional Information		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)		-	-
(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		-	-
(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		2,258,328	546,990
39	Significant investments in the common stock of financial entities		461,720	456,502
40	Deferred tax assets arising from temporary differences (net of related tax liability)		9,012,648	2,304,270
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)		7,951,404	4,171,925
42	Cap on inclusion of provisions in Tier 2 under standardized approach		9,089,960	8,040,651
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
	2022 (Rupees in '000)	
Assets		
Cash and balances with treasury banks	140,613,348	140,613,348
Balances with other banks	9,485,380	9,485,380
Lending to financial institutions	115,353,599	115,353,599
Investments	1,114,406,758	1,114,406,758
Advances	732,374,851	732,374,851
Operating fixed assets	48,424,722	48,424,722
Intangible assets	1,296,297	1,296,297
Deferred tax assets	9,012,648	9,012,648
Assets held for sale	-	-
Other assets	82,229,125	82,229,125
Total assets	2,253,196,728	2,253,196,728
Liabilities & Equity		
Bills payable	40,033,806	40,033,806
Borrowings	491,179,531	491,179,531
Deposits and other accounts	1,486,845,346	1,486,845,346
Sub-ordinated loans	14,000,000	14,000,000
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Liabilities directly associated with the assets held for sale	-	-
Other liabilities	121,123,422	121,123,422
Total liabilities	2,153,182,105	2,153,182,105
Share capital/ Head office capital account	15,771,651	15,771,651
Reserves	34,283,201	34,283,201
Unappropriated/ Unremitted profit/ (losses)	45,101,048	45,101,048
Minority Interest	-	-
Surplus on revaluation of assets	4,858,723	4,858,723
Total equity	100,014,623	100,014,623
Total liabilities & equity	2,253,196,728	2,253,196,728

Table: 1.4.2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	2022 (Rupees in '000)		
Assets			
Cash and balances with treasury banks	140,613,348	140,613,348	
Balances with other banks	9,485,380	9,485,380	
Lending to financial institutions	115,353,599	115,353,599	
Investments	1,114,406,758	1,114,406,758	
<i>of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold</i>	2,258,328	2,258,328	a
<i>of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold</i>	461,720	461,720	b
<i>of which: Mutual Funds exceeding regulatory threshold</i>	-	-	c
<i>of which: reciprocal crossholding of capital instrument</i>			
CET1	620,534	620,534	d
AT1	450,000	450,000	
T2	-	-	
<i>of which: others (mention details)</i>	-	-	e
Advances	732,374,851	732,374,851	
<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>	7,951,404	7,951,404	g
Fixed Assets	49,721,019	48,424,722	
<i>of which: Intangibles</i>	1,296,297	1,296,297	k
Deferred Tax Assets	9,012,648	9,012,648	
<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>	9,012,648	9,012,648	i
Assets held for sale	-	-	
Other assets	82,229,125	82,229,125	
<i>of which: Goodwill</i>	-	-	j
<i>of which: Defined-benefit pension fund net assets</i>	153,707	153,707	l
Total assets	2,254,493,025	2,253,196,728	
Liabilities & Equity			
Bills payable	40,033,806	40,033,806	
Borrowings	491,179,531	491,179,531	
Deposits and other accounts	1,486,845,346	1,486,845,346	
Sub-ordinated loans	14,000,000	14,000,000	
<i>of which: eligible for inclusion in AT1</i>	13,550,000	13,550,000	m
<i>of which: eligible for inclusion in Tier 2</i>	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	
<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	121,123,422	121,123,422	
Total liabilities	2,153,182,105	2,153,182,105	
Share capital	15,771,651	15,771,651	
<i>of which: amount eligible for CET1</i>	15,771,651	15,771,651	s
<i>of which: amount eligible for AT1</i>	-	-	t
Reserves	34,283,201	34,283,201	
<i>of which: portion eligible for inclusion in CET1</i>	23,563,514	23,563,514	
General Reserve	18,832,465	18,832,465	
Reserve For Employee Stock Option Scheme	-	-	u
Share Premium	4,731,050	4,731,050	
<i>of which: portion eligible for inclusion in Tier 2</i>	10,719,687	10,719,687	v
Unappropriated profit/ (losses)	45,101,048	45,101,048	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	4,858,724	4,858,724	
<i>of which: Revaluation reserves on Fixed Assets</i>	12,321,092	12,321,092	
<i>of which: Non-banking assets acquired in satisfaction of claims</i>	82,505	82,505	aa
<i>of which: Unrealized Gains/Losses on AFS</i>	(7,544,874)	(7,544,874)	
<i>In case of Deficit on revaluation (deduction from CET1)</i>	-	-	ab
Total equity	100,014,624	100,014,624	
Total liabilities & Equity	2,253,196,729	2,253,196,729	

Table: 1.4.3

	Component of regulatory capital reported by bank 2022 Rupees 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	15,771,651	
2 Balance in Share Premium Account	4,731,050	(s)
3 Reserve For Employee Stock Option Scheme	-	
4 General/ Statutory Reserves	18,832,465	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/ (losses)	45,101,048	(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	84,436,213	
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)	1,296,297	(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	153,707	{(l) - (q)} * 100%
14 Reciprocal cross holdings in CET1 capital instruments	620,534	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	154,860	
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)	791,567	(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)	3,016,965	
31 Common Equity Tier 1	81,419,248	
Additional Tier 1 (AT 1) Capital		
32 Qualifying Additional Tier-1 instruments plus any related share premium	-	(t)
33 of which: Classified as equity	14,000,000	(m)
34 of which: Classified as liabilities	-	(y)
35 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	
36 of which: instrument issued by subsidiaries subject to phase out	-	
37 AT1 before regulatory adjustments	14,000,000	
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	450,000	
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)	450,000	
46 Additional Tier 1 capital	13,550,000	
47 Additional Tier 1 capital recognized for capital adequacy	13,550,000	
48 Tier 1 Capital (CET1 + admissible AT1) (31+47)	94,969,248	

Tier 2 Capital

49	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	(n)
50	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	
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	7,951,404	(g)
54	Revaluation Reserves	4,776,218	
55	of which: Revaluation reserves on fixed assets	12,321,092	portion of (aa)
56	of which: Unrealized Gains/Losses on AFS	(7,544,874)	
57	Foreign Exchange Translation Reserves	10,719,687	(v)
58	Undisclosed/Other Reserves (if any)	-	
59	T2 before regulatory adjustments	23,447,310	
	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)	23,447,310	
67	Tier 2 capital recognized for capital adequacy	23,447,310	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	Total Tier 2 capital admissible for capital adequacy	23,447,310	
70	TOTAL CAPITAL (T1 + admissible T2) (48+69)	118,416,558	

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 (TFC 6)	ADT 1 (TFC 8)
1	Issuer	Bank Alfalah Limited	Bank Alfalah Limited	Bank Alfalah Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	BAFL	BAFL TFC 6	BAFL TFC 8
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	Additional Tier 1	Additional Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/ group/ group/solo	Standalone & Group	Standalone & 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)	15,771,651	7,000,000.00	6,550,000.00
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	Jun-92	Mar-18	Dec -22
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	not applicable	not applicable	not applicable
14	Issuer call subject to prior supervisory approval	not applicable	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	not applicable	Mar - 23	Dec - 27
16	Subsequent call dates, if applicable	not applicable	On any date after 60 months from the date of issuance, subject to regulatory approval	On any date after 60 months from the date of issuance, subject to regulatory approval
	Coupons / dividends	not applicable		
17	Fixed or floating dividend/ coupon	not applicable	Floating	Floating
18	Coupon rate and any related index/ benchmark	not applicable	- 6-Months KIBOR (ask side) plus 150 bps per annum	- 6-Months KIBOR (ask side) plus 200 bps per annum
19	Existence of a dividend stopper	No	Yes	Yes
20	Fully discretionary, partially discretionary or mandatory	not applicable	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	not applicable	No	No
22	Noncumulative or cumulative	not applicable	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	not applicable	Convertible	Convertible
24	If convertible, conversion trigger (s)	not applicable	<p>Upon occurrence of the POWV 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:</p> <p>a. A decision made by the SBP that a conversion or permanent write-off is necessary without which the Issuer would become nonviable; or</p> <p>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</p> <p>The SBP will have full discretion in declaring the POWV Trigger Event.</p> <p>2. CET 1 Trigger Event: The pre-specified trigger for less 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").</p> <p>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</p>	<p>Upon occurrence of the POWV 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:</p> <p>a. A decision made by the SBP that a conversion or permanent write-off is necessary without which the Issuer would become nonviable; or</p> <p>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</p> <p>The SBP will have full discretion in declaring the POWV Trigger Event.</p> <p>2. CET 1 Trigger Event: The pre-specified trigger for less 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").</p> <p>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</p>
25	If convertible, fully or partially	not applicable	May convert fully or partially	May convert fully or partially
26	If convertible, conversion rate	not applicable	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	not applicable	To be determined as per Basel III guidelines	To be determined as per Basel III guidelines
28	If convertible, specify instrument type convertible into	not applicable	Common Equity Tier 1	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	not applicable	BAFL	BAFL
30	Write-down feature	not applicable	Yes	Yes
31	If write-down, write-down trigger(s)	not applicable	<p>The Issuer shall, if directed by the SBP, write-off the Relevant Amount of the TFCs (i) upon the POWV 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 POWV Trigger Event shall occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.</p>	<p>The Issuer shall, if directed by the SBP, write-off the Relevant Amount of the TFCs (i) upon the POWV 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 POWV Trigger Event shall occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.</p>
32	If write-down, full or partial	not applicable	Fully and Partially both	Fully and Partially both
33	If write-down, permanent or temporary	not applicable	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	not applicable	not applicable	not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	not applicable	Depositors and general creditors	Depositors and general creditors
36	Non-compliant transitioned features	not applicable	No	No
37	If yes, specify non-compliant features	not applicable	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	
2022	2021	2022	2021

(Rupees in '000)

Credit Risk**On-Balance sheet**

Portfolios subject to standardized approach (Simple or Comprehensive)

Cash & cash equivalents	-	-	-	-
Sovereign	5,012,478	5,241,519	43,586,769	45,578,428
Public Sector entities	627,467	696,247	5,456,242	6,054,322
Banks	3,904,143	2,707,991	33,949,070	23,547,750
Corporate	40,532,224	37,007,330	352,454,125	321,802,876
Retail	11,314,559	11,412,901	98,387,470	99,242,626
Residential Mortgages	1,355,013	940,656	11,782,726	8,179,618
Past Due loans	386,414	224,403	3,360,130	1,951,338
Operating Fixed Assets	5,568,843	4,542,382	48,424,722	39,498,979
Other assets	4,490,514	1,849,176	39,047,948	16,079,795
	73,191,655	64,622,605	636,449,202	561,935,732

Portfolios subject to Internal Rating Based (IRB) Approach

e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.

- - - -

Off-Balance sheet

Non-market related	4,968,481	4,537,917	43,204,189	39,460,155
Financial guarantees	-	-	-	-
Acceptances	1,339,320	1,096,133	11,646,262	9,531,600
Performance Related Contingencies	1,980,749	2,054,310	17,223,907	17,863,570
Trade Related Contingencies	8,288,550	7,688,360	72,074,358	66,855,325
Market related				
Foreign Exchange contracts	154,867	194,719	1,346,674	1,693,211
Derivatives	129,959	13,385	1,130,083	116,400
	284,826	208,104	2,476,757	1,809,610

Equity Exposure Risk in the Banking Book

Under simple risk weight method				
Listed Equity Investment	862,689	449,429	7,501,650	3,908,081
Unlisted Equity Investment	999,910	1,005,483	8,694,871	8,743,338
	1,862,599	1,454,912	16,196,521	12,651,419
Under Internal models approach	-	-	-	-
	83,627,630	73,973,981	727,196,838	643,252,086

Market Risk

Capital Requirement for portfolios subject to Standardized Approach

Interest rate risk	394,312	573,057	4,928,900	7,163,213
Equity position risk	82,889	155,341	1,036,113	1,941,763
Foreign Exchange risk	225,566	338,542	2,819,575	4,231,775
	702,767	1,066,940	8,784,588	13,336,750

Capital Requirement for portfolios subject to Internal Models Approach

Operational Risk [70% of BIA or ASA whichever is higher is taken as capital charge]*

<u>Capital Requirement for operational risks</u>	9,603,389	7,396,872	120,042,363	92,460,900
--	------------------	------------------	--------------------	-------------------

Total Risk Weighted Exposures

93,933,786	82,437,793	856,023,788	749,049,736
-------------------	-------------------	--------------------	--------------------

* 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	2022		2021	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	9.51%	6.00%	10.16%
Tier-1 capital to total RWA	7.50%	11.09%	7.50%	11.10%
Total capital to total RWA	11.50%	13.83%	11.50%	14.43%

1 Liquidity Coverage Ratio for the year 2022

	Unweighted ^a value by residual maturity	TOTAL WEIGHTED ^b VALUE (average)
High Quality Liquid Assets	(Rupees in '000)	
1 Total high quality liquid assets (HQLA)		688,048,074
Cash Outflows		
2 Retail deposits and deposits from small business customers of which:	720,226,263	65,036,380
2.1 Stable deposit	139,724,931	6,986,247
2.2 Less stable deposit	580,501,331	58,050,133
3 Unsecured wholesale funding of which:	605,641,711	338,183,968
3.1 Operational deposits (all counterparties)	-	-
3.2 Non-operational deposits (all counterparties)	590,027,854	322,570,111
3.3 Unsecured debt	15,613,857	15,613,857
4 Secured wholesale funding	-	790,190
5 Additional requirements of which:	32,824,460	5,271,287
5.1 Outflows related to derivative exposures and other collateral requirements	2,209,823	2,209,823
5.2 Outflows related to loss of funding on debt products	-	-
5.3 Credit and Liquidity facilities	30,614,637	3,061,464
6 Other contractual funding obligations	3,820,835	3,820,835
7 Other contingent funding obligations	580,001,220	15,456,534
8 TOTAL CASH OUTFLOWS	-	428,559,193
Cash Inflows		
9 Secured lending	48,232,153	-
10 Inflow from fully performing exposures	77,778,029	50,184,342
11 Other Cash inflows	19,675,031	6,427,467
12 TOTAL CASH INFLOWS		56,611,809
	TOTAL ADJUSTED VALUE	
13 Total HQLA		688,048,074
14 Total Net Cash Outflows		371,947,384
15 Liquidity Coverage Ratio		185%

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 2B and level 2 assets for HQLA and cap on Inflows)

1 Liquidity Coverage Ratio for the year 2021

	Unweighted ^a value by residual maturity	TOTAL WEIGHTED ^b VALUE (average)
High Quality Liquid Assets	(Rupees in '000)	
1 Total high quality liquid assets (HQLA)		474,660,774
Cash Outflows		
2 Retail deposits and deposits from small business customers of which:	598,421,218	55,099,836
2.1 Stable deposit	94,845,722	4,742,286
2.2 Less stable deposit	503,575,495	50,357,550
3 Unsecured wholesale funding of which:	424,786,769	239,174,972
3.1 Operational deposits (all counterparties)	-	-
3.2 Non-operational deposits (all counterparties)	412,088,095	226,476,298
3.3 Unsecured debt	12,698,674	12,698,674
4 Secured wholesale funding	-	4,371,552
5 Additional requirements of which:	37,213,069	6,414,757
5.1 Outflows related to derivative exposures and other collateral requirements	2,992,723	2,992,723
5.2 Outflows related to loss of funding on debt products	-	-
5.3 Credit and Liquidity facilities	34,220,346	3,422,035
6 Other contractual funding obligations	606,045	606,045
7 Other contingent funding obligations	1,079,050,387	13,629,448
8 TOTAL CASH OUTFLOWS	-	319,296,609
Cash Inflows		
9 Secured lending	18,477,444	-
10 Inflow from fully performing exposures	62,937,780	40,719,713
11 Other Cash inflows	14,673,801	2,911,643
12 TOTAL CASH INFLOWS		43,631,356
	TOTAL ADJUSTED VALUE	
13 Total HQLA		474,660,774
14 Total Net Cash Outflows		275,665,253
15 Liquidity Coverage Ratio		172%

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 2B and level 2 assets for HQLA and cap on Inflows)

3 Net Stable Funding Ratio for the year 2022

(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	121,883,523	-	-	-	121,883,523
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	157,781,240	-	-	-	149,892,178
6	Less stable deposits	560,870,547	58,483,212	18,690,706	1,597,766	575,837,785
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	275,563,703	195,778,790	86,556,548	1,980,053	280,929,573
10	Other liabilities:					
11	NSFR derivative liabilities		455,164			-
12	All other liabilities and equity not included in other categories	250,682,039	380,976,145	4,827,084	145,021,611	147,435,153
13	Total ASF					1,275,978,211
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)					63,491,938
15	Deposits held at other financial institutions for operational purposes	9,485,379				4,742,689
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	74,969,700	-	-	7,496,970
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	10,870,589	441,167	-	1,851,172
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:	-	362,394,689	29,344,628	232,937,091	393,866,186
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	98,733,490	64,176,768
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	-	5,456,999	-	30,030,749	28,254,636
22	Other assets:					
23	Physical traded commodities, including gold					-
24	Assets posted as initial margin for derivative contracts					-
25	NSFR derivative assets		5,684,178			-
26	NSFR derivative liabilities before deduction of variation margin posted		455,164			5,320,047
27	all other assets not included in other categories	142,838,486	296,512,698	9,012,648	75,567,306	241,776,165
28	Off-balance sheet items		125,243,752	162,391,960	479,635,233	38,367,004
29	Total RSF					849,343,576
30	Net Stable Funding Ratio (%)					150%

3 Net Stable Funding Ratio for the year 2021

(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	112,314,218				112,314,218
3	Other capital instruments					
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	128,240,081	-	-	-	121,828,077
6	Less stable deposits	462,347,437	45,269,607	9,775,745	1,519,759	467,173,269
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	284,603,154	176,684,770	29,847,204	756,849	183,376,807
10	Other liabilities:					
11	NSFR derivative liabilities		1,212,697			-
12	All other liabilities and equity not included in other categories	105,009,733	234,594,973	25,974,933	120,237,415	133,224,881
13	Total ASF					1,017,917,252
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)					64,022,401
15	Deposits held at other financial institutions for operational purposes	9,782,518				4,891,259
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA		11,190,981			1,119,098
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		12,490,222	2,160,289	-	2,953,678
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:		334,212,317	48,896,947	204,729,634	365,574,821
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	71,873,758	46,717,943
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.		6,542,710	1,237,880	30,799,381	30,069,769
22	Other assets:					
23	Physical traded commodities, including gold					-
24	Assets posted as initial margin for derivative contracts					-
25	NSFR derivative assets		2,249,270			-
26	NSFR derivative liabilities before deduction of variation margin posted		1,212,697			1,279,113
27	all other assets not included in other categories	104,620,911	175,092,178	12,256,139	59,468,381	181,772,966
28	Off-balance sheet items		303,769,259	12,973,196	794,271,370	55,550,691
29	Total RSF					753,951,739
30	Net Stable Funding Ratio (%)					135%