

## 41 CAPITAL ASSESSMENT AND ADEQUACY

### Scope of Applications

#### Amounts subject to Pre - Basel III treatment

The Basel-III Framework is applicable to the Branches. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risks, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purpose.

### Capital Management

#### Objectives and goals of managing capital

The Branches manage its capital to attain following objectives and goals:

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

#### 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 assigned capital (net off losses) for branches of foreign banks operating in Pakistan to be raised to Rs. 3 billion by the financial year December 2010. The Head Office capital account of the branches for the year ended December 31, 2018 stands at Rs. 20,829 million and is in compliance with the SBP requirement for the said year.

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 effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines banks are required to maintain the following ratios on an

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

Sr. No	Ratio	2013	2014	2015	2016	2017	2018	As of Dec 31, 2019
1	CET 1	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
2	ADT 1	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
3	Tier 1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
4	Total Capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5	*CCB	0.00%	0.00%	0.25%	0.65%	1.28%	1.90%	2.50%
6	Total Capital Plus CCB	10.00%	10.00%	10.25%	10.65%	11.28%	11.90%	12.50%

\* Capital Conservative Buffer

### **Branches' regulatory capital is analyzed into three tiers**

**Common Equity Tier 1 capital (CET1)**, which includes head office capital account and un-remitted profit after all regulatory adjustments applicable on CET1.

**Additional Tier 1 capital (AT1)**, which includes instruments issued by the Bank which meet the specified criteria.

**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), gross reserves on revaluation of fixed assets and equity investments and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2.

### **Capital Adequacy**

The main objective of the capital management is to improve the financial position of the Branches to support the growth in business.

The Branches' capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and at the same time maintaining creditor and market confidence.

In implementing current capital requirements the State Bank of Pakistan requires banks to maintain minimum Capital Adequacy Ratio (CAR) of 11.90% as of December 31, 2018 whereas CAR stood at 18.81% at the year ended December 31, 2018.

The Branches calculates capital adequacy ratio for credit risk, market risk and operational risk based upon requirements under Basel Accord as per guidelines issued by the State Bank of Pakistan from time to time in this regard.

The Bank's potential risk exposures shall remain in these exposure types.

Sensitivity and stress testing of the Branch under different risk factors depicts that the capital adequacy ratio is above the regulatory requirements.

#### 41.1 Capital Adequacy Ratio as at December 31, 2018

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy, under Basel III and Pre-Basel III treatment using Simple Approach for Credit and Market Risk related exposures and Basic Indicator Approach for Operational Risk, presented below:

Particulars		2018	2017
		(Rupees in '000)	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>			
1	Fully Paid-up Capital/ Capital deposited with SBP	20,829,285	9,506,699
2	Balance in Share Premium Account	-	-
3	Reserve for issue of Bonus Shares	-	-
4	Discount on Issue of shares	-	-
5	General/ Statutory Reserves	-	-
6	Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
7	Unappropriated/unremitted profits/ (losses)	5,486,348	7,365,414
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	<b>CET 1 before Regulatory Adjustments</b>	<b>26,315,633</b>	<b>16,872,113</b>
10	Total regulatory adjustments applied to CET1 (Note 34.4.1)	60,320	32,050
11	<b>Common Equity Tier 1</b>	<b>26,255,313</b>	<b>16,840,063</b>
<b>Additional Tier 1 (AT 1) Capital</b>			
12	Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
13	of which: Classified as equity	-	-
14	of which: Classified as liabilities	-	-
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	<b>AT1 before regulatory adjustments</b>	-	-
18	Total regulatory adjustment applied to AT1 capital (Note 34.4.2)	-	-
19	Additional Tier 1 capital after regulatory adjustments	-	-
20	<b>Additional Tier 1 capital recognized for capital adequacy</b>	-	-
21	<b>Tier 1 Capital (CET1 + admissible AT1) (11+20)</b>	<b>26,255,313</b>	<b>16,840,063</b>
<b>Tier 2 Capital</b>			
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	-
23	Tier 2 capital instruments subject to phase out 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	229,428	82,465
27	Revaluation Reserves (net of taxes)	-	-
28	of which: Revaluation reserves on fixed assets	-	-
29	of which: Unrealized gains/losses on AFS	-	-
30	Foreign Exchange Translation Reserves	-	-
31	Undisclosed/Other Reserves (if any)	-	-
32	<b>T2 before regulatory adjustments</b>	<b>229,428</b>	<b>82,465</b>
33	Total regulatory adjustment applied to T2 capital (Note 34.4.3)	-	-
34	Tier 2 capital (T2) after regulatory adjustments	229,428	82,465
35	Tier 2 capital recognized for capital adequacy	229,428	82,465
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37	<b>Total Tier 2 capital admissible for capital adequacy</b>	<b>229,428</b>	<b>82,465</b>
38	<b>TOTAL CAPITAL (T1 + admissible T2) (21+37)</b>	<b>26,484,741</b>	<b>16,922,528</b>
39	<b>Total Risk Weighted Assets (RWA) {for details refer Note 34.7}</b>	<b>140,766,304</b>	<b>91,094,149</b>
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>			
40	<b>CET1 to total RWA</b>	<b>18.65%</b>	<b>18.49%</b>
41	<b>Tier-1 capital to total RWA</b>	<b>18.65%</b>	<b>18.49%</b>
42	<b>Total capital to total RWA</b>	<b>18.81%</b>	<b>18.58%</b>
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	7.90%	7.28%
44	of which: capital conservation buffer requirement	1.90%	1.28%
45	of which: countercyclical buffer requirement	-	-
46	of which: D-SIB or G-SIB buffer requirement	-	-
47	<b>CET1 available to meet buffers (as a percentage of risk weighted assets)</b>	<b>10.91%</b>	<b>11.31%</b>
<b>National minimum capital requirements prescribed by SBP</b>			
48	<b>CET1 minimum ratio</b>	<b>6.00%</b>	<b>6.00%</b>
49	<b>Tier 1 minimum ratio</b>	<b>7.50%</b>	<b>7.50%</b>
50	<b>Total capital minimum ratio</b>	<b>11.90%</b>	<b>11.28%</b>

Particulars	2018	2017
	Amount Amounts subject to Pre- Basel III treatment	Amount Amounts subject to Pre- Basel III treatment

----- (Rupees in '000) -----

#### 41.1.1 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)	2,788	-
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	-	-
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-
7	Cash flow hedge reserve	-	-
8	Investment in own shares/ CET1 instruments	-	-
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	57,532	32,050
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	<b>Total regulatory adjustments applied to CET1 (sum of 1 to 21)</b>	<b>60,320</b>	<b>32,050</b>

#### 41.1.2 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	-	-
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	<b>Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)</b>	<b>-</b>	<b>-</b>

#### 41.1.3 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	<b>Total regulatory adjustment applied to T2 capital (sum of 31 to 35)</b>	<b>-</b>	<b>-</b>



2018

2017

(Rupees in '000)

## 41.1.4 Additional Information

**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	7,961	633
(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	-	-
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
38	Non-significant investments in the capital of other financial entities	-	-
39	Significant investments in the common stock of financial entities	-	-
40	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
	<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
41	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
42	Cap on inclusion of provisions in Tier 2 under standardized approach	-	-
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	-	-

## 41.2 Capital Structure Reconciliation

**Reconciliation of each financial statement line item to item under regulatory scope of reporting**

Table: 41.2 - (a)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	2018	
	(Rupees in '000)	
<b>Assets</b>		
Cash and balances with treasury banks	27,658,474	27,658,474
Balances with other banks	4,015,685	4,015,685
Lending to financial institutions	207,924,067	207,924,067
Investments	175,857,020	175,857,020
Advances	22,713,422	22,713,422
Operating fixed assets	590,331	590,331
Intangible assets	2,788	2,788
Deferred tax assets	7,961	7,961
Other assets	20,493,816	20,493,816
<b>Total assets</b>	<b>459,263,564</b>	<b>459,263,564</b>
<b>Liabilities &amp; Equity</b>		
Bills payable	1,292,129	1,292,129
Borrowings	355,486,464	355,486,464
Deposits and other accounts	66,540,142	66,540,142
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	9,686,726	9,686,726
<b>Total liabilities</b>	<b>433,005,461</b>	<b>433,005,461</b>
Share capital/ Head office capital account	20,829,285	20,829,285
Reserves	-	-
Unremitted profit / Accumulated (losses)	5,486,348	5,486,348
Minority Interest	-	-
Surplus on revaluation of investments- net of tax	(57,530)	(57,530)
<b>Total equity</b>	<b>26,258,103</b>	<b>26,258,103</b>
<b>Total liabilities &amp; equity</b>	<b>459,263,564</b>	<b>459,263,564</b>

**Reconciliation of balance sheet to eligible regulatory capital**

Particulars	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	2018 (Rupees in '000)		
<b>Assets</b>			
Cash and balances with treasury banks	27,658,474	27,658,474	
Balances with other banks	4,015,685	4,015,685	
Lending to financial institutions	207,924,067	207,924,067	
Investments	175,857,020	175,857,020	
<i>of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold</i>			a
<i>of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold</i>			b
<i>of which: Mutual Funds exceeding regulatory threshold</i>			c
<i>of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)</i>			d
<i>of which: others (mention details)</i>			e
Advances	22,713,422	22,713,422	
<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>	229,428	229,428	g
Fixed Assets	590,331	590,331	
Intangible assets	2,788	2,788	
Deferred Tax Assets	7,961	7,961	
<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
Other assets	20,493,816	20,493,816	
<i>of which: Goodwill</i>			j
<i>of which: Intangibles</i>			k
<i>of which: Defined-benefit pension fund net assets</i>			l
<b>Total assets</b>	<b>459,263,564</b>	<b>459,263,564</b>	
<b>Liabilities &amp; Equity</b>			
Bills payable	1,292,129	1,292,129	
Borrowings	355,486,464	355,486,464	
Deposits and other accounts	66,540,142	66,540,142	
Sub-ordinated loans		-	
<i>of which: eligible for inclusion in AT1</i>			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
Other liabilities	9,686,726	9,686,726	
<b>Total liabilities</b>	<b>433,005,461</b>	<b>433,005,461</b>	
Share capital	20,829,285	20,829,285	
<i>of which: amount eligible for CET1</i>	20,829,285	20,829,285	s
<i>of which: amount eligible for AT1</i>			t
Reserves	-	-	
<i>of which: portion eligible for inclusion in CET1 (provide breakup)</i>	-	-	u
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	v
Unremitted profit / Accumulated (losses)	5,486,348	5,486,348	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	(57,530)	(57,530)	
<i>of which: Revaluation reserves on Fixed Assets</i>			
<i>of which: Unrealized Gains/Losses on AFS</i>	(57,530)	(57,530)	aa
<i>In case of Deficit on revaluation (deduction from CET1)</i>			ab
<b>Total equity</b>	<b>26,258,103</b>	<b>26,258,103</b>	
<b>Total liabilities &amp; Equity</b>	<b>459,263,564</b>	<b>459,263,564</b>	

**Basel III Disclosure (with added column)**

Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
<b>2018</b> (Rupees in '000)		
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
1 Fully Paid-up Capital/ Capital deposited with SBP	20,829,285	(s)
2 Balance in Share Premium Account	-	
3 Reserve for issue of Bonus Shares	-	
4 General/ Statutory Reserves	-	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/ (losses)	5,486,348	(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)
<b>8 CET 1 before Regulatory Adjustments</b>	<b>26,315,633</b>	
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>		
9 Goodwill (net of related deferred tax liability)	-	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	2,788	(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)} * 20%
13 Defined-benefit pension fund net assets	-	{(l) - (q)} * 20%
14 Reciprocal cross holdings in CET1 capital instruments	-	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	-	
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	57,532	(ab)
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28 of which: Any other deduction specified by SBP (mention details)	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
<b>30 Total regulatory adjustments applied to CET1 (sum of 9 to 29)</b>	<b>60,320</b>	
<b>31 Common Equity Tier 1</b>	<b>26,255,313</b>	
<b>Additional Tier 1 (AT 1) Capital</b>		
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	-	
<b>37 AT1 before regulatory adjustments</b>	<b>-</b>	
<b>Additional Tier 1 Capital: regulatory adjustments</b>		
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	-	
<b>45 Total of Regulatory Adjustment applied to AT1 capital (sum of 38 to 44)</b>	<b>-</b>	
<b>46 Additional Tier 1 capital</b>	<b>-</b>	
<b>47 Additional Tier 1 capital recognized for capital adequacy</b>	<b>-</b>	
<b>48 Tier 1 Capital (CET1 + admissible AT1) (31+47)</b>	<b>26,255,313</b>	

Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
<b>2018</b> (Rupees in '000)		
<b>Tier 2 Capital</b>		
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	229,428	(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)	-	
<b>59 T2 before regulatory adjustments</b>	<b>229,428</b>	
<b>Tier 2 Capital: regulatory adjustments</b>		
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)
<b>65 Amount of Regulatory Adjustment applied to T2 capital (sum of 60 to 64)</b>	-	
66 Tier 2 capital (T2)	229,428	
67 Tier 2 capital recognized for capital adequacy	-	
68 Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
<b>69 Total Tier 2 capital admissible for capital adequacy</b>	<b>229,428</b>	
<b>70 TOTAL CAPITAL (T1 + admissible T2) (48+69)</b>	<b>26,484,741</b>	

### 41.3 Main Features Template of Regulatory Capital Instruments

Disclosure template for main features of regulatory capital instruments				
S. No.	Main Features	Common Shares	Instrument - 2	Instrument - 3
1	Issuer	NA	NA	NA
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	NA	NA	NA
3	Governing law(s) of the instrument	NA	NA	NA
	Regulatory treatment	NA	NA	NA
4	Transitional Basel III rules	NA	NA	NA
5	Post-transitional Basel III rules	NA	NA	NA
6	Eligible at solo/ group/ group & solo	NA	NA	NA
7	Instrument type	NA	NA	NA
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	NA	NA	NA
9	Par value of instrument	NA	NA	NA
10	Accounting classification	NA	NA	NA
11	Original date of issuance	NA	NA	NA
12	Perpetual or dated	NA	NA	NA
13	Original maturity date	NA	NA	NA
14	Issuer call subject to prior supervisory approval	NA	NA	NA
15	Optional call date, contingent call dates and redemption amount	NA	NA	NA
16	Subsequent call dates, if applicable	NA	NA	NA
	Coupons / dividends	NA	NA	NA
17	Fixed or floating dividend/ coupon	NA	NA	NA
18	coupon rate and any related index/ benchmark	NA	NA	NA
19	Existence of a dividend stopper	NA	NA	NA
20	Fully discretionary, partially discretionary or mandatory	NA	NA	NA
21	Existence of step up or other incentive to redeem	NA	NA	NA
22	Noncumulative or cumulative	NA	NA	NA
23	Convertible or non-convertible	NA	NA	NA
24	If convertible, conversion trigger (s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA
30	Write-down feature	NA	NA	NA
31	If write-down, write-down trigger(s)	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	NA	NA
36	Non-compliant transitioned features	NA	NA	NA
37	If yes, specify non-compliant features	NA	NA	NA

#### 41.4 Leverage Ratio

The State Bank of Pakistan (SBP) through its BPRD Circular No. 06 of 2013 has issued instructions regarding implementation of parallel run of leverage ratio reporting and its components from December 31, 2013 to December 31, 2017. During this period the final calibration, and any further adjustments to the definition, will be completed, with a view to set the leverage ratio as a separate capital standard on December 31, 2018. Banks are required to disclose the leverage ratio from December 31, 2015.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage:

$$\text{Leverage Ratio} = \frac{\text{Tier 1 capital (after related deductions)}}{\text{Total Exposure}}$$

As at December 31, 2018 the Bank's Leverage ratio stood at 3.80% (2017: 6.12% which is well above the minimum requirement of 3.0%.)

	2018	2017
	(Rupees in '000)	
Eligible Tier-1 Capital	26,255,313	16,840,063
Total Exposures	690,299,295	275,169,161
<b>Leverage Ratio</b>	<b>3.80%</b>	<b>6.12%</b>

## 41.5 Risk Weighted Assets

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

Capital Requirements		Risk Weighted Assets	
2018	2017	2018	2017

(Rupees in '000)

**Credit Risk**

**On-Balance sheet**

Portfolios subject to standardized approach (Simple or Comprehensive)

Cash & cash equivalents	-	-	-	-
Sovereign	81,961	48,447	688,747	429,683
Public Sector entities	-	-	-	-
Banks	1,391,546	707,292	11,693,661	6,273,097
Corporate	1,496,018	374,793	12,571,576	3,324,102
Retail	926	814	7,784	7,217
Residential Mortgages	989	954	8,310	8,465
Past Due loans	-	-	-	-
Operating Fixed Assets	70,249	65,513	590,331	581,047
Deferred tax asset	2,368	178	19,903	1,583
Other assets	2,207,651	1,356,933	18,551,688	12,034,886
	5,251,708	2,554,924	44,132,000	22,660,080

Portfolios subject to Internal Rating Based (IRB) Approach  
e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.

	-	-	-	-
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**Off-Balance sheet**

Non-market related

Financial guarantees	-	-	-	-
Direct Credit Substitutes	16,764	45,047	140,877	399,531
Performance Related Contingencies	6,642,759	6,008,937	55,821,508	53,294,340
Trade Related Contingencies	26,643	7,775	223,895	68,962
	6,686,167	6,061,759	56,186,279	53,762,833

Market related

Foreign Exchange contracts	83,539	356,658	702,006	3,163,267
Derivatives	-	-	-	-
	83,539	356,659	702,006	3,163,267

**Equity Exposure Risk in the Banking Book**

Under simple risk weight method

Listed Equity Investment	-	-	-	-
Unlisted Equity Investment	-	-	-	-
	-	-	-	-

Under Internal Model approach

	-	-	-	-
	12,021,414	8,973,342	101,020,285	79,586,180

**Market Risk**

Capital Requirement for portfolios subject to Standardized Approach

Interest rate risk	2,086,592	149,567	26,082,403	1,869,591
Equity position risk	-	-	-	-
Foreign Exchange risk	23,995	43,107	299,938	538,840

**Operational Risk**

Capital Requirement for operational risks

	1,069,094	727,963	13,363,679	9,099,538
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**Total Risk Weighted Exposures**

	15,201,095	9,893,980	140,766,305	91,094,149
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Capital Adequacy Ratios	2018		2017	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	18.65%	6.00%	18.49%
Tier-1 capital to total RWA	7.50%	18.65%	7.50%	18.49%
Total capital to total RWA	10.00%	18.81%	10.00%	18.58%
Total capital plus CCB to RWA	11.90%	18.81%	11.28%	18.58%

#### 41.6 Credit Risk - General Disclosures

The Bank has adopted Simple approach of calculation of capital charge against credit risk in line with SBP's requirements.

##### Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company – Vital Information Systems), Fitch, Moody's and Standard & Poors. Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	Other (S&P / Moody's / Fitch)
Corporate	✓	✓	✓
Banks	✓	✓	-
Sovereigns	✓	✓	-
PSEs	-	-	-

##### Long - Term Ratings Grades Mapping

SBP Rating Grade	ECA Scores	PACRA	JCR-VIS	FITCH	S&P	Moody's
1	1	AAA	AAA	AAA	AAA	Aaa
		AA+	AA+	AA+	AA+	Aa1
		AA	AA	AA	AA	Aa2
		AA-	AA-	AA-	AA-	Aa3
2	2	A+	A+	A+	A+	A1
		A	A	A	A	A2
		A-	A-	A-	A-	A3
3	3	BBB+	BBB+	BBB+	BBB+	Baa1
		BBB	BBB	BBB	BBB	Baa2
		BBB-	BBB-	BBB-	BBB-	Baa3
4	4	BB+	BB+	BB+	BB+	Ba1
		BB	BB	BB	BB	Ba2
		BB-	BB-	BB-	BB-	Ba3
5	5,6	B+	B+	B+	B+	B1
		B	B	B	B	B2
		B-	B-	B-	B-	B3
6	7	CCC+ and below	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below

##### Short - Term Ratings Grades Mapping

SBP	PACRA	JCR-VIS	FITCH	S&P	Moody's
S1	A-1	A-1	F1	A-1+, A-1	P-1
S2	A-2	A-2	F2	A-2	P-2
S3	A-3	A-3	F3	A-3	P-3
S4	Others	Others	Others	Others	Others



For exposure amounts after risk mitigation, amount of Bank's/DFI's outstanding (rated and unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating Category	Amount Outstanding	Deduction CRM	amount in '000
				Net Amount
- Cash and Cash Equivalent		228,903	-	228,903
- Corporate	1	5,977,539	226,233	5,751,306
	2	3,565,381	-	3,565,381
	3,4	-	-	-
	5,6	-	-	-
	Unrated	-	-	-
	Unrated-2	8,997,899	6,435,000	2,562,899
- Public Sector Entities	1	-	-	-
	2,3	-	-	-
	4,5	-	-	-
	6	-	-	-
	Unrated	-	-	-
- Banks	1	214,007,463	165,578,372	48,429,091
	2,3	4,015,685	-	4,015,685
	4,5	-	-	-
	6	-	-	-
	Unrated	-	-	-
- Sovereigns etc.	1	-	-	-
	2	-	-	-
	3	-	-	-
	4,5	688,747	-	688,747
	6	-	-	-
	Unrated	-	-	-
- Government of Pakistan		181,534,487	-	181,534,487
- SBP		21,063,357	-	21,063,357
- Retail		10,379	-	10,379
- Residential Mortgage		23,744	-	23,744
- Past Dues Loans		-	-	-
- Past Dues against Residential Mortgage		-	-	-
- Significant investment in Commercial entities		-	-	-
- Significant investment and DTAs above 15% threshold		7,961	-	7,961
- Unlisted Equity Investments		-	-	-
- Listed Equity Investments		-	-	-
- Operating Fixed Assets		590,331	-	590,331
- Other Assets		18,551,688	-	18,551,688
		<b>459,263,564</b>	<b>172,239,605</b>	<b>287,023,959</b>

#### 41.8 Basel III Liquidity Requirement

The Basel Committee for Banking Supervision (BCBS) has introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) under its BASEL III reforms. As part of Basel III implementation in Pakistan, SBP issued guide lines on June 23,2016 to implement Liquidity standards in line with BCBS timelines, keeping in view the conditions as applicable in Pakistan. The Bank is maintaining both the liquidity ratios, under Basel III, with a considerable cushion over and above the regulatory requirement to mitigate any liquidity risk.

##### 41.8.1 Liquidity Coverage Ratio

		2018		2017	
		----- amount in '000 -----			
		TOTAL UNWEIGHTEDa VALUE (average)	TOTAL WEIGHTED b VALUE (average)	TOTAL UNWEIGHTEDa VALUE (average)	TOTAL WEIGHTED b VALUE (average)
HIGH QUALITY LIQUID ASSETS					
1	Total high quality liquid assets (HQLA)		361,385,332		315,249,665
CASH OUTFLOWS					
2	Retail deposits and deposits from small business cusmtomers of which:	-		-	
2.1	stable deposit	549,444	27,472	-	-
2.2	Less stable deposit	2,182,389	218,239	2,791,880	279,188
3	Unsecured wholesale funding of which:			-	
3.1	Operational deposits (all counterparties)	459,480	114,870	97,955	24,488
3.2	Non-operational deposits (all counterparties)	50,416,625	20,033,294	36,243,058	14,457,134
3.3	Unsecured debt	134,960,570	134,960,570	179,761,731	179,761,731
4	Secured wholesale funding				
5	Additional requirements of which:	-		-	
5.1	Outflows related to derivative exposures and other collateral requirements	-	-	-	-
5.2	Outflows related to loss of funding on debt products	-	-	-	-
5.3	Credit and Liquidity facilities	608,384	60,838	533,568	53,357
6	Other contractual funding obligations			-	-
7	Other contingent funding obligations	767,521,858	498,807,143	715,345,210	484,864,691
8	TOTAL CASH OUTFLOWS		654,922,294		679,440,589
CASH INFLOWS		-	-		
9	Secured lending	165,177,628		71,675,791	-
10	Inflows from fully performing exposures	8,163,214	7,249,448	10,674,540	9,999,628
11	Other Cash inflows	496,211,838	494,536,880	473,832,217	473,044,673
12	TOTAL CASH INLFOWS		478,312,292		478,900,378
TOTAL ADJUSTED VALUE					
21	TOTAL HQLA		361,385,332		315,249,665
22	TOTAL NET CASH OUTFLOWS		176,610,002		200,540,211
23	LIQUIDITY COVERAGE RATIO		205%		157.20%

#### 41.8.2 Net Stable Funding Ratio (NSFR)

The objective of Net Stable Funding Ratio (NSFR) is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding on an ongoing basis. Banks are required to maintain NSFR requirement of at least 100% on an ongoing basis from December 31, 2017.

2018						
amount in PKR in thousands						
NSFR		unweighted value by residual maturity				weighted value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
<b>ASF Item</b>						
1	Capital:					
2	Regulatory capital	26,315,633	-	-	-	26,315,633
3	Other capital instruments					
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	277,290	37,730	234,423	494,501
6	Less stable deposits	-	1,096,504	149,196	926,993	1,955,424
7	Wholesale funding:					
8	Operational deposits	-	309,153,308	42,065,086	261,360,387	306,290
9	Other wholesale funding	-	31,898,177	4,340,240	26,966,944	44,745,288
10	Other liabilities:					
11	NSFR derivative liabilities					35,409,792
12	All other liabilities and equity not included in other categories	295,646				
13	<b>Total ASF</b>					109,226,928
<b>RSF item</b>						
14	Total NSFR high-quality liquid assets (HQLA)					-
15	Deposits held at other financial institutions for operational purposes	4,015,685				2,007,843
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	205,924,067			20,592,407
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	2,000,000			300,000
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:				1,186,916	1,008,878
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				23,745	15,434
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.					
22	Other assets:	16,384,860	20,859,588	643,173		12,799,627
23	Physical traded commodities, including gold	-	-	-	-	-
24	Assets posted as initial margin for derivative contracts	-	-	-	-	-
25	NSFR derivative assets	-	-	-	-	-
26	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
27	All other assets not included in the above categories	16,998,405				16,998,405
28	Off-balance sheet items	-	107,197,903	84,408,044	90,487,418	14,104,668
29	<b>Total RSF</b>					67,827,261
30	<b>Net Stable Funding Ratio (%)</b>					<b>161%</b>

2017

amount in PKR in thousands

NSFR		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	16,872,113				16,872,113
3	Other capital instruments			82,465		82,465
4	Retail deposits and deposit from small business customers:					
5	Stable deposits					
6	Less stable deposits	1,903,764	778,000	19,500		2,431,138
7	Wholesale funding:					
8	Operational deposits	82,039				41,020
9	Other wholesale funding	26,454,329	28,192,252	268,314	1,535,020	38,816,803
10	Other liabilities:					
11	NSFR derivative liabilities					
12	All other liabilities and equity not included in othercategories	11,404,130	303,724,827			
13	Total ASF					58,243,539
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)					-
15	Deposits held at other financial institutions for operational purposes	1,461,579				730,790
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	118,285,067			11,828,507
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financcil institutions	-	-			-
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:				318,545	270,763
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				24,187	15,721
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.					
22	Other assets:					
23	Physical traded commodities, including gold					
24	Assets posted as initial margin for derivative contracts					
25	NSFR derivative assets					
26	NSFR derivative liabilities before deduction of variation margin posted					
27	All other assets not included in the above categories	12,616,566	7,662,271	159,079		20,437,916
28	Off-balance sheet items	-	75,229,241	31,001,323	146,230,182	12,623,037
29	Total RSF					45,906,734
30	Net Stable Funding Ratio (%)					127%