41 CAPITAL ASSESSMENT AND ADEQUACY

<u>Scope of Applications</u>

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.

<u>Capital Management</u>

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, 2019 stands at Rs. 23,227 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 12.50% as of December 31, 2019 whereas CAR stood at 26.15% at the year ended December 31, 2019.

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		2019	2018
			-------------(Rupees in '000)-------------	
Common Equity Tier 1 capital (CET1): Instruments and reserves				
1	Fully Paid-up Capital/ Capital deposited with SBP		**23,227,140**	20,829,285
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)		**14,362,357**	5,486,348
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**		**37,589,497**	26,315,633
10	Total regulatory adjustments applied to CET1 (Note 34.4.1)		**3,863**	60,320
11	**Common Equity Tier 1**		**37,585,634**	26,255,313
Additional Tier 1 (AT 1) Capital				
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	**AT1 before regulatory adjustments**		-	-
18	Total regulatory adjustment applied to AT1 capital (Note 34.4.2)		-	-
19	Additional Tier 1 capital after regulatory adjustments		-	-
20	**Additional Tier 1 capital recognized for capital adequacy**		-	-
21	**Tier 1 Capital (CET1 + admissible AT1) (11+20)**		**37,585,634**	26,255,313
Tier 2 Capital				
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		**294,566**	**229,428**
27	Revaluation Reserves (net of taxes)	c = a+b	-	-
28	of which: Revaluation reserves on fixed assets	a		
29	of which: Unrealized gains/losses on AFS	b	**124,975**	-
30	Foreign Exchange Translation Reserves		-	-
31	Undisclosed/Other Reserves (if any)		-	-
32	**T2 before regulatory adjustments**		**419,541**	229,428
33	Total regulatory adjustment applied to T2 capital (Note 34.4.3)			
34	Tier 2 capital (T2) after regulatory adjustments		**419,541**	229,428
35	Tier 2 capital recognized for capital adequacy		**419,541**	229,428
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital			
37	**Total Tier 2 capital admissible for capital adequacy**		**419,541**	229,428
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**		**38,005,175**	26,484,741
39	**Total Risk Weighted Assets (RWA) {for details refer Note 34.7}**		**145,313,910**	140,766,304
Capital Ratios and buffers (in percentage of risk weighted assets)				
40	**CET1 to total RWA**		**25.87%**	18.65%
41	**Tier-1 capital to total RWA**		**25.87%**	18.65%
42	**Total capital to total RWA**		**26.15%**	18.81%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		**10.00%**	7.90%
44	of which: capital conservation buffer requirement		**2.50%**	1.90%
45	of which: countercyclical buffer requirement			
46	of which: D-SIB or G-SIB buffer requirement		**1.50%**	
47	CET1 available to meet buffers (as a percentage of risk weighted assets)		**16.15%**	10.91%
National minimum capital requirements prescribed by SBP				
48	**CET1 minimum ratio**		**10.00%**	6.00%
49	**Tier 1 minimum ratio**		**11.50%**	7.50%
50	**Total capital minimum ratio**		**14.00%**	11.90%

	Particulars	2019 Amount	2019 Amounts subject to Pre-Basel III treatment	2018 Amount	2018 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)	3,863		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	
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)**	**3,863**		60,320	
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	**Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)**	**-**		-	
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	**Total regulatory adjustment applied to T2 capital (sum of 31 to 35)**	**-**		-	

		2019	2018
		(Rupees in '000)	

41.1.4 Additional Information

Risk Weighted Assets subject to pre-Basel III treatment

		2019	2018
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
(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	-	-
39	Significant investments in the common stock of financial entities	-	-
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)	-	-
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
	2019	
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	32,354,350	32,354,350
Balances with other banks	13,270,408	13,270,408
Lending to financial institutions	214,503,548	214,503,548
Investments	211,160,688	211,160,688
Advances	29,162,284	29,162,284
Operating fixed assets	628,978	628,978
Intangible assets	3,863	3,863
Deferred tax assets	-	-
Other assets	4,313,952	4,313,952
Total assets	**505,398,071**	**505,398,071**
Liabilities & Equity		
Bills payable	4,125,334	4,125,334
Borrowings	351,242,058	351,242,058
Deposits and other accounts	94,465,934	94,465,934
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	93,908	93,908
Other liabilities	17,756,365	17,756,365
Total liabilities	**467,683,599**	**467,683,599**
Share capital/ Head office capital account	23,227,140	23,227,140
Reserves	-	-
Unremitted profit / Accumulated (losses)	14,362,357	14,362,357
Minority Interest	-	-
Surplus on revaluation of investments- net of tax	124,975	124,975
Total equity	**37,714,472**	**37,714,472**
Total liabilities & equity	**505,398,071**	**505,398,071**

Reconciliation of balance sheet to eligible regulatory capital

Particulars	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	2019		
	(Rupees in '000)		
Assets			
Cash and balances with treasury banks	32,354,350	32,354,350	
Balances with other banks	13,270,408	13,270,408	
Lending to financial institutions	214,503,548	214,503,548	
Investments	211,160,688	211,160,688	
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold			a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold			b
of which: Mutual Funds exceeding regulatory threshold			c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)			d
of which: others (mention details)			e
Advances	29,162,284	29,162,284	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB			f
general provisions reflected in Tier 2 capital	294,566	294,566	g
Fixed Assets	628,978	628,978	
Intangible assets	3,863	3,863	
Deferred Tax Assets	-	-	
of which: DTAs that rely on future profitability excluding those arising from temporary differences			h
of which: DTAs arising from temporary differences exceeding regulatory threshold			i
Other assets	4,313,952	4,313,952	
of which: Goodwill			j
of which: Intangibles			k
of which: Defined-benefit pension fund net assets			l
Total assets	**505,398,071**	505,398,071	
Liabilities & Equity			
Bills payable	4,125,334	4,125,334	
Borrowings	351,242,058	351,242,058	
Deposits and other accounts	94,465,934	94,465,934	
Sub-ordinated loans		-	
of which: eligible for inclusion in AT1			m
of which: eligible for inclusion in Tier 2			n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	93,908	93,908	
of which: DTLs related to goodwill			o
of which: DTLs related to intangible assets			p
of which: DTLs related to defined pension fund net assets			q
of which: other deferred tax liabilities			r
Other liabilities	17,756,365	17,756,365	
Total liabilities	**467,683,599**	467,683,599	
Share capital	23,227,140	23,227,140	
of which: amount eligible for CET1	23,227,140	23,227,140	s
of which: amount eligible for AT1			t
Reserves	-	-	
of which: portion eligible for inclusion in CET1(provide breakup)	-	-	u
of which: portion eligible for inclusion in Tier 2	-	-	v
Unremitted profit / Accumulated (losses)	14,362,357	14,362,357	w
Minority Interest			
of which: portion eligible for inclusion in CET1			x
of which: portion eligible for inclusion in AT1			y
of which: portion eligible for inclusion in Tier 2			z
Surplus on revaluation of assets	124,975	124,975	
of which: Revaluation reserves on Fixed Assets			aa
of which: Unrealized Gains/Losses on AFS	124,975	124,975	
In case of Deficit on revaluation (deduction from CET1)			ab
Total equity	**37,714,472**	37,714,472	
Total liabilities & Equity	**505,398,071**	505,398,071	

Basel III Disclosure (with added column)

	Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
		2019	
		(Rupees in '000)	
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital/ Capital deposited with SBP	23,227,140	(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)	14,362,357	(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**	**37,589,497**	
	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)	3,863	(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	-	(ab)
20	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23	Amount exceeding 15% threshold	-	
24	of which: significant investments in the common stocks of financial entities	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments applied to CET1 capital	-	
27	of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28	of which: Any other deduction specified by SBP (mention details)	-	
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30	**Total regulatory adjustments applied to CET1 (sum of 9 to 29)**	**3,863**	
31	**Common Equity Tier 1**	**37,585,634**	
	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 44)**	-	
46	**Additional Tier 1 capital**	-	
47	**Additional Tier 1 capital recognized for capital adequacy**	-	
48	**Tier 1 Capital (CET1 + admissible AT1) (31+47)**	**37,585,634**	

	Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
		2019	
		(Rupees in '000)	
	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	294,566	(g)
54	Revaluation Reserves	-	
55	of which: Revaluation reserves on fixed assets	-	portion of (aa)
56	of which: Unrealized Gains/Losses on AFS	124,975	
57	Foreign Exchange Translation Reserves	-	(v)
58	Undisclosed/Other Reserves (if any)	-	
59	**T2 before regulatory adjustments**	**419,541**	
	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)	419,541	
67	Tier 2 capital recognized for capital adequacy	-	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	**Total Tier 2 capital admissible for capital adequacy**	**419,541**	
70	**TOTAL CAPITAL (T1 + admissible T2) (48+69)**	**38,005,175**	

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 seperate 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:

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

As at December 31, 2019 the Bank’s Leverage ratio stood at 5.03% *(2018: 3.80% which is well above the minimum requirement of 3.0%.)*

	2019	2018
	(Rupees in '000)	
Eligible Tier-1 Capital	37,585,634	26,255,313
Total Exposures	747,882,932	690,299,295
Leverage Ratio	**5.03%**	**3.80%**

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	
	2019	2018	**2019**	2018
		(Rupees in '000)		
Credit Risk				
On-Balance sheet				
Portfolios subject to standardized approach (Simple or Comprehensive)				
Cash & cash equivalents	**-**	-	**-**	-
Sovereign	**61,473**	81,961	**491,784**	688,747
Public Sector entities	**-**	-	**-**	-
Banks	**1,916,930**	1,391,546	**15,335,438**	11,693,661
Corporate	**2,488,904**	1,496,018	**19,911,235**	12,571,576
Retail	**899**	926	**7,196**	7,784
Residential Mortgages	**895**	989	**7,162**	8,310
Past Due loans	**-**	-	**-**	-
Operating Fixed Assets	**78,622**	70,249	**628,978**	590,331
Deffered tax asset	**-**	2,368	**-**	19,903
Other assets	**116,762**	2,207,651	**934,099**	18,551,688
	4,664,486	5,251,708	**37,315,892**	44,132,000
Portfolios subject to Internal Rating Based (IRB) Approach				
e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.	-	-	-	-
Off-Balance sheet				
Non-market related				
Financial guarantees	**-**	-	**-**	-
Direct Credit Substitutes	**-**	16,764	**-**	140,877
Performance Related Contingencies	**6,546,631**	6,642,759	**52,373,050**	55,821,508
Trade Related Contingencies	**122,009**	26,643	**976,070**	223,895
	6,668,640	6,686,167	**53,349,119**	56,186,279
Market related				
Foreign Exchange contracts	**59,004**	83,539	**472,033**	702,006
Derivatives	**-**	-	**-**	-
	59,004	83,539	**472,033**	702,006
Equity Exposure Risk in the Banking Book				
Under simple risk weight method				
Listed Equity Investment	-	-	-	-
Unlisted Equity Investment	-	-	-	-
	-	-	-	-
Under Internal Model approach	-	-	-	-
	11,392,130	12,021,414	**91,137,044**	101,020,285
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	**2,488,786**	2,086,592	**31,109,831**	26,082,403
Equity position risk	**-**	-	**-**	-
Foreign Exchange risk	**17,520**	23,995	**219,000**	299,938
Operational Risk				
Capital Requirement for operational risks	**1,827,843**	1,069,094	**22,848,036**	13,363,679
Total Risk Weighted Exposures	**15,726,280**	15,201,095	**145,313,910**	140,766,305

Capital Adequacy Ratios	2019		2018	
	Required	**Actual**	Required	Actual
CET1 to total RWA	**6.00%**	**25.87%**	6.00%	18.65%
Tier-1 capital to total RWA	**7.50%**	**25.87%**	7.50%	18.65%
Total capital to total RWA	**10.00%**	**26.15%**	10.00%	18.81%
Total capital plus CCB to RWA	**12.50%**	**26.15%**	11.90%	18.81%

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 I Moody's I 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:

amont in '000

Exposure	Rating Category	Amount Outstanding	Deduction CRM	Net Amount
- Cash and Cash Equivalent		185,949	-	185,949
- Corporate	**1**	9,748,606	1,520,000	8,228,606
	2	9,817,900	-	9,817,900
	3,4	172,147	-	172,147
	5,6	-	-	-
	Unrated	103,288	-	103,288
	Unrated-2	10,628,304	3,857,000	6,771,304
- Public Sector Entities	**1**	-	-	-
	2,3	-	-	-
	4,5	-	-	-
	6	-	-	-
	Unrated	-	-	-
- Banks	**1**	215,987,271	172,486,102	43,501,169
	2,3	13,270,408	-	13,270,408
	4,5	-		-
	6	-		-
	Unrated	-		-
- Sovereigns etc.	**1**	-	-	-
	2	-	-	-
	3	-	-	-
	4,5	491,784	-	491,784
	6	-	-	-
	Unrated	-	-	-
- Government of Pakistan		220,309,668	-	220,309,668
- SBP		23,380,318	-	23,380,318
- Retail		9,594	-	9,594
- Residential Mortgage		20,462	-	20,462
- Past Dues Loans		-	-	-
- Past Dues against Residential Mortgage		-	-	-
- Significant investment in Commercial entities		-	-	-
- Significant investment and DTAs above 15% threshold		-	-	-
- Unlisted Equity Investments		-	-	-
- Listed Equity Investments		-	-	-
- Operating Fixed Assets		628,978	-	628,978
- Other Assets		934,099	-	934,099
		505,688,775	**177,863,102**	**327,825,673**

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

		2019		2018	
		------------ 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)		419,193,876		361,385,332
	CASH OUTFLOWS				
2	Retail deposits and deposits from small business cusmtomers of which:	-		-	
2.1	stable deposit	174,375	8,719	549,444	27,472
2.2	Less stable deposit	525,033	52,503	2,182,389	218,239
3	Unsecured wholesale funding of which:	-			
3.1	Operational deposits (all counterparties)	29,013	7,253	459,480	114,870
3.2	Non-operational deposits (all counterparties)	2,232,924	217,250	50,416,625	20,033,294
3.3	Unsecured debt	184,914,439	143,966,688	134,960,570	134,960,570
4	Secured wholesale funding				
5	Additional requirements of which:	-		-	
5.1	Outflows related to derivative exposures and other collateral requirements	424,966,644	424,966,644	-	-
5.2	Outflows related to loss of funding on debt products	-	-	-	-
5.3	Credit and Liquidity facilities	408,508	40,851	608,384	60,838
6	Other contractual funding obligations	222,717,412	11,129,964		
7	Other contingent funding obligations	58,461,822	13,159,686	767,521,858	498,807,143
8	**TOTAL CASH OUTFLOWS**		593,549,558		654,922,294
	CASH INFLOWS	-	-		
9	Secured lending	221,820,295	-	165,177,628	
10	Inflows from fully performing exposures	4,957,679	3,184,692	8,163,214	7,249,448
11	Other Cash inflows	420,711,038	416,854,856	496,211,838	494,536,880
12	**TOTAL CASH INLFOWS**		420,039,549		478,312,292
		TOTAL ADJUSTED VALUE			
21	**TOTAL HQLA**		419,193,876		361,385,332
22	**TOTAL NET CASH OUTFLOWS**		181,988,567		176,610,002
23	**LIQUIDITY COVERAGE RATIO**		230%		205%

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 activates with sufficiently stable sources of funding on on going basis. Banks are required to maintain NSFR requirement of at least 100% on an ongoing basis from December 31,2017.

amount in PKR in thousands

NSFR		2019				
		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	37,589,497	-	-	-	37,589,497
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	103,011	38,869	224,791	134,786
6	Less stable deposits	-	713,328	243,743	1,697,131	861,364
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	40,723,092	7,833,362	44,035,348	70,235,495
10	Other liabilities:			209,009		104,505
11	NSFR derivative liabilities					
12	All other liabilities and equity not included in othercategories	371,861,917				
13	**Total ASF**					108,925,646
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)				435,092,698	-
15	Deposits held at other financial institutions for operational purposes	13,270,408				6,635,204
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	214,503,548			21,450,355
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financail 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:				4,935,016	4,194,764
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				19,811	12,877
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.					
22	Other assets:		20,287,716	8,233,693		14,260,705
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	24,662,808				24,662,808
28	Off-balance sheet items	28,383,614	30,869,267	28,608,801	178,997,546	13,342,961
29	Total RSF					84,559,674
30	**Net Stable Funding Ratio (%)**					**129%**

		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**	
ASF Item						
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 othercategories	295,646				
13	**Total ASF**					109,226,928
RSF item						
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 financail 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	Total RSF					67,827,261
30	**Net Stable Funding Ratio (%)**					**161%**