

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, 2020 stands at Rs. 23,975 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 ongoing basis:

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

Sr. No	Ratio	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	CET 1	5.00%	5.50%	6.00%	6.00%	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%	1.50%	1.50%
3	Tier 1	6.50%	7.00%	7.50%	7.50%	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%	10.00%	10.00%
5	*CCB	0.00%	0.00%	0.25%	0.65%	1.28%	1.90%	2.50%	1.50%	1.50%
6	Total Capital Plus CCB	10.00%	10.00%	10.25%	10.65%	11.28%	11.90%	12.50%	11.50%	11.50%

* SBP reduced the Capital Conservation Buffer (CCB) from 2.5% to 1.5% to dampen the effects of COVID-19

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 11.50% as of December 31, 2021 whereas CAR stood at 27.55% at the year ended December 31, 2021.

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.

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, 2020

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	2021	2020
	-----(<i>Rupees in '000</i>)-----	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital/ Capital deposited with SBP	26,477,025	23,975,160
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)	29,135,552	24,941,897
8 Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
9 CET 1 before Regulatory Adjustments	55,612,577	48,917,057
10 Total regulatory adjustments applied to CET1 (Note 34.4.1)	(1,660,757)	(605,669)
11 Common Equity Tier 1	53,951,820	48,311,388
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)	53,951,820	48,311,388
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	495,557	337,607
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 T2 before regulatory adjustments	495,557	337,607
33 Total regulatory adjustment applied to T2 capital (Note 34.4.3)	-	-
34 Tier 2 capital (T2) after regulatory adjustments	495,557	337,607
35 Tier 2 capital recognized for capital adequacy	495,557	337,607
36 Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37 Total Tier 2 capital admissible for capital adequacy	495,557	337,607
38 TOTAL CAPITAL (T1 + admissible T2) (21+37)	54,447,377	48,648,995
39 Total Risk Weighted Assets (RWA) {for details refer Note 34.7}	197,604,776	163,599,028
Capital Ratios and buffers (in percentage of risk weighted assets)		
40 CET1 to total RWA	27.30%	29.53%
41 Tier-1 capital to total RWA	27.30%	29.53%
42 Total capital to total RWA	27.55%	29.74%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	9.00%	9.00%
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	1.50%	1.50%
47 CET1 available to meet buffers (as a percentage of risk weighted assets)	21.30%	23.53%
National minimum capital requirements prescribed by SBP		
48 CET1 minimum ratio	9.00%	9.00%
49 Tier 1 minimum ratio	10.50%	10.50%
50 Total capital minimum ratio	13.00%	13.00%

Particulars	2020		2020	
	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)	9,455	2,459
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	1,651,302	603,210
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)	1,660,757	605,669

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)	-	-

2021

2020

(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	867,391	300,496
(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
	2021	
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	37,703,444	37,703,444
Balances with other banks	23,331,975	23,331,975
Lending to financial institutions	44,289,040	44,289,040
Investments	445,777,512	445,777,512
Advances	49,212,164	49,212,164
Operating fixed assets	602,096	602,096
Intangible assets	9,455	9,455
Deferred tax assets	867,391	867,391
Other assets	8,754,924	8,754,924
Total assets	610,548,001	610,548,001
Liabilities & Equity		
Bills payable	1,458,127	1,458,127
Borrowings	390,977,403	390,977,403
Deposits and other accounts	155,302,046	155,302,046
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	8,849,150	8,849,150
Total liabilities	556,586,726	556,586,726
Share capital/ Head office capital account	26,477,025	26,477,025
Reserves	-	-
Unremitted profit / Accumulated (losses)	29,135,552	29,135,552
Minority Interest	-	-
Surplus / (Deficit) on revaluation of investments- net of tax	(1,651,302)	(1,651,302)
Total equity	53,961,275	53,961,275
Total liabilities & equity	610,548,001	610,548,001

Reconciliation of balance sheet to eligible regulatory capital

Particulars	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
2021			
(Rupees in '000)			
Assets			
Cash and balances with treasury banks	37,703,444	37,703,444	
Balances with other banks	23,331,975	23,331,975	
Lending to financial institutions	44,289,040	44,289,040	
Investments	445,777,512	445,777,512	
<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	49,212,164	49,212,164	
<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>	495,557	495,557	g
Fixed Assets	602,096	602,096	
Intangible assets	9,455	9,455	
Deferred Tax Assets	867,391	867,391	
<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	8,754,924	8,754,924	
<i>of which: Goodwill</i>			j
<i>of which: Intangibles</i>			k
<i>of which: Defined-benefit pension fund net assets</i>			l
Total assets	610,548,001	610,548,001	
Liabilities & Equity			
Bills payable	1,458,127	1,458,127	
Borrowings	390,977,403	390,977,403	
Deposits and other accounts	155,302,046	155,302,046	
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	8,849,150	8,849,150	
Total liabilities	556,586,726	556,586,726	
Share capital	26,477,025	26,477,025	
<i>of which: amount eligible for CET1</i>	26,477,025	26,477,025	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)	29,135,552	29,135,552	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			
<i>of which: Revaluation reserves on Fixed Assets</i>			aa
<i>of which: Unrealized Gains/Losses on AFS</i>			
<i>In case of Deficit on revaluation (deduction from CET1)</i>	(1,651,302)	(1,651,302)	ab
Total equity	53,961,275	53,961,275	
Total liabilities & Equity	610,548,001	610,548,001	

Basel III Disclosure (with added column)

Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
2021		
<i>(Rupees in '000)</i>		
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital/ Capital deposited with SBP	26,477,025	(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)	29,135,552	(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	55,612,577	
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)	9,455	(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	1,651,302	(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)	1,660,757	
31 Common Equity Tier 1	53,951,820	
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)	53,951,820	

Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
	2021 (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	495,557	(g)
54 Revaluation Reserves	-	
55 of which: Revaluation reserves on fixed assets	-	portion of (aa)
56 of which: Unrealized Gains/Losses on AFS	-	
57 Foreign Exchange Translation Reserves	-	(v)
58 Undisclosed/Other Reserves (if any)	-	
59 T2 before regulatory adjustments	495,557	
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)	495,557	
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	495,557	
70 TOTAL CAPITAL (T1 + admissible T2) (48+69)	54,447,377	

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 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, was 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, 2021 the Bank's Leverage ratio stood at 5.48% (2020: 5.31% which is well above the minimum requirement of 3.0%.)

	2021	2020
	<i>(Rupees in '000)</i>	
Eligible Tier-1 Capital	53,951,820	48,311,388
Total Exposures	985,405,095	909,524,168
Leverage Ratio	5.48%	5.31%

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	
	2021	2020	2021	2020
<i>(Rupees in '000)</i>				
Credit Risk				
On-Balance sheet				
<u>Portfolios subject to standardized approach (Simple or Comprehensive)</u>				
Cash & cash equivalents	-	-	-	-
Sovereign	68,028	66,560	544,225	532,481
Public Sector entities	-	-	-	-
Banks	1,680,005	1,093,367	13,440,039	8,746,934
Corporate	3,351,095	2,161,709	26,808,759	17,293,672
Retail	1,709	1,401	13,675	11,212
Residential Mortgages	2,162	1,086	17,296	8,687
Past Due loans	-	-	-	-
Operating Fixed Assets	75,262	88,095	602,096	704,761
Deffered tax asset	271,060	93,905	2,168,478	751,240
Other assets	10,651	12,454	85,204	99,634
	5,459,971	3,518,578	43,679,771	28,148,621
<u>Portfolios subject to Internal Rating Based (IRB) Approach</u>				
e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.	-	-	-	-
Off-Balance sheet				
Non-market related				
Financial guarantees	-	-	-	-
Direct Credit Substitutes	14,081	14,081	112,650	112,650
Performance Related Contingencies	11,455,014	8,889,023	91,640,113	71,112,186
Trade Related Contingencies	152,192	123,822	1,217,536	990,579
	11,621,287	9,026,927	92,970,299	72,215,416
Market related				
Foreign Exchange contracts	429,747	90,527	3,437,974	724,217
Derivatives	-	-	-	-
	429,747	90,527	3,437,974	724,217
Equity Exposure Risk in the Banking Book				
Under simple risk weight method				
Listed Equity Investment	-	-	-	-
Unlisted Equity Investment	-	-	-	-
Under Internal Model approach				
	17,511,005	12,636,032	140,088,044	101,088,255
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	2,152,821	2,549,643	26,910,268	31,870,537
Equity position risk	-	-	-	-
Foreign Exchange risk	86,054	39,572	1,075,679	494,645
Operational Risk				
Capital Requirement for operational risks	2,362,463	2,411,647	29,530,784	30,145,591
Total Risk Weighted Exposures	22,112,344	17,636,894	197,604,775	163,599,027

Capital Adequacy Ratios	2021		2020	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	27.30%	6.00%	29.53%
Tier-1 capital to total RWA	7.50%	27.30%	7.50%	29.53%
Total capital to total RWA	10.00%	27.55%	10.00%	29.74%
Total capital plus CCB to RWA	11.50%	27.55%	11.50%	29.74%

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:

				<i>amount in '000</i>
Exposure	Rating Category	Amount Outstanding	Deduction CRM	Net Amount
- Cash and Cash Equivalent		332,891	-	332,891
- Corporate	1	20,541,196	1,302,857	19,238,339
	2	15,316,988	-	20,719,845
	3,4	-	-	-
	5,6	-	-	-
	Unrated	3,146,192	-	3,146,192
	Unrated-2	11,663,981	4,100,000	7,563,981
- Public Sector Entities	1	-	-	-
	2,3	-	-	-
	4,5	-	-	-
	6	-	-	-
	Unrated	-	-	-
- Banks	1	44,301,363	35,431,106	8,870,257
	2,3	23,331,975	-	23,331,975
	4,5	-	-	-
	6	-	-	-
	Unrated	-	-	-
- Sovereigns etc.	1	-	-	-
	2	-	-	-
	3	-	-	-
	4,5	544,225	-	544,225
	6	-	-	-
	Unrated	-	-	-
- Government of Pakistan		458,363,337	-	458,363,337
- SBP		26,618,347	-	26,618,347
- Retail		18,233	-	18,233
- Residential Mortgage		49,417	-	49,417
- Past Dues Loans		-	-	-
- Past Dues against Residential Mortgage		-	-	-
- Significant investment in Commercial entities		-	-	-
- Significant investment and DTAs above 15% threshold		867,391	-	867,391
- Unlisted Equity Investments		-	-	-
- Listed Equity Investments		-	-	-
- Operating Fixed Assets		602,096	-	602,096
- Other Assets		85,204	-	85,204
		605,782,835	40,833,963	570,351,730

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

		2021		2020	
----- amount in '000 -----					
		TOTAL UNWEIGHTED ^a VALUE (average)	TOTAL WEIGHTED ^b VALUE (average)	TOTAL UNWEIGHTED ^a VALUE (average)	TOTAL WEIGHTED ^b VALUE (average)
HIGH QUALITY LIQUID ASSETS					
1	Total high quality liquid assets (HQLA)		450,477,354		454,299,448
CASH OUTFLOWS					
2	Retail deposits and deposits from small business customers of which:	-		-	
2.1	stable deposit	202,262	10,113	116,781	5,839
2.2	Less stable deposit	643,586	64,359	706,073	70,607
3	Unsecured wholesale funding of which:	-		-	
3.1	Operational deposits (all counterparties)	-	-	-	-
3.2	Non-operational deposits (all counterparties)	3,849,097	380,412	2,938,811	292,068
3.3	Unsecured debt	234,497,994	158,158,269	216,623,579	145,345,346
4	Secured wholesale funding				
5	Additional requirements of which:	-		-	
5.1	Outflows related to derivative exposures and other collateral requirements	422,358,459	422,358,459	425,863,211	425,863,211
5.2	Outflows related to loss of funding on debt products	-	-	-	-
5.3	Credit and Liquidity facilities	-	-	-	-
6	Other contractual funding obligations	7,938,615	7,938,615	8,458,751	8,458,751
7	Other contingent funding obligations	416,361,087	50,901,178	317,566,553	14,604,912
8	TOTAL CASH OUTFLOWS		639,811,404		594,640,733
CASH INFLOWS					
9	Secured lending	76,116,872	-	164,165,968	-
10	Inflows from fully performing exposures	3,859,747	1,971,540	2,988,488	1,902,577
11	Other Cash inflows	413,230,508	413,230,508	416,742,566	416,742,566
12	TOTAL CASH INFLOWS		415,202,048		418,645,144
		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE	
21	TOTAL HQLA		450,477,354		454,299,448
22	TOTAL NET CASH OUTFLOWS		193,332,867		180,436,844
23	LIQUIDITY COVERAGE RATIO		233%		252%

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.

2021						
<i>amount in PKR in thousands</i>						
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	55,612,577	-	-	-	55,612,577
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	9,562	19,812	117,992	27,905
6	Less stable deposits	-	308,569	705,128	3,022,046	912,327
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	44,300,724	18,513,831	88,304,381	122,851,697
10	Other liabilities:	-	-	827,807	1,795,441	2,209,345
11	NSFR derivative liabilities				-	-
12	All other liabilities and equity not included in other categories	398,661,432	-	-	-	-
13	Total ASF					181,613,851
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)				523,864,557	-
15	Deposits held at other financial institutions for operational purposes	23,331,975	-	-	-	11,665,987
16	Performing loans and securities:	-	-	-	-	-
17	Performing loans to financial institutions secured by Level 1 HQLA	-	44,289,040	-	-	4,428,904
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial 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:	-	-	-	11,034,849	9,379,621
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	48,845	31,749
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	-	-	-	-	-
22	Other assets:	-	23,436,066	10,716,682	-	23,441,697
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	5,384,224	-	-	-	5,384,224
28	Off-balance sheet items	29,455,516	68,725,677	87,193,063	225,949,486	20,566,187
29	Total RSF					74,898,370
30	Net Stable Funding Ratio (%)					242%

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	48,917,057	-	-	-	48,917,057
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	6,710	14,220	58,573	19,884
6	Less stable deposits	-	408,530	754,198	2,532,566	1,046,455
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	37,152,188	16,480,703	61,893,605	91,301,190
10	Other liabilities:					
11	NSFR derivative liabilities				-	-
12	All other liabilities and equity not included in other categories	260,532,032	-	-	-	-
13	Total ASF					185,376,723
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)				446,331,797	-
15	Deposits held at other financial institutions for operational purposes	2,497,170	-	-	-	1,248,585
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	187,430,652	-	-	18,743,065
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial 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:					
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	8,000,803	6,800,683
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	26,187,441	-	-	-	26,187,441
28	Off-balance sheet items	27,429,872	59,281,823	41,133,140	219,817,046	17,383,094
29	Total RSF					86,485,584
30	Net Stable Funding Ratio (%)					214%