

## 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, 2023 stands at Rs. 42,279 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	2023
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	<b>Total Capital Plus CCB</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.25%</b>	<b>10.65%</b>	<b>11.28%</b>	<b>11.90%</b>	<b>12.50%</b>	<b>11.50%</b>	<b>11.50%</b>

\* 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, 2023 whereas CAR stood at 40.80% at the year ended December 31, 2023.

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, 2022

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	2023	2022
	-----( <i>Rupees in '000</i> )-----	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
1 Fully Paid-up Capital/ Capital deposited with SBP	42,279,105	33,964,635
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)	79,234,673	40,227,593
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>121,513,778</b>	74,192,228
10 Total regulatory adjustments applied to CET1 (Note 34.4.1)	<b>(157,203)</b>	(549,743)
11 <b>Common Equity Tier 1</b>	<b>121,356,575</b>	73,642,485
<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>121,356,575</b>	73,642,485
<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	59,893	543,567
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>59,893</b>	543,567
33 Total regulatory adjustment applied to T2 capital (Note 34.4.3)	-	-
34 Tier 2 capital (T2) after regulatory adjustments	59,893	543,567
35 Tier 2 capital recognized for capital adequacy	59,893	543,567
36 Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37 <b>Total Tier 2 capital admissible for capital adequacy</b>	<b>59,893</b>	543,567
38 <b>TOTAL CAPITAL (T1 + admissible T2) (21+37)</b>	<b>121,416,468</b>	74,186,052
39 <b>Total Risk Weighted Assets (RWA) {for details refer Note 34.7}</b>	<b>297,602,304</b>	239,685,041
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>		
40 <b>CET1 to total RWA</b>	<b>40.78%</b>	30.72%
41 <b>Tier-1 capital to total RWA</b>	<b>40.78%</b>	30.72%
42 <b>Total capital to total RWA</b>	<b>40.80%</b>	30.95%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	<b>9.00%</b>	9.00%
44 of which: capital conservation buffer requirement	<b>1.50%</b>	1.50%
45 of which: countercyclical buffer requirement	-	-
46 of which: D-SIB or G-SIB buffer requirement	<b>1.50%</b>	1.50%
47 CET1 available to meet buffers (as a percentage of risk weighted assets)	<b>34.78%</b>	24.72%
<b>National minimum capital requirements prescribed by SBP</b>		
48 <b>CET1 minimum ratio</b>	<b>9.00%</b>	9.00%
49 <b>Tier 1 minimum ratio</b>	<b>10.50%</b>	10.50%
50 <b>Total capital minimum ratio</b>	<b>13.00%</b>	13.00%

Particulars	2023		2022	
	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)	37,036	35,575
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	120,167	514,168
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>157,203</b>	<b>549,743</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>

2023

2022

(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	1,590,839	1,061,835
(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
	2023	
	(Rupees in '000)	
<b>Assets</b>		
Cash and balances with treasury banks	63,902,407	63,902,407
Balances with other banks	16,633,161	16,633,161
Lending to financial institutions	469,012,808	469,012,808
Investments	471,336,787	471,336,787
Advances	372,240,334	372,240,334
Operating fixed assets	763,187	763,187
Intangible assets	37,036	37,036
Deferred tax assets	1,590,839	1,590,839
Other assets	13,704,971	13,704,971
<b>Total assets</b>	<b>1,409,221,530</b>	<b>1,409,221,530</b>
<b>Liabilities &amp; Equity</b>		
Bills payable	1,740,735	1,740,735
Borrowings	955,797,554	955,797,554
Deposits and other accounts	251,874,893	251,874,893
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	78,414,737	78,414,737
<b>Total liabilities</b>	<b>1,287,827,919</b>	<b>1,287,827,919</b>
Share capital/ Head office capital account	42,279,105	42,279,105
Reserves	-	-
Unremitted profit / Accumulated (losses)	79,234,673	79,234,673
Minority Interest	-	-
Surplus / (Deficit) on revaluation of investments- net of tax	(120,167)	(120,167)
<b>Total equity</b>	<b>121,393,611</b>	<b>121,393,611</b>
<b>Total liabilities &amp; equity</b>	<b>1,409,221,530</b>	<b>1,409,221,530</b>

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

Particulars	Balance sheet as	Under regulatory	Reference
	in published financial statements	scope of consolidation	
	2023		
	(Rupees in '000)		
<b>Assets</b>			
Cash and balances with treasury banks	63,902,407	63,902,407	
Balances with other banks	16,633,161	16,633,161	
Lending to financial institutions	469,012,808	469,012,808	
Investments	471,336,787	471,336,787	
<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	372,240,334	372,240,334	
<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>	59,893	59,893	g
Fixed Assets	763,187	763,187	
Intangible assets	37,036	37,036	
Deferred Tax Assets	1,590,839	1,590,839	
<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	13,704,971	13,704,971	
<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>1,409,221,530</b>	<b>1,409,221,530</b>	
<b>Liabilities &amp; Equity</b>			
Bills payable	1,740,735	1,740,735	
Borrowings	955,797,554	955,797,554	
Deposits and other accounts	251,874,893	251,874,893	
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	78,414,737	78,414,737	
<b>Total liabilities</b>	<b>1,287,827,919</b>	<b>1,287,827,919</b>	
Share capital	42,279,105	42,279,105	
<i>of which: amount eligible for CET1</i>	42,279,105	42,279,105	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)	79,234,673	79,234,673	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>	(120,167)	(120,167)	ab
<b>Total equity</b>	<b>121,393,611</b>	<b>121,393,611</b>	
<b>Total liabilities &amp; Equity</b>	<b>1,409,221,530</b>	<b>1,409,221,530</b>	

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

Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
<b>2023</b>		
<i>(Rupees in '000)</i>		
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
1 Fully Paid-up Capital/ Capital deposited with SBP	42,279,105	(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)	79,234,673	(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>121,513,778</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)	37,036	(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	120,167	(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>157,203</b>	
<b>31 Common Equity Tier 1</b>	<b>121,356,575</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>121,356,575</b>	

Particulars	Component of regulatory capital reported by branches	Source based on reference number from step 2
<b>2023</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	59,893	(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>59,893</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>	<b>-</b>	
66 Tier 2 capital (T2)	59,893	
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>59,893</b>	
<b>70 TOTAL CAPITAL (T1 + admissible T2) (48+69)</b>	<b>121,416,468</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 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, 2023 the Bank's Leverage ratio stood at 8.01% (2022 6.17% which is well above the minimum requirement of 3.0%).

	2023	2022
	<i>(Rupees in '000)</i>	
Eligible Tier-1 Capital	121,356,575	73,642,485
Total Exposures	1,515,728,877	1,193,680,827
<b>Leverage Ratio</b>	<b>8.01%</b>	<b>6.17%</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	
	2023	2022	2023	2022
<i>(Rupees in '000)</i>				
<b><u>Credit Risk</u></b>				
<b>On-Balance sheet</b>				
<b>Portfolios subject to standardized approach (Simple or Comprehensive)</b>				
Cash & cash equivalents	-	-	-	-
Sovereign	168,665	57,460	1,349,323	459,677
Public Sector entities	-	-	-	-
Banks	3,537,264	809,267	28,298,110	6,474,132
Corporate	671,381	3,259,692	5,371,051	26,077,534
Retail	1,193	1,506	9,544	12,052
Residential Mortgages	3,373	2,873	26,984	22,988
Past Due loans	-	-	-	-
Operating Fixed Assets	95,398	68,976	763,187	551,805
Deffered tax asset	497,137	331,823	3,977,098	2,654,588
Other assets	14,007	8,342	112,058	66,738
	<b>4,988,419</b>	<b>4,539,939</b>	<b>39,907,355</b>	<b>36,319,513</b>
<b>Portfolios subject to Internal Rating Based (IRB) Approach</b>				
e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.	-	-	-	-
<b>Off-Balance sheet</b>				
Non-market related				
Financial guarantees	-	-	-	-
Direct Credit Substitutes	14,081	14,081	112,650	112,650
Performance Related Contingencies	18,090,846	15,957,350	144,726,771	127,658,800
Trade Related Contingencies	44,375	141,140	354,998	1,129,119
	<b>18,149,302</b>	<b>16,112,571</b>	<b>145,194,419</b>	<b>128,900,569</b>
Market related				
Foreign Exchange contracts	1,153,069	1,045,799	9,224,554	8,366,394
Derivatives	-	-	-	-
	<b>1,153,069</b>	<b>1,045,799</b>	<b>9,224,554</b>	<b>8,366,394</b>
<b>Equity Exposure Risk in the Banking Book</b>				
Under simple risk weight method				
Listed Equity Investment	-	-	-	-
Unlisted Equity Investment	-	-	-	-
Under Internal Model approach				
	-	-	-	-
	<b>24,290,791</b>	<b>21,698,310</b>	<b>194,326,328</b>	<b>173,586,476</b>
<b>Market Risk</b>				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	2,427,259	2,231,046	30,340,732	27,888,071
Equity position risk	-	-	-	-
Foreign Exchange risk	217,753	309,433	2,721,907	3,867,911
<b>Operational Risk</b>				
Capital Requirement for operational risks	5,617,067	2,747,407	70,213,336	34,342,583
<b>Total Risk Weighted Exposures</b>	<b>32,552,869</b>	<b>26,986,195</b>	<b>297,602,303</b>	<b>239,685,041</b>

Capital Adequacy Ratios	2023		2022	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	40.78%	6.00%	30.72%
Tier-1 capital to total RWA	7.50%	40.78%	7.50%	30.72%
Total capital to total RWA	10.00%	40.80%	10.00%	30.95%
Total capital plus CCB to RWA	11.50%	40.80%	11.50%	30.95%

**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		268,093	-	268,093
- Corporate	1	3,487,916	-	3,487,916
	2	434,286	-	434,286
	3,4	-	-	-
	5,6	-	-	-
	Unrated	1,215,690	-	1,215,690
	Unrated-2	2,592,508	-	2,592,508
- Public Sector Entities	1	-	-	-
	2,3	-	-	-
	4,5	-	-	-
	6	-	-	-
	Unrated	-	-	-
- Banks	1	470,016,958	370,109,773	99,907,185
	2,3	16,633,067	-	16,633,067
	4,5	-	-	-
	6	93	-	93
	Unrated	-	-	-
- Sovereigns etc.	1	369,274,566	-	369,274,566
	2	-	-	-
	3	-	-	-
	4,5	-	-	-
	6	899,548	-	899,548
	Unrated	-	-	-
- Government of Pakistan		491,955,161	-	491,955,161
- SBP		42,461,909	-	42,461,909
- Retail		12,725	-	12,725
- Residential Mortgage		77,098	-	77,098
- Past Dues Loans		-	-	-
- Past Dues against Residential Mortgage		-	-	-
- Significant investment in Commercial entities		-	-	-
- Significant investment and DTAs above 15% threshold		1,590,839	-	1,590,839
- Unlisted Equity Investments		-	-	-
- Listed Equity Investments		-	-	-
- Operating Fixed Assets		763,187	-	763,187
- Other Assets		112,058	-	112,058
		<b>1,401,795,702</b>	<b>370,109,773</b>	<b>1,031,685,929</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

		2023		2022	
		----- amount in '000 -----			
		TOTAL UNWEIGHTEDa VALUE (average)	TOTAL WEIGHTED b VALUE (average)	TOTAL UNWEIGHTEDa VALUE (average)	TOTAL WEIGHTED b VALUE (average)
<b>HIGH QUALITY LIQUID ASSETS</b>					
1	Total high quality liquid assets (HQLA)		853,112,003		563,569,354
<b>CASH OUTFLOWS</b>					
2	Retail deposits and deposits from small business cusmtomers of which:	-		-	
2.1	stable deposit	121,664	6,083	135,156	6,758
2.2	Less stable deposit	646,592	64,659	660,920	66,092
3	Unsecured wholesale funding of which:	-		-	
3.1	Operational deposits (all counterparties)	-	-	-	-
3.2	Non-operational deposits (all counterparties)	3,686,766	367,939	2,686,964	268,397
3.3	Unsecured debt	358,920,023	230,805,878	240,054,766	149,344,567
4	Secured wholesale funding				
5	Additional requirements of which:	-		-	
5.1	Outflows related to derivative exposures and other collateral requirements	1,686,654,864	1,686,654,864	851,383,501	851,383,501
5.2	Outflows related to loss of funding on debt products	-	-	-	-
5.3	Credit and Liquidity facilities	-	-	-	-
6	Other contractual funding obligations	34,371,700	34,371,700	12,426,471	12,426,471
7	Other contingent funding obligations	531,349,560	23,315,351	454,537,948	21,108,118
8	<b>TOTAL CASH OUTFLOWS</b>		1,975,586,474		1,034,603,904
<b>CASH INFLOWS</b>					
9	Secured lending	160,918,973	-	41,838,116	-
10	Inflows from fully performing exposures	4,209,898	2,104,949	6,593,561	3,296,781
11	Other Cash inflows	1,709,867,555	1,709,867,555	869,923,505	869,923,505
12	<b>TOTAL CASH INLFOWS</b>		1,711,972,504		873,220,285
		<b>TOTAL ADJUSTED VALUE</b>		<b>TOTAL ADJUSTED VALUE</b>	
21	<b>TOTAL HQLA</b>		853,112,003		563,569,354
22	<b>TOTAL NET CASH OUTFLOWS</b>		493,896,619		268,688,641
23	<b>LIQUIDITY COVERAGE RATIO</b>		173%		210%

#### 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.

<b>2023</b>						
<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		
<b>ASF Item</b>						
1	Capital:					
2	Regulatory capital	121,513,778	-	-	-	121,513,778
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	7,323	15,341	96,965	21,531
6	Less stable deposits	-	178,057	338,000	2,496,689	464,452
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	17,197,319	23,407,847	208,137,351	231,033,588
10	Other liabilities:	-	-	80,710,047	22,379,398	62,734,422
11	NSFR derivative liabilities					-
12	All other liabilities and equity not included in other categories	566,444,671	-	-	-	-
13	<b>Total ASF</b>					415,767,770
<b>RSF item</b>						
14	Total NSFR high-quality liquid assets (HQLA)				988,337,702	-
15	Deposits held at other financial institutions for operational purposes	16,633,161	-	-	-	8,316,581
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	469,012,808	-	-	46,901,281
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:	-	-	-	4,691,138	3,987,467
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	72,478	47,111
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	-	-	-	-	-
22	Other assets:	-	13,554,941	1,207,838	-	7,381,390
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	11,929,770	-	-	-	11,929,770
28	Off-balance sheet items	68,932,349	112,035,073	37,893,409	289,442,475	25,415,165
29	<b>Total RSF</b>					103,978,764
30	<b>Net Stable Funding Ratio (%)</b>					<b>400%</b>

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	74,192,228	-	-	-	74,192,228
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	8,586	17,073	116,933	24,376
6	Less stable deposits	-	187,961	413,959	2,577,957	541,728
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	21,598,222	19,900,559	131,721,931	155,166,200
10	Other liabilities:					
11	NSFR derivative liabilities					-
12	All other liabilities and equity not included in other categories	476,513,985	-	-	-	-
13	<b>Total ASF</b>					<b>261,443,278</b>
<b>RSF item</b>						
14	Total NSFR high-quality liquid assets (HQLA)				689,664,726	-
15	Deposits held at other financial institutions for operational purposes	6,434,681	-	-	-	3,217,340
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	80,542,850	-	-	8,054,285
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	-	-	-	8,743,416	7,431,904
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	10,760,323	-	-	-	10,760,323
28	Off-balance sheet items	42,407,002	45,147,653	94,106,290	274,925,702	22,829,332
29	<b>Total RSF</b>					<b>85,803,037</b>
30	<b>Net Stable Funding Ratio (%)</b>					<b>305%</b>