CAPITAL MANAGEMENT

Capital Management aims to safeguard Bank's ability to continue as a going concern so that it could continue to provide adequate returns to the shareholders by pricing products and services commensurately with the level of risk. For this the Bank ensures strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. The Bank maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

This process is managed by the Asset Liability Committee (ALCO) of the Bank. The objective of ALCO is to derive the most appropriate strategy in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movement, liquidity constraints and capital adequacy and its implication on risk management policies.

The Bank prepares Annual Budget and Projections outlining its future growth and direction keeping in consideration the economic and political factors in the country and region. Adequacy of capital to support the expected growth in balance sheet is also ascertained.

Stress testing of the Bank is regularly performed to ensure that the Bank remains well capitalised and able to sustain any shocks under any of the specified risk factors.

The State Bank of Pakistan (SBP) introduced guidelines with respect to disclosure of capital adequacy related information in the financial statements of banks vide its communication dated February 4, 2014. These guidelines are based on the requirements of Basel III which were introduced by the SBP in August 2013 for implementation by the banks in Pakistan. The SBP has specified a transitional period till 2018 for implementation of Basel III. The SBP vide its BPRD Circular No. 11 of 2014 dated November 5, 2014 has specified the disclosure requirements with respect to capital adequacy related information. The disclosures below have been prepared on the basis of the SBP's circular.

Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, considering the requirements set by the regulators of the banking markets where the Bank operates;

- Maintain strong ratings and to protect the Bank against unexpected events; and

- Availability of adequate capital at a reasonable cost so as to enable the Bank to operate adequately and provide reasonable value addition for the shareholders.

Capital Structure

Under Basel III framework, Bank's regulatory capital has been analysed into two tiers as follows:

- Tier 1 capital (going concern capital) which is sub divided into:

(a) Common Equity Tier 1 (CET1), which includes fully paid up capital, reserve for bonus issue, general reserves and un-appropriated profits (net of losses), etc. after deductions for investments in the equity of subsidiary companies engaged in banking and financial activities (to the extent of 50% after incorporating transitional provisions), reciprocal crossholdings and deficit on revaluation of available for sale investments and deduction for book value of intangibles.

The State Bank of Pakistan vide its letter no BPRD/BA&CP/649/3634/2019 dated February 15, 2019 has advised the Bank to apply regulatory deductions with respect to the balance sheet amount of "Goodwill" and "Deferred Tax Assets" pertaining to Defunct KASB Bank in the year ending 31 December 2019, 31 December 2020, 31 December 2021 at the cumulative rate of 25%, 60% and 100% respectively. Accordingly, the amounts of goodwill and deferred tax asset pertaining to defunct KASB Bank Limited have been deducted at the rate of 25% from CET 1 capital as at 31 December 2019.

(b) Additional Tier 1 capital (AT1), which includes instruments issued by the Bank which meet the specified criteria after regulatory deduction for investments in the equity of subsidiary companies engaged in banking and financial activities and other specified deductions.

State Bank of Pakistan vide its letter no. BPRD/BA&CP/649/3760/20 dated February 24, 2020 has allowed the bank to consider funds received against Pre-IPO of ADT-1 sukuk as ADT-1 sukuk for the purpose of calculation of capital adequacy ratio. (Subject to conditions as disclosed in note 20 to the unconsolidated financial statements)

- Tier II capital, which includes general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets), reserves on revaluation of fixed assets after deduction of deficit on available for sale investments (upto a maximum of 78%), and any balance specifically allowed by the regulator.

Banking operations are categorised in either the trading book or the banking book and risk weighted assets are determined according to the specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures.

Capital adequacy ratio

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 Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk is presented below:

Particulars	2019	2018
	Amount	
	--------- Rupees in '000 ---------	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
Fully paid-up capital / capital deposited with the SBP	11,087,033	10,079,121
Balance in share premium account	-	-
Reserve for issue of bonus shares	-	-
Discount on issue of shares	(79,042)	(79,042)
General / Statutory Reserves	1,186,267	968,799
Gains / (Losses) on derivatives held as Cash Flow Hedge	-	-
(Accumulated loss) / Unappropriated profits	2,875,710	1,695,290
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
CET 1 before Regulatory Adjustments	15,069,968	12,664,168
Total regulatory adjustments applied to CET1	(1,581,783)	(668,473)
Common Equity Tier 1	13,488,185	11,995,695
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 capital instruments plus any related share premium		
of which:	-	-
- classified as equity	-	-
- classified as liabilities	1,700,000	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third	-	-
- of which: instrument issued by subsidiaries subject to phase out	-	-
AT1 before regulatory adjustments	1,700,000	-
Total of Regulatory Adjustment applied to AT1 capital	-	-
Additional Tier 1 capital after regulatory adjustments	1,700,000	-
Tier 1 Capital (CET1 + admissible AT1)	15,188,185	11,995,695

Tier 2 Capital		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium *	3,086,794	2,822,857
Capital instruments subject to phase out arrangement issued	-	-
Tier 2 capital instruments issued to third parties by consolidated subsidiaries		
- of which: instruments issued by subsidiaries subject to phase out	-	-
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	337,812	223,878
Revaluation Reserves (net of taxes)		
of which:		
- Revaluation reserves on fixed assets	1,448,616	1,479,516
- Unrealized gains/losses on AFS	2,988,734	9,988
Foreign Exchange Translation Reserves	-	-
Undisclosed/Other Reserves (if any)	-	-
T2 before regulatory adjustments	7,861,956	4,536,239
Total regulatory adjustment applied to T2 capital	-	
Tier 2 capital (T2) after regulatory adjustments	7,861,956	4,536,239
Tier 2 capital recognized for capital adequacy	4,264,299	4,151,812
Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy	4,264,299	4,151,812
TOTAL CAPITAL (T1 + admissible T2)	19,452,484	16,147,507
Total Risk Weighted Assets (RWA) {for details refer Note }	130,154,724	106,912,935

* Considered as Tier II capital as per the SBP's approval vide letter no BPRD(R&P-02)/625-112/2017/4809 dated February 24, 2017.

Particulars	2019	2018
	Amount	
	--------- Rupees in '000 ---------	
Capital Ratios and buffers (in percentage of risk weighted assets)		
CET1 to total RWA	10.36%	11.22%
Tier-1 capital to total RWA	11.67%	11.22%
Total capital to total RWA	14.95%	15.10%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) of which:	-	-
- capital conservation buffer requirement	-	-
- countercyclical buffer requirement	-	-
- D-SIB or G-SIB buffer requirement	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	4.36%	5.22%
National minimum capital requirements prescribed by SBP		
CET1 minimum ratio	6.00%	6.00%
Tier 1 minimum ratio	7.50%	7.50%
Total capital minimum ratio	10.00%	10.00%
CCB (Consisting of CET 1 only)	2.50%	1.90%
Total Capital plus CCB	12.50%	11.90%

Particulars	2019 Amount	2018 Amount
	----- Rupees in '000 ----	
Common Equity Tier 1 capital: Regulatory adjustments		
Goodwill (net of related deferred tax liability)	-	-
All other intangibles (net of any associated deferred tax liability)	532,041	177,609
Shortfall of provisions against classified assets	157,497	490,864
Deferred tax assets that rely on future profitability excluding those	892,245	
arising from temporary differences (net of related tax liability)	-	-
Defined-benefit pension fund net assets	-	-
Reciprocal cross holdings in CET1 capital instruments	-	-
Cash flow hedge reserve	-	-
Investment in own shares / CET1 instruments	-	-
Securitization gain on sale	-	-
Capital shortfall of regulated subsidiaries	-	-
Deficit on account of revaluation from bank's holdings of property / AFS	-	-
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)	-	-
Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
Amount exceeding 15% threshold of which:	-	-
- significant investments in the common stocks of financial entities	-	-
- deferred tax assets arising from temporary differences	-	-
National specific regulatory adjustments applied to CET1 capital	-	-
Investment in TFCs of other banks exceeding the prescribed limit	-	-
Any other deduction specified by SBP	-	-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
Total regulatory adjustments applied to CET1	1,581,783	668,473
Additional Tier 1 Capital: regulatory adjustments		
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-
Investment in own AT1 capital instruments	-	-
Reciprocal cross holdings in Additional Tier 1 capital instruments	-	-
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)	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
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	-	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
Total of Regulatory Adjustment applied to AT1 capital	-	-

* This column highlights items that are still subject to Pre Basel III treatment during the transitional period

Tier 2 Capital: regulatory adjustments

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	-	-	-
Reciprocal cross holdings in Tier 2 instruments	-	-	-
Investment in own Tier 2 capital instrument	-	-	-
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)	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-
Amount of Regulatory Adjustment applied to T2 capital	**-**	**-**	**-**

Risk Weighted Assets subject to pre-Basel III treatment	2019	2018
	--------- Rupees in '000 ---------	
Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	-	-
of which: deferred tax assets	-	-
of which: Defined-benefit pension fund net assets	-	-
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	-	-
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)		
Non-significant investments in the capital of other financial entities	-	-
Significant investments in the common stock of financial entities	602,484	627,690
Deferred tax assets arising from temporary differences (net of related tax liability)	513,179	175,330
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	337,812	230,642
Cap on inclusion of provisions in Tier 2 under standardized approach	1,420,499	1,178,192
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

Leverage ratio

According to Basel III instructions issued by State Bank of Pakistan (BPRD circular # 06, dated: August 15, 2013), it is mandatory for all the banks to calculate and report the Leverage Ratio on a quarterly basis with the minimum benchmark of 3%.

The reason for calculating leverage ratio is to avoid excessive On- and Off-balance sheet leverage in the banking system. A simple, transparent and non-risk based Ratio has been introduced with the following objectives:

- Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and

- Reinforce the risk based requirements with an easy to understand and a non-risk based measure.

	Particulars	2019	2018
		----------- Rupees in '000 -----------	
	On balance sheet exposures		
1	On-balance sheet items (excluding unrealised gain on forward contracts)	282,938,997	215,565,647
2	Forward exchange commitments with positive fair values	110,296	306,233
	Total on balance sheet exposures	**283,049,293**	**215,871,880**
	Off balance sheet exposures		
3	Off-balance sheet items	29,018,574	14,899,885
4	Commitment in respect of forward exchange contracts	112,598	27,142
	Total Off balance sheet exposures	**29,131,172**	**14,927,027**
	Capital and total exposures		
5	**Tier 1 capital**	**15,188,185**	**11,995,695**
6	**Total exposures**	**312,180,465**	**230,798,907**
Basel III leverage ratio		**4.87%**	**5.20%**

The current year's leverage ratio is 4.87% (2018: 5.20%) whereas total tier 1 capital and total exposures are Rs. 15,188.185 million (2017: Rs. 11,995.695million) and Rs. 312,180.465 million (2018: Rs. 230,798.907 million)

Capital Structure Reconciliation

Reconciliation of each financial statement line item to item under regulatory scope of reporting - Step 1

Particulars	Balance sheet as in published financial statements	Under regulatory scope of reporting
	------------(Rupees in '000)----------	
Assets		
Cash and balances with treasury banks	14,640,163	14,640,163
Balances with other banks	1,877,508	1,877,508
Due from financial institutions	42,911,620	42,911,620
Investments	55,194,471	55,194,471
Islamic financing and related assets	131,774,504	131,774,504
Fixed assets	12,717,391	12,717,391
Intangible assets	3,101,794	3,101,794
Deferred tax assets	5,621,695	5,621,695
Other assets	14,655,739	14,655,739
Non-current assets held for sale	601,609	601,609
Total assets	**283,096,494**	**283,096,494**
Liabilities and Equity		
Bills payable	3,645,324	3,645,324
Due to financial institutions	15,103,607	15,103,607
Deposits and other accounts	228,826,675	228,826,675
Sub-ordinated loans	1,700,000	1,700,000
Deferred tax liabilities	-	-
Other liabilities	14,124,556	14,124,556
Total liabilities	**263,400,162**	**263,400,162**
Share capital	11,087,033	11,087,033
Discount on issue of shares	(79,042)	(79,042)
Reserves	1,186,267	1,186,267
Accumulated profit	2,875,710	2,875,710
Minority Interest	-	-
Surplus on revaluation of investments - net of tax	4,626,364	4,626,364
Total liabilities and equity	**283,096,494**	**283,096,494**

Reconciliation of balance sheet to eligible regulatory capital - Step 2

Particulars	Reference	Balance sheet as in published financial statements	Under regulatory scope of reporting
		------------(Rupees in '000)----------	
Assets			
Cash and balances with treasury banks		14,640,163	14,640,163
Balances with other banks		1,877,508	1,877,508
Due from financial institutions		42,911,620	42,911,620
Investments		55,194,471	55,194,471
of which:			-
- *non-significant capital investments in capital of other financial institutions exceeding 10% threshold*	a	-	-
- *significant capital investments in financial sector entities exceeding regulatory threshold*	b	-	-
- *mutual Funds exceeding regulatory threshold*	c	-	-
- *reciprocal crossholding of capital instrument*	d	-	-
- *others*	e	-	-
Islamic financing and related assets		131,774,504	131,774,504
- *shortfall in provisions / excess of total EL amount over eligible provisions under IRB*	f	-	-
- *general provisions reflected in Tier 2 capital*	g	337,812	337,812
Operating fixed assets		15,819,185	15,819,185
- *of which: Intangibles*	k	3,101,794	3,101,794
			-
Deferred tax assets		5,621,695	5,621,695
of which:			-
- *DTAs that rely on future profitability excluding those arising from temporary differences*	h	3,548,284	3,548,284
- *DTAs arising from temporary differences exceeding regulatory thresh*	i	4,153,622	4,153,622
Other assets		15,257,348	15,257,348
of which:			-
- *defined-benefit pension fund net assets*	l	-	-
Total assets		**283,096,494**	283,096,494
			-
Liabilities and Equity			-
Bills payable		3,645,324	3,645,324
Due to financial institutions		15,103,607	15,103,607
Deposits and other accounts		228,826,675	228,826,675
Sub-ordinated loans of which:			-
- *eligible for inclusion in AT1*	m	1,700,000	1,700,000
- *eligible for inclusion in Tier 2*	n	-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities of which:		-	-
- *DTLs related to goodwill*	o	-	-
- *DTLs related to intangible assets*	p	-	-
- *DTLs related to defined pension fund net assets*	q	-	-
- *other deferred tax liabilities*	r	-	-
Other liabilities		14,124,556	14,124,556
Total liabilities		**263,400,162**	263,400,162

			-
Share capital		11,087,033	11,087,033
- *of which: amount eligible for CET1*	s	11,087,033	11,087,033
- *of which: amount eligible for AT1*	t	-	-
Reserves of which:		1,186,267	1,186,267
- *portion eligible for inclusion in CET1 - Statutory reserve*	u	1,186,267	1,186,267
- *portion eligible for inclusion in CET1 - Gain on Bargain Purchase*		-	-
- *portion eligible for inclusion in CET1 - General reserve*		-	-
- *portion eligible for inclusion in Tier 2 General reserve*	v	-	-
Discount on issue of shares		(79,042)	(79,042)
Accumulated profit	w	2,875,710	2,875,710
Minority Interest of which:			-
- *portion eligible for inclusion in CET1*	x	-	-
- *portion eligible for inclusion in AT1*	y	-	-
- *portion eligible for inclusion in Tier 2*	z	-	-
Surplus on revaluation of assets of which:		4,626,364	4,626,364
- *Revaluation reserves on Property*		1,637,630	1,637,630
- *Unrealized Gains/Losses on AFS*	aa	2,988,734	2,988,734
- *In case of Deficit on revaluation (deduction from CET1)*	ab	-	-
Total liabilities and Equity		**283,096,494**	283,096,494

.3 Basel III Disclosure (with added column) - Step 3

	Particulars	Source based on reference number from step 2	Component of regulatory capital reported by bank
			(Rupees in '000)
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital	(s)	11,087,033
2	Balance in share premium account		-
3	Discount on issue of shares		(79,042)
4	Reserve for issue of bonus shares		-
5	General / Statutory Reserves	(u)	1,186,267
6	Gain / (Losses) on derivatives held as Cash Flow Hedge		-
7	Unappropriated / unremitted profits	(w)	2,875,710
8	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)	-
9	**CET 1 before Regulatory Adjustments**		**15,069,968**
	Common Equity Tier 1 capital: Regulatory adjustments		
10	Goodwill (net of related deferred tax liability)	(j) - (s)	532,041
11	All other intangibles (net of any associated deferred tax liability)	(k) - (p)	157,497
12	Shortfall of provisions against classified assets	(f)	-
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(h) - (r) * x%	892,245
14	Defined-benefit pension fund net assets	(l) - (q) * x%	-
15	Reciprocal cross holdings in CET1 capital instruments	(d)	-
16	Cash flow hedge reserve		-
17	Investment in own shares / CET1 instruments		-

18	Securitization gain on sale		-
19	Capital shortfall of regulated subsidiaries		-
20	Deficit on account of revaluation from bank's holdings of property / AFS	(ab)	-
21	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)	-
22	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)	-
23	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i)	-
24	Amount exceeding 15% threshold of which:		
	- significant investments in the common stocks of financial entities		-
	- deferred tax assets arising from temporary differences		-
25	National specific regulatory adjustments applied to CET1 capital		-
26	Investment in TFCs of other banks exceeding the prescribed limit		-
27	Any other deduction specified by SBP (mention details)		-
28	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-
29	Total regulatory adjustments applied to CET1		1,581,783
	Common Equity Tier 1		**13,488,185**
	Additional Tier 1 (AT 1) Capital		
30	Qualifying Additional Tier-1 instruments plus any related share premium *of which:*		-
31	- Classified as equity	(t)	-
32	- Classified as liabilities	(m)	1,700,000
33	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties	(y)	-
34	- of which: instrument issued by subsidiaries subject to phase out		-
35	**AT1 before regulatory adjustments**		1,700,000

Particulars		Source based on reference number from note 40.4.2	Component of regulatory capital reported by bank
			(Rupees in '000)
Additional Tier 1 Capital: regulatory adjustments			
36	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		-
37	Investment in own AT1 capital instruments		-
38	Reciprocal cross holdings in Additional Tier 1 capital instruments		-
39	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)	-
40	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(ad)	-

41	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		-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-
43	Total of Regulatory Adjustment applied to AT1 capital		-
44	Additional Tier 1 capital		1,700,000
45	**Additional Tier 1 capital recognised for capital adequacy**		1,700,000
	Tier 1 Capital (CET1 + admissible AT1)		**15,188,186**
	Tier 2 Capital		
46	Qualifying Tier 2 capital instruments under Basel III	(n)	3,086,794
47	Capital instruments subject to phase out arrangement from Tier 2		-
48	Tier 2 capital instruments issued to third party by consolidated subsidiaries	(z)	-
	- of which: instruments issued by subsidiaries subject to phase out		-
49	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	337,812
50	Revaluation Reserves eligible for Tier 2 of which:		
51	- portion pertaining to Property		1,448,616
52	- portion pertaining to AFS securities	78% of (aa)	2,988,734
53	Foreign Exchange Translation Reserves	(v)	-
54	Undisclosed / Other Reserves (if any)		-
55	**T2 before regulatory adjustments**		**7,861,956**
	Tier 2 Capital: regulatory adjustments		
56	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		-
57	Reciprocal cross holdings in Tier 2 instruments		-
58	Investment in own Tier 2 capital instrument		-
59	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)	-
60	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
61	Amount of Regulatory Adjustment applied to T2 capital		-
62	Tier 2 capital (T2)		7,861,956
63	Tier 2 capital recognised for capital adequacy		4,264,299
64	Excess Additional Tier 1 capital recognised in Tier 2 capital		-
65	Total Tier 2 capital admissible for capital adequacy		4,264,299
	TOTAL CAPITAL (T1 + admissible T2)		**19,452,484**

Main features of regulatory capital instruments

	Main Features	Common Shares
1	Issuer	BankIslami Pakistan Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	BIPL - CDC Symbol
3	Governing law(s) of the instrument	Listing Regulations of Pakistan Stock Exchange Limited
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/ group / group & solo	Solo
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of re	11,087,033
9	Par value of instrument	10
10	Accounting classification	Shareholders' equity
11	Original date of issuance	May 02, 2006
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend / coupon	N/A
18	coupon rate and any related index/ benchmark	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument	Residual interest
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Risk-weighted exposures

	Capital requirements		Risk weighted assets	
	2019	2018	2019	2018
Credit Risk	--------------------------(Rupees in '000)--------------------------			
Portfolios subject to on-balance sheet exposure (Simple Approach)				
Cash and cash equivalents	-	-	-	-
Sovereign	2,709	4,749	21,675	39,906
Public sector entities	-	-	-	-
Banks	532,740	473,020	4,261,917	3,974,960
Corporate	6,415,874	4,205,222	51,326,993	35,338,000
Retail	1,300,089	1,127,844	10,400,712	9,477,682
Residential mortgage	618,430	619,007	4,947,440	5,201,736
Past due loans	350,556	627,071	2,804,450	5,269,508
Operating fixed assets	1,589,674	792,953	12,717,391	6,663,467
All other assets	1,449,071	1,828,572	11,592,568	15,366,153
Portfolios subject to off-balance sheet exposure - non market related (Simple approach)				
Banks	-	-	-	-
Corporate	614,668	350,352	4,917,345	2,944,137
Retail	-	-	-	-
Others	84,332	74,783	674,656	628,430
Portfolios subject to off-balance sheet exposures - market related (Current exposure method)				
Banks	4,958	3,991	39,661	33,540
Customers	-	19,560	-	164,374
Equity Exposure Risk in the Banking Book				
Unlisted equity investments held in banking	108,314	103,115	866,513	866,513
Investment in commercial entities	784,928	747,251	6,279,420	6,279,420
Recognised portion of significant investment	348,645	238,898	2,789,158	2,007,550
Market Risk				
Capital Requirement for portfolios subject to Standardised Approach				
Interest rate risk	37,728	9,663	301,824	81,199
Equity position risk	69,600	144,171	556,800	1,211,525
Foreign Exchange risk	8,428	9,578	67,425	80,485
	-			
Operational Risk	-			
Capital requirement for operational risk	1,948,597	1,342,838	15,588,776	11,284,350
TOTAL	16,269,341	12,722,638	130,154,724	106,912,935

Capital Adequacy Ratio	Required	Actual	Required	Actual
	December 31, 2019		December 31, 2018	
CET1 to total RWA	8.50%	10.36%	7.9%*	11.22%
Tier-1 capital to total RWA	7.50%	11.67%	7.50%	11.22%
Total capital to total RWA	12.50%	14.95%	11.90%	15.10%

* Capital adequacy requirement inclusive of Capital Conservation Buffer (CCB) requirement.

Types of Exposures and ECAI's used

Exposures	2019 JCR - VIS	2019 PACRA	2019 Others	2018 JCR - VIS	2018 PACRA	2018 Others
Corporate	P	P	N/A	P	P	N/A
Banks	P	P	P	P	P	P

Credit Exposures subject to Standardised approach

Exposures	SBP grade	Rating Category	2019			2018		
			Amount Outstanding Credit Equivalent	Deduction CRM	Net amount	Amount Outstanding Credit Equivalent	Deduction CRM	Net amount
			------------------------------------- Rupees in '000 -------------------------------------					
Cash and cash equivalent		0%	5,028,584	-	5,028,584	3,951,695	-	3,951,695
Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR		0%	51,642,503	-	51,642,503	56,520,599	232	56,520,367
Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan		0%	815,737	-	815,737	592,663	-	592,663
Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR		0%	-	-	-	-	-	-
	1	20%	-	-	-	-	-	-
	2,3	50%	-	-	-	-	-	-
	4,5	100%	-	-	-	-	-	-
	6	150%	14,450	-	14,450	26,604	-	26,604
	Unrated	100%	-	-	-	-	-	-
Claims on Public Sector Entities in Pakistan		0%	-	-	-	-	-	-
	1	20%	-	-	-	-	-	-
	2,3	50%	-	-	-	-	-	-
	4,5	100%	-	-	-	-	-	-
	6	150%	-	-	-	-	-	-
	Unrated	50%	18,049,570	18,049,570	-	11,575,169	11,575,169	-
Claims on Banks		0%	-	-	-	-	-	-
	1	20%	37,798,748	22,739,365	15,059,383	2,824,780	-	2,824,780
	2,3	50%		-	-	43	-	43
	4,5	100%		-	-	-	-	-
	6	150%		-	-	-	-	-
	Unrated	50%		-	-	310	-	310
Claims, denominated in foreign currency, on banks with original maturity of 3 months or less		0%	-	-	-	-	-	-
	1,2,3	20%	1,376,397	-	1,376,397	180,200	-	180,200
	4,5	50%	699,531	-	699,531	-	-	-
	6	150%	-	-	-	-	-	-
	unrated	20%	1,114,562	-	1,114,562	1,179,469	-	1,179,469
Claims on banks with original maturity of 3 months or less denominated in PKR and		0%	-	-	-	-	-	-
		20%	2,010,416	-	2,010,416	17,639,465	-	17,639,465
Claims on Corporates (excluding equity exposures)		0%	-	-	-	-	-	-
	1	20%	19,729,069	11,851,446	7,877,623	26,862,666	9,064,539	17,798,127
	2	50%	9,038,869	264,329	8,774,540	10,609,838	280,759	10,329,079
	3,4	100%	38,998,985	32,124,600	6,874,385	1,263,625	2,702	1,260,923
	5,6	150%	-	-	-	-	-	-
	Unrated 1	100%	35,585,308	2,279,382	33,305,926	21,204,920	1,633,027	19,571,893
	Unrated 2	125%	8,080,986	-	8,080,986	6,992,001	11,879	6,980,122
Claims categorized as retail portfolio		0%	-	-	-	-	-	-
		20%	-	-	-	-	-	-
		50%	-	-	-	-	-	-
		75%	14,811,550	943,934	13,867,616	14,020,039	1,383,129	12,636,910
Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)		35%	13,703,031	-	13,703,031	14,862,102	-	14,862,102
Claims against Low Cost Housing		25%	605,515	-	605,515			
Past Due loans:					-			
1.1 where specific provisions are less than 20 percent of the outstanding amount of the past due claim.		150%	751,124	276,250	474,874	3,094,612	276,250	2,818,362
1.2 where specific provisions are no less than 20 percent of the outstanding amount of the past due claim.		100%	974,077	-	974,077	408,376	-	408,376
1.3 where specific provisions are more than 50 percent of the outstanding amount of the past due claim.		50%	115,008	-	115,008	103,207	-	103,207
2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired		100%	1,024,331	-	1,024,331	514,293	-	514,293

3. Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held there against is more than 20% of outstanding amount		50%	72,454	-	72,454	135,383	-	135,383
Investment in commercial entity (which exceeds 10% of the issued common share capital of the issuing entity) or where the entity is an unconsolidated associate.		1000%	627,942	-	627,942	627,942	-	627,942
Significant investment and DTAs above 15% threshold (refer to Section 2.4.10 of Basel III instructions)		250%	1,115,663	-	1,115,663	803,020	-	803,020
Unlisted equity investments (other than that deducted from capital) held in banking book		150%	577,675	-	577,675	577,675	-	577,675
Investments in premises, plant and equipment and all other fixed assets		100%	12,717,391	-	12,717,391	6,663,467	-	6,663,467
All other assets		100%	11,930,718	-	11,930,718	15,678,505	-	15,678,505

The Bank obtains capital relief for both on and off-balance sheet non-market related exposures by using simple approach for Credit risk mitigation (CRM). Off-balance sheet items under the simplified standardized approach are converted into credit exposure equivalents through the use of credit conversion factors. Under the standardized approach the Bank has taken advantage of the cash collaterals available with the Bank in the form of security deposits and cash margins.

Valuation and management of eligible collaterals for CRM is being done in line with the conditions laid down by the SBP. Since eligible collaterals for CRM purposes are all in the form of cash collaterals, they generally do not pose risk to the Bank in terms of change in their valuation due to changes in the market conditions.

Liquidity Risk

Liquidity risk is the potential loss to the Bank arising from its inability either to meet its obligations (financial) or to fund increases in assets as they fall due without incurring unacceptable costs or losses.

BIPL's liquidity at various levels (day to day, short term, long term) is managed by the Treasury along with the Asset and Liability Management Committee (ALCO), which is one of the most important management level committees. Its role cannot be overemphasized here, it serves as a part of the critical trio with risk management and treasury department, monitoring and maintaining key liquidity ratios, a viable funding mix, depositor concentration, reviewing contingency plans etc.

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet in an orderly way its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new financings, participate in new investments when opportunities arise, and to meet any other commitments. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Bank calculates the Liquidity Coverage Ratio (LCR) on monthly basis as per SBP Basel III Liquidity Standards issued under BPRD circular no 08 dated June 23, 2016. The objective of LCR is to ensure the short-term resilience of the liquidity risk profile of Bank which requires banks to maintain sufficient High Quality Liquid Assets (HQLAs) to meet stressed cash outflows over a prospective 30 calendar-days period. As of December 31, 2018, Bank's LCR stood at 191.92% against the SBP's minimum requirement of 100%.

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 in order to mitigate the risk of future funding stress. Banks are expected to meet the NSFR requirement of at least 100% on an ongoing basis from December 31, 2018.

Governance of Liquidity risk management

Liquidity and related risks are managed through standardized processes established in the Bank. Board and senior management are apprised about liquidity profile of the Bank on periodic basis so as to ensure proactive liquidity management and to avoid abrupt shocks. The management of liquidity risk within the Bank is undertaken within limits and other policy parameters set by ALCO, which meets monthly and reviews compliance with policy parameters. Day to day monitoring is done by the treasury while overall compliance is monitored and coordinated by the ALCO and includes reviewing the actual and planned strategic growth of the business and its impact on the statement of financial position and monitoring the Bank's liquidity profile and associated activities. Bank's treasury function has the primary responsibility for assessing, monitoring and managing bank's liquidity and funding strategy. Treasury Middle Office being part of Risk management group is responsible for the independent identification, monitoring & analysis of risks inherent in treasury operations. The bank has in place duly approved Treasury investment policy and strategy along with liquidity risk tolerance/appetite levels. These are communicated at various levels so as to ensure effective liquidity management for the Bank.

Funding Strategy

Bank's prime source of liquidity is the customer's deposit base. Within deposits, Bank strives to maintain a healthy core deposit base in form of current and saving deposits and avoid concentration in particular products, tenors and dependence on large fund providers. Further, Bank relies on Interbank borrowing for stop gap funding arrangements but same is less preferred source of liquidity. Within borrowing, sources of funding are also diversified to minimize concentration. Usually Interbank borrowing is for short term. The bank follows centralized funding strategy so as to ensure achievement of strategic and business objectives of the Bank.

Liquidity Risk Mitigation techniques

Various tools and techniques are used to measure and monitor the possible liquidity risk. These include monitoring of different liquidity ratios like cash to deposits, financing to deposit ratio, liquid assets to total deposits, Interbank borrowing to total deposits and large deposits to total deposits which are monitored on daily basis against different triggers levels and communicated to senior management and to ALCO forum regularly. Further, Bank also prepares the maturity profile of assets and liabilities to monitor the liquidity gaps over different time buckets. For maturity analysis, behavioral study techniques are also used to determine the behavior of non-contractual assets and liabilities based on historic data and statistical techniques. The Bank also ensures to maintain statutory cash and liquidity requirements all times.

Liquidity Stress Testing

As per SBP BSD Circular No. 1 of 2012, Liquidity stress testing is being conducted under various stress scenarios. Shocks include the withdrawals of deposits and increase in assets, withdrawals of wholesale/large deposits & interbank borrowing and utilization of undrawn credit lines etc. Results of same are escalated at the senior level so as to enable the senior management to take proactive actions to avoid liquidity crunch for the Bank.

Contingency Funding Plan

Contingency Funding Plan (CFP) is a part of liquidity management framework of the bank which identifies the trigger events that could cause a liquidity crisis and describes the actions to be taken to manage the crisis. At Bank, a comprehensive liquidity contingency funding plan is prepared which highlights liquidity management chain that needs to be followed. Responsibilities and crisis management phases are also incorporated in order to tackle the liquidity crisis. Moreover, CFP highlights possible funding

Main drivers of LCR Results

Main drivers of LCR Results are High Quality Liquid Assets and Net cash outflows. Outflows are mainly deposit outflows net of cash inflows which consist of inflows from financing and money market placements up to 1 month. The inputs for calculation of LCR are as prescribed by the regulator.

Composition of High Quality Liquid Assets - HQLA

High Quality Liquid Assets composed of Level-1 Assets which can be included in the stock of liquid assets at 100% of their market value. Bank has taken Cash & treasury balances, Investments in GoP Ijarah Sukuks classified as Available for Sale category and foreign currency placements issued by sovereigns. Further, Level 2-A asset category includes investment in corporate sukuk.

Concentration of Funding Sources

Being a commercial bank, it relies on funds provided by depositors. However the Bank has been continuously improving upon its ratio of core deposits. Current and Saving accounts consist of 59.71% of total deposits, term deposits are 40.29% and borrowing from SBP and financial institutions is 6.60% of total deposits. Moreover the Bank does not rely on top few depositors to meet its funding requirements. This clearly shows that the funding sources for the Bank are well diversified.

Currency Mismatch in the LCR

Currency mismatch is minimal as FCY deposits are 3.14% of Bank's total deposits.

Liquidity Coverage Ratio (LCR) - As at December 31, 2019

(in local currency)	TOTAL UNWEIGHTED VALUE (average)	TOTAL WEIGHTED VALUE (average)
HIGH QUALITY LIQUID ASSETS		
Total high quality liquid assets (HQLA)	**58,861,386**	**52,694,993**
CASH OUTFLOWS		
Retail deposits and deposits from small business cusmtomers of whi	**87,991,690**	**7,916,156**
stable deposit	17,660,251	
Less stable deposit	70,331,439	7,033,144
Unsecured wholesale funding of which:	**127,253,482**	**45,088,904**
Operational deposits (all counterparties)	-	-
Non-operational deposits (all counterparties)	120,587,834	38,423,256
Unsecured debt	6,665,648	6,665,648
Secured wholesale funding	2,177,496	1,058,738
Additional requirements of which:	**34,492,198**	**3,476,769**
Outflows related to derivative exposures and other collateral	44,784	44,784
Outflows related to loss of funding on debt products	-	7
Credit and Liquidity facilities	34,447,414	3,431,978
Other contractual funding obligations	-	-
Other contingent funding obligations	5,194,636	259,732
TOTAL CASH OUTFLOWS	**257,109,502**	**57,800,299**
CASH INFLOWS		
Secured lending	-	-
Inflows from fully performing exposures	29,373,476	22,265,095
Other Cash inflows	2,594,007	1,555,934
TOTAL CASH INLFOWS	**31,967,483**	**23,821,028**

TOTAL HQLA	58,861,386	52,694,993
TOTAL NET CASH OUTFLOWS	225,142,020	33,979,271
LIQUIDITY COVERAGE RATIO	26.30%	162.5956%

Net Stable Funding Ratio as at December 31 ,2019	unweighted value by residual maturity				weighted value
	No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
Capital:					
Regulatory capital	18,275,858				18,275,858
Other capital instruments					
Retail deposits and deposit from small business customers:					
Stable deposits	-	19,112,475	4,033,214	77,481,535	99,469,940
Less stable deposits	-	13,705,363	8,386,198	17,437,570	37,319,975
Wholesale funding:					
Operational deposits	-				-
Other wholesale funding	6,197,959	42,495,877	8,280,177	43,563,547	75,149,533
Other liabilities:					
NSFR derivative liabilities				13,410,995	-
All other liabilities and equity not included in other categories	22,578,417	-	-	-	-
Total ASF					**230,215,305**
Total NSFR high-quality liquid assets (HQLA)				68,727,397	5,726,974
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:					
Performing loans to financial institutions secured by Level 1 HQLA	-				-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financail institutions	-	27,898,059	-	-	4,184,708.86
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	51,329,359.0000	43,629,955
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	6,273,726	4,077,922
Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	191,017	-			162,365
Other assets:					
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts				-	-
NSFR derivative assets				13,625,650	
NSFR derivative liabilities before deduction of variation margin posted				2,896,854	2,896,854
All other assets not included in the above categories				98,896,291	51,840,918
Off-balance sheet items		14,692,212	8,870,661	39,744,515	3,165,369
Total RSF					**115,685,066**
Net Stable Funding Ratio (%)					**199.00%**