

## 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 60% from CET 1 capital as at 31 December 2020.
  - (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.
- 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	2020	2019
	Amount	
	----- Rupees in '000 -----	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
Fully paid-up capital / capital deposited with the SBP	11,087,033	11,087,033
Balance in share premium account	-	-
Reserve for issue of bonus shares	-	-
Discount on issue of shares	(79,042)	(79,042)
General / Statutory Reserves	1,526,894	1,186,267
Gains / (Losses) on derivatives held as Cash Flow Hedge	-	-
(Accumulated loss) / Unappropriated profits	4,329,781	2,875,710
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
<b>CET 1 before Regulatory Adjustments</b>	<b>16,864,666</b>	<b>15,069,968</b>
<b>Total regulatory adjustments applied to CET1</b>	<b>(3,517,427)</b>	<b>(1,581,783)</b>
<b>Common Equity Tier 1</b>	<b>13,347,239</b>	<b>13,488,185</b>
<b>Additional Tier 1 (AT 1) Capital</b>		
Qualifying Additional Tier-1 capital instruments plus any related share premium of which:		
- classified as equity	-	-
- classified as liabilities	2,000,000	1,700,000
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by the bank of which: instrument issued by subsidiaries subject to phase out	-	-
<b>AT1 before regulatory adjustments</b>	<b>2,000,000</b>	<b>1,700,000</b>
<b>Total of Regulatory Adjustment applied to AT1 capital</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 capital after regulatory adjustments</b>	<b>2,000,000</b>	<b>1,700,000</b>
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>15,347,239</b>	<b>15,188,185</b>
<b>Tier 2 Capital</b>		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium * Capital instruments subject to phase out arrangement issued	3,375,410	3,086,794
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	802,048	337,812
Revaluation Reserves (net of taxes) of which:		
- Revaluation reserves on fixed assets	1,420,574	1,448,616
- Unrealized gains/losses on AFS	1,398,040	2,988,734
Foreign Exchange Translation Reserves	-	-
Undisclosed/Other Reserves (if any)	-	-
<b>T2 before regulatory adjustments</b>	<b>6,996,072</b>	<b>7,861,956</b>
Total regulatory adjustment applied to T2 capital	-	-
Tier 2 capital (T2) after regulatory adjustments	6,996,072	7,861,956
Tier 2 capital recognized for capital adequacy	4,779,847	4,264,299
Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy	4,779,847	4,264,299
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>20,127,086</b>	<b>19,452,484</b>
<b>Total Risk Weighted Assets (RWA) {for details refer Note }</b>	<b>125,040,451</b>	<b>130,154,724</b>

\* 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	2020	2019
	Amount	
	----- Rupees in '000 -----	
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>		
CET1 to total RWA	10.67%	10.79%
Tier-1 capital to total RWA	12.27%	11.67%
Total capital to total RWA	16.10%	14.95%
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)	4.67%	4.79%
<b>National minimum capital requirements prescribed by SBP</b>		
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)	1.50%	2.50%
Total Capital plus CCB	11.50%	12.50%

Particulars	2020	2019
	Amount	Amount

----- Rupees in '000 -----

#### Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	1,239,466	-
All other intangibles (net of any associated deferred tax liability)	164,201	532,041
Shortfall of provisions against classified assets	-	157,497
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,649,291	892,245
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)	464,469	-
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	-	-
<b>Total regulatory adjustments applied to CET1</b>	<b>3,517,427</b>	<b>1,581,783</b>

#### 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	-	-
<b>Total of Regulatory Adjustment applied to AT1 capital</b>	<b>-</b>	<b>-</b>

\* 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	-	-
<b>Amount of Regulatory Adjustment applied to T2 capital</b>	<b>-</b>	<b>-</b>

	2020	2019
	----- Rupees in '000 -----	
<b>Risk Weighted Assets subject to pre-Basel III treatment</b>		
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	-	-
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
Non-significant investments in the capital of other financial entities	-	-
Significant investments in the common stock of financial entities	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	1,381,171	513,179
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	802,048	337,812
Cap on inclusion of provisions in Tier 2 under standardized approach	1,294,009	1,420,499
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	2020	2019
	----- Rupees in '000 -----	
<b>On balance sheet exposures</b>		
1 On-balance sheet items (excluding unrealised gain on forward contract	336,297,299	282,938,997
2 Forward exchange commitments with positive fair values	201,339	110,296
Total on balance sheet exposures	<b>336,498,638</b>	<b>283,049,293</b>
<b>Off balance sheet exposures</b>		
3 Off-balance sheet items	31,182,192	29,018,574
4 Commitment in respect of forward exchange contracts	143,907	112,598
Total Off balance sheet exposures	<b>31,326,099</b>	<b>29,131,172</b>
<b>Capital and total exposures</b>		
5 Tier 1 capital	15,347,239	15,188,185
6 Total exposures	<b>367,824,737</b>	<b>312,180,465</b>
<b>Basel III leverage ratio</b>	<b>4.17%</b>	<b>4.87%</b>

The current year's leverage ratio is 4.17% (2019: 4.87%) whereas total tier 1 capital and total exposures are Rs. 15,347.239 million (2019: Rs. 15,188.185 million) and Rs. 367,824.737 million (2019: Rs. 312,180.465 million) respectively.

## 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) -----	
<b>Assets</b>		
Cash and balances with treasury banks	22,034,025	22,034,025
Balances with other banks	12,308,269	12,308,269
Due from financial institutions	41,640,012	41,640,012
Investments	95,239,635	95,239,635
Islamic financing and related assets	130,161,889	130,161,889
Fixed assets	11,741,506	11,741,506
Intangible assets	3,108,498	3,108,498
Deferred tax assets	5,824,886	5,824,886
Other assets	13,636,969	13,636,969
Non-current assets held for sale	601,609	601,609
<b>Total assets</b>	<b>336,297,298</b>	<b>336,297,298</b>
<b>Liabilities and Equity</b>		
Bills payable	4,949,486	4,949,486
Due to financial institutions	16,127,616	16,127,616
Deposits and other accounts	282,015,950	282,015,950
Sub-ordinated loans	2,000,000	2,000,000
Deferred tax liabilities	-	-
Other liabilities	11,309,073	11,309,073
<b>Total liabilities</b>	<b>316,402,125</b>	<b>316,402,125</b>
Share capital	11,087,033	11,087,033
Discount on issue of shares	(79,042)	(79,042)
Reserves	1,526,894	1,526,894
Accumulated profit	4,329,779	4,329,779
Minority Interest	-	-
Surplus on revaluation of investments - net of tax	3,030,509	3,030,509
<b>Total liabilities and equity</b>	<b>336,297,298</b>	<b>336,297,298</b>

## 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)-----			
<b>Assets</b>			
Cash and balances with treasury banks		22,034,025	22,034,025
Balances with other banks		12,308,269	12,308,269
Due from financial institutions		41,640,012	41,640,012
Investments		95,239,635	95,239,635
<i>of which:</i>			-
- <i>non-significant capital investments in capital of other financial institutions exceeding 10% threshold</i>	a	-	-
- <i>significant capital investments in financial sector entities exceeding regulatory threshold</i>	b	-	-
- <i>mutual Funds exceeding regulatory threshold</i>	c	-	-
- <i>reciprocal crossholding of capital instrument</i>	d	-	-
- <i>others</i>	e	-	-
Islamic financing and related assets		130,161,889	130,161,889
- <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>	g	802,048	802,048
Operating fixed assets		14,850,004	14,850,004
- <i>of which: Intangibles</i>	k	3,108,498	3,108,498
Deferred tax assets		5,824,886	5,824,886
<i>of which:</i>			-
- <i>DTAs that rely on future profitability excluding those arising from temporary differences</i>	h	2,748,819	2,748,819
- <i>DTAs arising from temporary differences exceeding regulatory threshold</i>	i	3,076,067	3,076,067
Other assets		14,238,578	14,238,578
<i>of which:</i>			-
- <i>defined-benefit pension fund net assets</i>	l	-	-
<b>Total assets</b>		<b>336,297,298</b>	<b>336,297,298</b>
<b>Liabilities and Equity</b>			
Bills payable		4,949,486	4,949,486
Due to financial institutions		16,127,616	16,127,616
Deposits and other accounts		282,015,950	282,015,950
Sub-ordinated loans of which:			-
- <i>eligible for inclusion in AT1</i>	m	2,000,000	2,000,000
- <i>eligible for inclusion in Tier 2</i>	n	-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities of which:			-
- <i>DTLs related to goodwill</i>	o	-	-
- <i>DTLs related to intangible assets</i>	p	-	-
- <i>DTLs related to defined pension fund net assets</i>	q	-	-
- <i>other deferred tax liabilities</i>	r	-	-
Other liabilities		11,309,073	11,309,073
<b>Total liabilities</b>		<b>316,402,125</b>	<b>316,402,125</b>
<b>Share capital</b>			
- <i>of which: amount eligible for CET1</i>	s	11,087,033	11,087,033
- <i>of which: amount eligible for AT1</i>	t	-	-
Reserves of which:		1,526,894	1,526,894
- <i>portion eligible for inclusion in CET1 - Statutory reserve</i>	u	1,526,894	1,526,894
- <i>portion eligible for inclusion in CET1 - Gain on Bargain Purchase</i>		-	-
- <i>portion eligible for inclusion in CET1 - General reserve</i>		-	-
- <i>portion eligible for inclusion in Tier 2 General reserve</i>	v	-	-
Discount on issue of shares		(79,042)	(79,042)
Accumulated profit	w	4,329,779	4,329,779
Minority Interest of which:			-
- <i>portion eligible for inclusion in CET1</i>	x	-	-
- <i>portion eligible for inclusion in AT1</i>	y	-	-
- <i>portion eligible for inclusion in Tier 2</i>	z	-	-
Surplus on revaluation of assets of which:		3,030,509	3,030,509
- <i>Revaluation reserves on Property</i>		1,632,499	1,632,499
- <i>Unrealized Gains/Losses on AFS</i>	aa	1,398,010	1,398,010
- <i>In case of Deficit on revaluation (deduction from CET1)</i>	ab	-	-
<b>Total liabilities and Equity</b>		<b>336,297,298</b>	<b>336,297,298</b>

.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)		
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
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)	1,526,894
6 Gain / (Losses) on derivatives held as Cash Flow Hedge		-
7 Unappropriated / unremitted profits	(w)	4,329,779
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)	-
<b>9 CET 1 before Regulatory Adjustments</b>		<b>16,864,664</b>
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>		
10 Goodwill (net of related deferred tax liability)	(j) - (s)	1,403,667
11 All other intangibles (net of any associated deferred tax liability)	(k) - (p)	-
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%	1,649,291
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)	464,467
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		-
<b>29 Total regulatory adjustments applied to CET1</b>		<b>3,517,425</b>
<b>Common Equity Tier 1</b>		<b>13,347,239</b>
<b>Additional Tier 1 (AT 1) Capital</b>		
30 Qualifying Additional Tier-1 instruments plus any related share premium of which:		
31 - Classified as equity	(t)	-
32 - Classified as liabilities	(m)	2,000,000
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		-
<b>35 AT1 before regulatory adjustments</b>		<b>2,000,000</b>

Particulars	Source based on reference number from note 40.4.2	Component of regulatory capital reported by bank
-------------	---	--

(Rupees in '000)

<b>Additional Tier 1 Capital: regulatory adjustments</b>		
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	2,000,000
45	<b>Additional Tier 1 capital recognised for capital adequacy</b>	<b>2,000,000</b>
	<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>15,347,240</b>
	<b>Tier 2 Capital</b>	
46	Qualifying Tier 2 capital instruments under Basel III	(n) 3,375,410
47	Capital instruments subject to phase out arrangement from Tier 2	-
48	Tier 2 capital instruments issued to third party by consolidated subsidiaries - of which: instruments issued by subsidiaries subject to phase out	(z) -
49	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g) 802,048
50	Revaluation Reserves eligible for Tier 2 of which:	
51	- portion pertaining to Property	1,420,574
52	- portion pertaining to AFS securities	78% of (aa) 1,398,040
53	Foreign Exchange Translation Reserves	(v) -
54	Undisclosed / Other Reserves (if any)	-
55	<b>T2 before regulatory adjustments</b>	<b>6,996,072</b>
	<b>Tier 2 Capital: regulatory adjustments</b>	
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)	6,996,072
63	Tier 2 capital recognised for capital adequacy	4,779,847
64	Excess Additional Tier 1 capital recognised in Tier 2 capital	-
65	Total Tier 2 capital admissible for capital adequacy	4,779,847
	<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>20,127,086</b>



## 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
	<b>Regulatory treatment</b>	
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, a	10,079,121
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
	<b>Coupons / dividends</b>	
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	
	2020	2019	2020	2019
<b>Credit Risk</b>	------(Rupees in '000)-----			
<b>Portfolios subject to on-balance sheet exposure (Simple Approach)</b>				
Cash and cash equivalents	-	-	-	-
Sovereign	3,654	2,709	31,776	21,675
Public sector entities	-	-	-	-
Banks	970,263	532,740	8,437,066	4,261,917
Corporate	4,065,087	6,415,874	35,348,579	51,326,993
Retail	1,381,819	1,300,089	12,015,815	10,400,712
Residential mortgage	542,849	618,430	4,720,429	4,947,440
Past due loans	347,161	350,556	3,018,793	2,804,450
Operating fixed assets	1,350,273	1,589,674	11,741,506	12,717,391
All other assets	1,096,054	1,449,071	9,530,908	11,592,568
<b>Portfolios subject to off-balance sheet exposure - non market related (Simple approach)</b>				
Banks	-	-	-	-
Corporate	547,356	614,668	4,759,615	4,917,345
Retail	-	-	-	-
Others	50,505	84,332	439,172	674,656
<b>Portfolios subject to off-balance sheet exposures - market related (Current exposure method)</b>				
Banks	6,489	4,958	56,430	39,661
Customers	-	-	-	-
-	-	-	-	-
<b>Equity Exposure Risk in the Banking Book</b>				
Unlisted equity investments held in banking book	99,649	108,314	866,513	866,513
Investment in commercial entities	722,133	784,928	6,279,420	6,279,420
Recognised portion of significant investment	721,594	348,645	6,274,730	2,789,158
<b>Market Risk</b>				
<b>Capital Requirement for portfolios subject to Standardised Approach</b>				
Interest rate risk	19,238	37,728	167,286	301,824
Equity position risk	77,070	69,600	670,175	556,800
Foreign Exchange risk	13,681	8,428	118,963	67,425
-	-	-	-	-
<b>Operational Risk</b>				
Capital requirement for operational risk	2,364,777	1,948,597	20,563,275	15,588,776
<b>TOTAL</b>	<b>14,379,652</b>	<b>16,269,341</b>	<b>125,040,451</b>	<b>130,154,724</b>
<b>Capital Adequacy Ratio</b>				
	<b>Required</b>	<b>Actual</b>	<b>Required</b>	<b>Actual</b>
	<b>December 31, 2020</b>		<b>December 31, 2019</b>	
CET1 to total RWA	8.50%	10.67%	8.50%	10.36%
Tier-1 capital to total RWA	7.50%	12.27%	7.50%	11.67%
Total capital to total RWA	11.50%	16.10%	12.50%	14.95%

## Types of Exposures and ECAI's used

Exposures	2020			2019		
	JCR - VIS	PACRA	Others	JCR - VIS	PACRA	Others
Corporate	P	P	N/A	P	P	P
Banks	P	P	P	P	P	P

## Credit Exposures subject to Standardised approach

Exposures	SBP grade	Rating Category	2020			2019	
			Amount Outstanding Credit Equivalent	Deduction CRM	Net amount	Amount Outstanding Credit Equivalent	Deduction CRM
----- Rupees in '000 -----							
Cash and cash equivalent		0%	6,755,702	-	6,755,702	5,028,584	-
Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR		0%	105,234,432	-	105,234,432	51,642,503	-
Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan		0%	953,892	-	953,892	815,737	-
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%	21,184	-	21,184	14,450	-
	Unrated	100%	-	-	-	-	-
Claims on Public Sector Entities in Pakistan		0%	-	-	-	-	-
	1	20%	-	-	-	-	-
	2,3	50%	-	-	-	-	-
	4,5	100%	-	-	-	-	-
	6	150%	-	-	-	-	-
	Unrated	50%	15,527,154	15,145,333	381,821	18,049,570	18,049,570
Claims on Banks		0%	-	-	-	-	-
	1	20%	2,958,287	-	2,958,287	37,798,748	22,739,365
	2,3	50%	-	-	-	-	-
	4,5	100%	-	-	-	-	-
	6	150%	-	-	-	-	-
	Unrated	50%	-	-	-	-	-
Claims, denominated in foreign currency, on banks with original maturity of 3 months or less		0%	-	-	-	-	-
	1,2,3	20%	3,378,731	-	3,378,731	1,376,397	-
	4,5	50%	1,521,921	-	1,521,921	699,531	-
	6	150%	-	-	-	-	-
	unrated	20%	10,478,177	-	10,478,177	1,114,562	-
Claims on banks with original maturity of 3 months or less denominated in PKR and		0%	-	-	-	-	-
		20%	38,874,335	17,309,000	21,565,335	2,010,416	-
Claims on Corporates (excluding equity exposures)		0%	-	-	-	-	-
	1	20%	20,587,824	6,206,716	14,381,108	19,729,069	11,851,446
	2	50%	11,807,826	-	11,807,826	9,038,869	264,329
	3,4	100%	4,939,052	-	4,939,052	38,998,985	32,124,600
	5,6	150%	-	-	-	-	-
	Unrated 1	100%	52,602,588	34,243,797	18,358,791	35,585,308	2,279,382
	Unrated 2	125%	6,424,172	-	6,424,172	8,080,986	-
Claims categorized as retail portfolio		0%	-	-	-	-	-
		20%	-	-	-	-	-
		50%	-	-	-	-	-
		75%	16,735,966	714,880	16,021,086	14,811,550	943,934
Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)		35%	13,480,587	-	13,489,483	13,703,031	-
Claims against Low Cost Housing		25%	8,896	-	8,896	605,515	-
<b>Past Due loans:</b>							
1.1 where specific provisions are less than 20 percent of the outstanding amount of the past due claim.		150%	858,447	276,250	582,197	751,124	276,250
1.2 where specific provisions are no less than 20 percent of the outstanding amount of the past due claim.		100%	725,758	-	725,758	974,077	-
1.3 where specific provisions are more than 50 percent of the outstanding amount of the past due claim.		50%	492,765	-	492,765	115,008	-
2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired		100%	1,110,054	-	1,110,054	1,024,331	-
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%	126,604	-	126,604	72,454	-
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	-
Significant investment and DTAs above 15% threshold (refer to Section 2.4.10 of Basel III instructions)		250%	2,509,892	-	2,509,892	1,115,663	-
Unlisted equity investments (other than that deducted from capital) held in banking book		150%	577,675	-	577,675	577,675	-
Investments in premises, plant and equipment and all other fixed assets		100%	11,741,506	-	11,741,506	12,717,391	-
All other assets		100%	9,779,170	-	9,779,170	11,930,718	-

## **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, 2020, Bank's LCR stood at 213.64% 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.

### **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 placement for stop gap funding arrangements but same is less preferred source of liquidity. Within acceptance, sources of funding are also diversified to minimize concentration. Usually interbank placement 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 placement to total deposits and large deposits to total deposits which are monitored on daily basis against different trigger 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, behavioural study techniques are also used to determine the behaviour 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 placement 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 sources, in case of a liquidity crisis.

### **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 Government of Pakistan backed 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 62.54% of total deposits, term deposits are 36.48% and acceptance from SBP and financial institutions is 5.72% 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 2.97% of Bank's total deposits.

## LCR Disclosure

		TOTAL UNWEIGHTED VALUE (average)	TOTAL WEIGHTED VALUE (average)
<i>(in local currency)</i>			
<b>HIGH QUALITY LIQUID ASSETS</b>			
1	Total high quality liquid assets (HQLA)	68,024,893	66,806,359
<b>CASH OUTFLOWS</b>			
2	Retail deposits and deposits from small business customers of which:	107,205,788	6,996,353
2.1	stable deposit	74,529,634	-
2.2	Less stable deposit	32,676,155	3,269,871
3	Unsecured wholesale funding of which:	149,732,443	45,292,957
3.1	Operational deposits (all counterparties)	-	-
3.2	Non-operational deposits (all counterparties)	146,138,320	41,698,834
3.3	Unsecured debt	3,594,123	3,594,123
4	Secured wholesale funding	-	-
5	Additional requirements of which:	53,718,494	6,575,880
5.1	Outflows related to derivative exposures and other collateral requirements	1,337,804	1,337,804
5.2	Outflows related to loss of funding opportunities	-	7
5.3	Credit and Liquidity facilities	52,380,690	5,238,069
6	Other contractual funding obligations	-	-
7	Other contingent funding obligations	3,583,432	179,172
8	<b>TOTAL CASH OUTFLOWS</b>	<b>314,240,157</b>	<b>59,044,361</b>
<b>CASH INFLOWS</b>			
9	Secured lending	-	-
10	Inflows from fully performing exposures	28,811,179	21,434,333
11	Other Cash inflows	12,062,841	4,914,303
12	<b>TOTAL CASH INFLOWS</b>	<b>40,874,019</b>	<b>26,348,636</b>

21	<b>TOTAL HQLA</b>	68,024,893	66,806,359
22	<b>TOTAL NET CASH OUTFLOWS</b>	273,507,804	33,817,378
23	<b>LIQUIDITY COVERAGE RATIO</b>	24.67%	210.4051%

## NSFR Disclosure

					LR IX	
		unweighted value by residual maturity				weighted value
<i>(Amount in PKR in thousands)</i>		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
<b>ASF Item</b>						
1	Capital:					
2	Regulatory capital	18,722,649				18,722,649
3	Other capital instruments					
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	17,674,322	3,586,252	2,540,459	99,563,610	122,174,592
6	Less stable deposits	1,533,225	22,620,922	15,503,598	11,772,220	47,464,191
7	Wholesale funding:					
8	Operational deposits	-				-
9	Other wholesale funding	8,496,637	48,419,825	5,532,131	62,948,448	94,172,745
10	Other liabilities:					
11	NSFR derivative liabilities				187,272	-
12	All other liabilities and equity not included in other categories		17,507,634	-	-	-
13	<b>Total ASF</b>					<b>282,534,177</b>
<b>RSF item</b>						
14	Total NSFR high-quality liquid assets (HQLA)				110,141,917	5,146,269
15	Deposits held at other financial institutions for operational purposes	12,308,269.0	-	-	-	6,154,134.5
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-				-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	41,640,011	-	-	6,246,001.65
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of	-	-	-	48,287,449	41,044,331
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	6,887,135	4,476,638
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	190,996	-			162,347
22	Other assets:					
23	Physical traded commodities, including	-				-
24	Assets posted as initial margin for derivative contracts				-	-
25	NSFR derivative assets				255,758	
26	NSFR derivative liabilities before deduction of variation margin posted				105,940	105,940
27	All other assets not included in the above categories				82,555,905	43,568,498
28	Off-balance sheet items		99,857,115	5,266,868	5,498,794	5,531,139
29	<b>Total RSF</b>					<b>112,435,298</b>
30	<b>Net Stable Funding Ratio (%)</b>					<b>251.29%</b>