1 Capital Assessment and Adequacy

Capital Structure

The State Bank of Pakistan through its BSD Circular No.07 dated 15 April 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be Rs. 10 billion on 31 December 2013 and onwards. The raise was to be achieved in a phased manner requiring Rs.10 billion paid up capital (net of losses) by the end of the financial year 2013. The paid up capital of the Bank for the year ended 31 December 2018 stands at Rs. 38.715 billion and is in compliance with the SBP requirement.

Furthermore, the State Bank requires the Bank to maintain prescribed capital to total risk-weighted assets ratios. The capital adequacy ratios of the Bank were subject to the Basel 3 capital adequacy guidelines stipulated by the State Bank through its BPRD Circular No.6 dated 15 August 2013. These instructions are effective from 31 December 2013 in a phased manner with full implementation intended by 31 December 2019. Under Basel III guidelines banks are required to maintain the following ratios on an ongoing basis:

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

S No.	Ratio	Year End 2018	31 December 2019
1	Common Equity Tier 1 (CET 1)	6.00%	6.00%
2	Additional Tier-1 (ADT 1)	1.50%	1.50%
3	Tier 1	7.50%	7.50%
	Total Capital	**10.00%**	**10.00%**
4	*Capital Consumption Buffer (CCB)	1.90%	2.50%
	Total Capital plus CCB	**11.90%**	**12.50%**

*(Consisting of CET1 only)

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

The Bank’s regulatory capital is analysed into three tiers, with total Tier 1 capital being the sum of CET1 and ADT1 below:

- Common Equity Tier I capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as disclosed on the balance sheet and un-appropriated profits (net of accumulated losses, if any). Goodwill and other intangibles are deducted from Tier I capital.

- Additional Tier I capital, which includes perpetual non-cumulative preference shares and share premium resulting from the same. The Bank did not have any ADT1 as of 31 December 2018.

The deduction from Tier 1 Capital include mainly:

i) Book value of goodwill / intangibles;
ii) Deficit on revaluation of available for sale investments
iii) Defined-benefit pension fund net assets
iv) Reciprocal cross holdings in equity capital instruments of other banks, financial institutions and insurance companies;
v) Investment in mutual funds above a prescribed ceiling;
vi) Threshold deductions applicable from 2014 on deferred tax assets and certain investments;
vii) 50% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position.

- Tier II capital includes sub-ordinated debt, revaluation reserves on assets, exchange translation reserves and impairment allowances that are not held against identified debts. There is a restriction on the amount of impairment allowances that are not held against identified debts upto 1.25 percent of credit risk weighted assets.

The deductions from Tier 2 include mainly:

i) Reciprocal cross holdings in other capital instruments of other banks, financial institution and insurance companies;
ii) 50% of investments in majority owned securities or other financial subsidiaries not consolidated in the statement of financial position, during transition phase.

The Bank remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

Leverage Ratio

SBP vide BPRD Circular No. 06 dated August 15, 2013 introduced leverage ratio (Tier 1 Capital to total exposure) under Basel III Framework. Banks are required to maintain minimum leverage ratio of 3%.
As per SBP guidelines, average of last three months exposures is used to derive the total exposure.

Particualrs	**2018**	**2017**
	------- (Rupees in '000) --------	
On-Balance Sheet Assets		
On-balance sheet items (excluding derivatives)	547,485,724	501,512,751
Derivatives	13,523,719	2,116,541
Total On balance sheet exposure (A)	561,009,442	503,629,292
Off-Balance Sheet Assets		
Off-balance sheet Items (excluding derivatives)	145,051,771	124,684,260
Commitments in respect of Derivatives (Derivatives having negative fair value are also included)	3,872,838	1,774,836
Total Off balance sheet exposure (B)	148,924,609	126,459,097
Capital and Total Exposures		
Tier-1 Capital (C)	43,225,327	38,625,168
Total Exposures (D = A + B)	709,934,051	630,088,389
Leverage Ratio (C/D)	**6.09%**	**6.13%**

1.1 Capital Adequacy Ratio

		2018	2017
		------- (Rupees in '000) --------	
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital	**38,715,850**	38,715,850
2	Balance in Share Premium Account	**1,036,090**	1,036,090
3	Reserve for issue of Bonus Shares	-	-
4	Discount on Issue of shares	-	-
5	General/ Statutory Reserves	**15,631,376**	13,383,504
6	Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
7	Unappropriated profits	**6,326,382**	4,199,687
8	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
9	**CET 1 before Regulatory Adjustments**	**61,709,698**	57,335,131
10	Total regulatory adjustments applied to CET1 **(Note 39.1.1)**	**18,484,371**	18,709,963
11	**Common Equity Tier 1**	**43,225,327**	38,625,168
	Additional Tier 1 (AT 1) Capital		
12	Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
13	of which: Classified as equity	-	-
14	of which: Classified as liabilities	-	-
15	Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	-	-
16	of which: instrument issued by subsidiaries subject to phase out	-	-
17	**AT1 before regulatory adjustments**	-	-
18	Total regulatory adjustment applied to AT1 capital **(Note 39.1.2)**	-	-
19	Additional Tier 1 capital after regulatory adjustments	-	-
20	**Additional Tier 1 capital recognized for capital adequacy**	-	-
21	**Tier 1 Capital (CET1 + admissible AT1) (11+20)**	**43,225,327**	38,625,168
	Tier 2 Capital		
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	-
23	Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel 3 rules	-	-
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	-	-
25	of which: instruments issued by subsidiaries subject to phase out	-	-
26	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	**776,855**	670,580
27	Revaluation Reserves (net of taxes)	**5,620,942**	5,019,274
28	of which: Revaluation reserves on fixed assets	**5,620,942**	5,019,274
29	of which: Unrealized gains/losses on AFS	-	-
30	Foreign Exchange Translation Reserves	-	-
31	Undisclosed/Other Reserves (if any)	-	-
32	**T2 before regulatory adjustments**	**6,397,797**	5,689,854
33	Total regulatory adjustment applied to T2 capital **(Note 39.1.3)**	-	-
34	Tier 2 capital (T2) after regulatory adjustments	-	-
35	Tier 2 capital recognized for capital adequacy	-	-
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37	**Total Tier 2 capital admissible for capital adequacy**	**6,397,797**	5,689,854
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**	**49,623,124**	44,315,022
39	**Total Risk Weighted Assets (RWA) {for details refer Note 39.5}**	**259,954,706**	**230,009,947**
	Capital Ratios and buffers (in percentage of risk weighted assets)		
40	**CET1 to total RWA**	**16.63%**	16.79%
41	**Tier-1 capital to total RWA**	**16.63%**	16.79%
42	**Total capital to total RWA**	**19.09%**	19.27%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	-	-
44	of which: capital conservation buffer requirement	-	-
45	of which: countercyclical buffer requirement	-	-
46	of which: D-SIB or G-SIB buffer requirement	-	-
47	CET1 available to meet buffers (as a percentage of risk weighted assets)	**4.73%**	5.52%
	National minimum capital requirements prescribed by SBP		
48	**CET1 minimum ratio (including Capital Conservation Buffer)**	**7.90%**	7.28%
49	**Tier 1 minimum ratio (including Capital Conservation Buffer)**	**9.40%**	8.78%
50	**Total capital minimum ratio**	**11.90%**	11.28%

1.2 Regulatory Adjustments and Additional Information

		2018		2017
				0
		(Rupees in '000)		
		Amount	**Amounts subject to Pre- Basel III treatment***	**Amount**
1.2.1	**Common Equity Tier 1 capital: Regulatory adjustments**			
1	Goodwill (net of related deferred tax liability)	**18,264,324**	-	18,264,324
2	All other intangibles (net of any associated deferred tax liability)	**166**	-	332
3	Shortfall in provisions against classified assets		-	
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		-	
5	Defined-benefit pension fund net assets	**16,300**	-	-
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities		-	
7	Cash flow hedge reserve		-	
8	Investment in own shares/ CET1 instruments		-	
9	Securitization gain on sale		-	
10	Capital shortfall of regulated subsidiaries		-	
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	**92,271**	-	38,069
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		-	
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	**111,310**	-	407,238
15	Amount exceeding 15% threshold	**-**	-	-
16	of which: significant investments in the common stocks of financial entities		-	
17	of which: deferred tax assets arising from temporary differences		-	
18	National specific regulatory adjustments applied to CET1 capital	**-**	-	-
19	Investments in TFCs of other banks exceeding the prescribed limit		-	
20	Any other deduction specified by SBP	**-**	-	-
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	**-**	-	-
22	Total regulatory adjustments applied to CET1 (sum of 1 to 21)	**18,484,371**		18,709,963
1.2.2	**Additional Tier-1 & Tier-1 Capital: regulatory adjustments**			
23	Investment in mutual funds exceeding the prescribed limit	**-**	-	
24	Investment in own AT1 capital instruments	**-**	-	
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	**-**	-	
26	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	**-**	-	
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	**-**	-	-
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	**-**	-	-
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	**-**	-	-
30	Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)	**-**		-
	* as the Bank does not have Additional TIER 1 Capital, deduction is made from CET 1			
1.2.3	**Tier 2 Capital: regulatory adjustments**			
31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	**-**	-	-
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	**-**	-	-
33	Investment in own Tier 2 capital instrument	**-**	-	-
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	**-**	-	
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	**-**	-	-
36	Total regulatory adjustment applied to T2 capital (sum of 31 to 35)	**-**	-	-

		2018	2017
1.2.4	**Additional Information**		
		(Rupees in '000)	
	Risk Weighted Assets subject to pre-Basel III treatment		
37	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	**-**	-
(i)	of which: deferred tax assets	-	101,810
(ii)	of which: Defined-benefit pension fund net assets		
(iii)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	**-**	-
(iv)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	**-**	-
	Amounts below the thresholds for deduction (before risk weighting)		
38	Non-significant investments in the capital of other financial entities	-	-
39	Significant investments in the common stock of financial entities	-	-
40	Deferred tax assets arising from temporary differences (net of related tax liability)	**4,333,664**	3,903,241
	Applicable caps on the inclusion of provisions in Tier 2		
41	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**776,855**	670,580
42	Cap on inclusion of provisions in Tier 2 under standardized approach	**2,468,332**	2,239,074
43	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	-
44	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	-

1.3 **Capital Structure Reconciliation**

1.3.1 **Step 1**

	Balance sheet as in published financial statements 2018	Under regulatory scope of consolidation 2018
	------------------- (Rupees in 000)	-------------------
Assets		
Cash and balances with treasury banks	**50,293,497**	**50,293,497**
Balanced with other banks	**2,344,297**	**2,344,297**
Lending to financial institutions	**6,465,508**	**6,465,508**
Investments	**279,065,904**	**279,065,904**
Advances	**169,543,762**	**169,543,762**
Operating fixed assets	**7,837,979**	**7,837,979**
Deferred tax assets	**-**	**4,444,973**
Other assets	**60,530,389**	**60,530,389**
Total assets	**576,081,336**	**580,526,309**
Liabilities & Equity		
Bills payable	**16,943,627**	**16,943,627**
Borrowings	**24,023,697**	**24,023,697**
Deposits and other accounts	**424,898,936**	**424,898,936**
Sub-ordinated loans	**-**	**-**
Liabilities against assets subject to finance lease	**-**	**-**
Deferred tax liabilities	**3,631,209**	**8,076,182**
Other liabilities	**39,345,498**	**39,345,498**
Total liabilities	**508,842,967**	**513,287,940**
Share capital	**38,715,850**	**38,715,850**
Reserves	**16,667,466**	**16,667,466**
Unappropriated profit	**6,326,382**	**6,326,382**
Surplus on revaluation of assets	**5,528,671**	**5,528,671**
Total liabilities & equity	**576,081,336**	**580,526,309**

Note: Difference between 'Balance sheet as in published financial statements' and 'Under regulatory scope of consolidation' is due to BASEL III transitional arrangements

1.3.2 **Step 2**

	Balance sheet as in published financial statements 2018	Under regulatory scope of consolidation 2018	Reference
	------------------- (Rupees in 000)	-------------------	
Assets			
Cash and balances with treasury banks	**50,293,497**	**50,293,497**	
Balanced with other banks	**2,344,297**	**2,344,297**	
Lending to financial institutions	**6,465,508**	**6,465,508**	
Investments	**279,065,904**	**279,065,904**	
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	**-**	**-**	a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	**-**	**-**	b
of which: Mutual Funds exceeding regulatory threshold	**-**		c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	**-**		d
of which: others	**-**		e
Advances	**169,543,763**	**169,543,763**	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	**-**		f
general provisions reflected in Tier 2 capital	**776,855**	**776,855**	g
Fixed Assets	**7,837,979**	**7,837,979**	
Deferred Tax Assets	**-**	**4,444,973**	
of which: DTAs that rely on future profitability excluding those arising from temporary differences	**-**	**-**	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	**111,310**	**111,310**	i
Other assets	**60,530,393**	**60,530,393**	
of which: Goodwill	**26,095,310**	**26,095,310**	j
of which: Intangibles	**166**	**166**	k
of which: Defined-benefit pension fund net assets	**16,300**	**16,300**	l
Total assets	**576,081,341**	**580,526,314**	

	Balance sheet as in published financial statements 2018	Under regulatory scope of consolidation 2018	Reference
	------------------- (Rupees in 000)	-------------------	
Liabilities & Equity			
Bills payable	**16,943,627**	**16,943,627**	
Borrowings	**24,023,697**	**24,023,697**	
Deposits and other accounts	**424,898,936**	**424,898,936**	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier 2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	**3,631,209**	**8,076,182**	
of which: DTLs related to goodwill	-	**7,830,986**	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	-	-	q
of which: other deferred tax liabilities	-	**245,196**	r
Other liabilities	**39,345,498**	**39,345,498**	
Total liabilities	**508,842,967**	**513,287,940**	
Share capital	**38,715,850**	**38,715,850**	
of which: amount eligible for CET1	**38,715,850**	**38,715,850**	s
of which: amount eligible for AT1	-		t
Reserves	**16,667,466**	**16,667,466**	
of which: portion eligible for inclusion in CET1 (Share Premium)	**1,036,090**	**1,036,090**	u
of which: portion eligible for inclusion in CET1 (Statutory Reserve)	**15,631,376**	**15,631,376**	v
of which: portion eligible for inclusion in Tier 2	-	-	w
Unappropriated profit	**6,326,382**	**6,326,382**	x
Minority Interest	-	-	
of which: portion eligible for inclusion in CET1	-	-	y
of which: portion eligible for inclusion in AT1	-	-	z
of which: portion eligible for inclusion in Tier 2	-	-	aa
Surplus on revaluation of assets	**5,528,671**	**5,528,671**	
of which: Revaluation reserves on Property	**5,620,942**	**5,620,942**	ab
of which: Unrealized Gains/Losses on AFS	**(92,271)**	**(92,271)**	
In case of Deficit on revaluation (deduction from CET1)	-		ac
Total liabilities & Equity	**576,081,336**	**580,526,309**	

Note: Difference between 'Balance sheet as in published financial statements' and 'Under regulatory scope of consolidation' is due to BASEL III transitional arrangements

1.3.3	**Basel III Disclosure**	**Component of regulatory capital reported by bank (Rupees in '000)**	**Source based on reference number from step 2**
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital/ Capital deposited with SBP	**38,715,850**	(s)
2	Balance in Share Premium Account	**1,036,090**	(u)
3	Reserve for issue of Bonus Shares	-	
4	General/ Statutory Reserves	**15,631,376**	(v)
5	Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6	Unappropriated profits	**6,326,382**	(x)
7	Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(y)
8	**CET 1 before Regulatory Adjustments**	**61,709,698**	
	Common Equity Tier 1 capital: Regulatory adjustments		
9	Goodwill (net of related deferred tax liability)	**18,264,324**	(j) - (o)
10	All other intangibles (net of any associated deferred tax liability)	**166**	(k) - (p)
11	Shortfall of provisions against classified assets	-	(f)
12	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	{(h) - (r} * x%
13	Defined-benefit pension fund net assets	**16,300**	{(l) - (q)} * x%
14	Reciprocal cross holdings in CET1 capital instruments	-	(d)
15	Cash flow hedge reserve	-	
16	Investment in own shares/ CET1 instruments	-	
17	Securitization gain on sale		
18	Capital shortfall of regulated subsidiaries	-	
19	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	**92,271**	(ac)
20	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ad) - (af)
21	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ae) - (ag)
22	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	**111,310**	(i)
23	Amount exceeding 15% threshold	-	
24	of which: significant investments in the common stocks of financial entities	-	

		Component of regulatory capital reported by bank (Rupees in '000)	Source based on reference number from step 2
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments applied to CET1 capital	-	
27	of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28	of which: Any other deduction specified by SBP	-	
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30	Total regulatory adjustments applied to CET1	**18,484,371**	
	Common Equity Tier 1	**43,225,327**	
	Additional Tier 1 (AT 1) Capital		
31	Qualifying Additional Tier-1 instruments plus any related share premium	-	
32	of which: Classified as equity	-	(t)
33	of which: Classified as liabilities	-	(m)
34	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(z)
35	of which: instrument issued by subsidiaries subject to phase out	-	
36	**AT1 before regulatory adjustments**	-	
	Additional Tier 1 Capital: regulatory adjustments		
37	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
38	Investment in own AT1 capital instruments	-	
39	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
40	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)	-	(ad)
41	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ae)
42	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	-	
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
44	Total of Regulatory Adjustment applied to AT1 capital	-	
45	Additional Tier 1 capital	-	
46	**Additional Tier 1 capital recognized for capital adequacy**	-	
	Tier 1 Capital (CET1 + admissible AT1)	**43,225,327**	
	Tier 2 Capital		
47	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	
48	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(n)
49	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(aa)
50	of which: instruments issued by subsidiaries subject to phase out	-	
51	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	**776,855**	(g)
52	Revaluation Reserves	**5,620,942**	
53	of which: Revaluation reserves on fixed assets	**5,620,942**	portion of (ab)
54	of which: Unrealized Gains/Losses on AFS	-	
55	Foreign Exchange Translation Reserves	-	(w)
56	Undisclosed/Other Reserves (if any)	-	
57	**T2 before regulatory adjustments**	**6,397,797**	
	Tier 2 Capital: regulatory adjustments		
58	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	-	
59	Reciprocal cross holdings in Tier 2 instruments	-	
60	Investment in own Tier 2 capital instrument	-	
61	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)	-	(af)
62	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ag)
63	Amount of Regulatory Adjustment applied to T2 capital	-	
64	Tier 2 capital (T2)	**6,397,797**	
65	Tier 2 capital recognized for capital adequacy	**6,397,797**	
66	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
67	Total Tier 2 capital admissible for capital adequacy	**6,397,797**	
	TOTAL CAPITAL (T1 + admissible T2)	**49,623,124**	

1.4 Main features of regulatory capital instruments

	Main Features	Common Shares
1	Issuer	Standard Chartered Bank (Pakistan) Limited
2	Unique identifier (KSE Symbol)	SCBPL
3	Governing law(s) of the instrument	Relevant regulations/ laws
	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 and Group
7	Instrument type	Ordinary shares
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	38,715,850
9	Par value of instrument	PKR 10 per share
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Dec 2006
12	Perpetual or dated	Perpetual
13	Original maturity date	Not applicable
14	Issuer call subject to prior supervisory approval	Not applicable
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/ coupon	Not applicable
18	Coupon rate and any related index/ benchmark	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary
21	Existence of step up or other incentive to redeem	Not applicable
22	Noncumulative or cumulative	Not applicable
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	Not applicable
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt/TFCs
36	Non-compliant transitioned features	Not applicable
37	If yes, specify non-compliant features	Not applicable

1.5 Capital Adequacy

The Bank’s capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings, maximising shareholder value and at the same time maintaining investor, creditor and market confidence.

The capital position is reviewed and monitored by the Asset and Liability Committee (ALCO) of the Bank. Regular reviews help to ensure that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support the strategy. This is integrated with the Bank’s annual planning process that takes into consideration business growth assumptions across products and business segments and the related impact on capital resources.

The following matters are taken into account while reviewing the Bank's capital position:

a) current regulatory capital requirements and our assessment of future standards;
b) demand for capital due to business growth forecasts;
c) forecasted demand for capital to support credit ratings and as a signalling tool to the market;
d) available supply of capital and capital-raising options

For calculation of Capital Adequacy Ratio, the Bank adheres to the calculation of capital requirements for credit, market and operational risk as per the guidelines of SBP.

For credit risk, the Bank uses the 'Standardized Approach'. The Bank uses reputable and SBP approved rating agencies (ECAIs) for deriving risk weights for specific credit exposures. These are consistently applied across the Bank's credit portfolio for both on and off balance sheet exposures. The ECAIs used for rating various types of exposures are tabled in note 39.6 to these financial statements.

For the purposes of Credit Risk Mitigation under the 'Standardized Approach', the Bank follows the instructions laid down by SBP vide their Circular No. 08 dated 27 June 2006 with regard to eligibility of collaterals, valuation and management. Where a transaction is secured by an eligible collateral and meets the eligibility criteria and minimum requirements as laid down by SBP, the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement. Collaterals used include: Government of Pakistan guarantees, Inter-group guarantees, margins / liens and saving certificates.

The Bank calculates its capital requirement for market risk in its portfolio, based on the methodology provided by SBP which takes account of specific and general market risk capital charge for interest rate risk using the duration method.

For calculation of operational risk capital charge, the business activities of the Bank are divided into eight business lines: corporate finance, trading and sales, retail banking, commercial banking, payments and settlement, agency services, asset management and retail brokerage. The Bank's operations are mapped into these eight business lines as per the criteria laid down by SBP vide Circular No 08 dated 27 June 2006.

Within each business line, gross income is the broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines. The capital charge for each business line is calculated by multiplying gross income by beta factors assigned by SBP to that business line. Beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.

The total capital charge is calculated as the three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year.

The 'Standardised Approach' is preferred over the 'Basic Indicator Approach' so as to arrive at a capital charge that is reflective of the risks associated with each of the Bank's business lines.

	Capital Requirements		**Risk Weighted Assets**	
	2018	2017	**2018**	2017
		0		0
		Rupees in '000		
Credit Risk				
Portfolios subject to standardized approach (Simple)				
Cash & cash equivalents	**-**	-	**-**	-
Sovereign	**11,289**	9,106	**94,868**	80,765
Public Sector entities	**-**	-	**-**	-
Banks	**471,108**	350,111	**3,958,894**	3,105,195
Corporate	**12,043,948**	9,570,006	**101,209,648**	84,878,106
Retail	**1,692,908**	1,370,740	**14,226,117**	12,157,342
Residential Mortgages	**299,961**	187,348	**2,520,681**	1,661,627
Past Due loans	**76,390**	71,982	**641,930**	638,422
Operating Fixed Assets	**932,720**	905,821	**7,837,979**	8,033,890
Other assets	**1,944,281**	1,759,260	**16,338,499**	15,603,189
	17,472,605	14,224,375	**146,828,617**	126,158,536
Off-Balance sheet				
Non-market related				
Loan Repayment Guarantees	**2,304,239**	3,083,664	**19,363,350**	27,349,568
Performance Bonds etc.	**2,548,713**	2,282,460	**21,417,757**	20,243,546
Stand By Letters of Credit	**519,427**	449,465	**4,364,936**	3,986,384
	5,372,379	5,815,588	**45,146,043**	51,579,498
Market related	**641,018**	144,202	**5,386,707**	1,278,957
Equity Exposure Risk in the Banking Book				
Listed	**12,513**	12,285	**105,155**	108,959
Unlisted	**-**	-	**-**	-
	12,513	12,285	**105,155**	108,959
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	**425,470**	184,619	**3,575,380**	1,637,420
Equity position risk	**-**	-	**-**	-
Foreign Exchange risk	**1,394,326**	32,821	**11,717,022**	291,094
	1,819,796	217,440	**15,292,403**	1,928,513
Operational Risk				
Capital Requirement for operational risks	**5,616,298**	5,519,731	**47,195,782**	48,955,483
TOTAL	**30,934,610**	25,933,621	**259,954,706**	230,009,947

Capital Adequacy Ratio		**2018**		2017	
		Required	**Actual**	Required	Actual
CET1 to total RWA	(e)	**7.90%**	**16.63%**	7.28%	16.79%
Tier-1 capital to total RWA	(i)	**9.40%**	**16.63%**	8.78%	16.79%
Total capital to total RWA		**11.90%**	**19.09%**	11.28%	19.27%

1.6 Types of exposures and ECAI's used

	Corporate	Banks	Sovereigns
JCR - VIS	✓	✓	✓
PACRA	✓	✓	✓
STANDARD AND POORS	✓	✓	✓
MOODY'S	✓	✓	✓
FITCH	✓	✓	✓

The Bank adheres to the mapping instructions issued by SBP on the Revised Regulatory Capital Framework under Basel II, issued vide BSD Circular No. 8 of 2006 dated 27 June 2006, vide BSD Circular Letter No. 09 of 2007 dated 24 August 2007, vide BSD Letter No. BSD/BAI-2/201/1141/2009 dated 2 December 2009 and vide BSD Circular No. 5 of 2010 dated 5 October 2010 with regard to credit ratings to be used. These are as follows:

LONG-TERM RATING GRADES MAPPING

Risk Weightage	Standard & Poors Ratings Services	Moody's Investors Service	Fitch Ratings	PACRA	JCR VIS
20%	AAA	Aaa	AAA	AAA	AAA
	AA+	Aa1	AA+	AA+	AA+
	AA	Aa2	AA	AA	AA
	AA-	Aa3	AA-	AA-	AA-
50%	A+	A1	A+	A+	A+
	A	A2	A	A	A
	A-	A3	A-	A-	A-
100%	BBB+	Baa1	BBB+	BBB+	BBB+
	BBB	Baa2	BBB	BBB	BBB
	BBB-	Baa3	BBB-	BBB-	BBB-
100%	BB+	Ba1	BB+	BB+	BB+
	BB	Ba2	BB	BB	BB
	BB-	Ba3	BB-	BB-	BB-
150%	B+	B1	B+	B+	B+
	B	B2	B	B	B
	B-	B3	B-	B-	B-
150%	CCC+	Caa1	CCC+	CCC+	CCC+
	CCC	Caa2	CCC	CCC	CCC
	CCC-	Caa3	CCC-	CCC-	CCC-
	CC	Ca	CC	CC	CC
	C	C	C	C	C
	D		D	D	D

SHORT-TERM RATING GRADES MAPPING

Risk Weightage	Standard & Poors Ratings Services	Moody's Investors Service	Fitch Ratings	PACRA	JCR VIS
20%	A-1+	P-1	F1+	A-1	A-1
	A-1		F1		
50%	A-2	P-2	F2	A-2	A-2
100%	A-3	P-3	F3	A-3	A-3
150%	B	NP	B	Others	Others
	B-1		C		
	B-2		D		
	B-3				
	C				

2 Liquidity Risk

Liquidity risk is the potential for loss because the bank, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

Funding risk is the potential for actual or opportunity loss because the bank does not have stable or diversified sources of funding in the medium and long term to enable it to meet its financial obligations in pursuit of its desired business strategy or growth objectives.

Liquidity risk, both short term and structural is monitored through the internal liquidity risk management framework and is managed through the Asset and Liability Committee ("ALCO"). This committee, chaired by the CEO, is responsible for both statutory and prudential liquidity. The ALCO prudently monitors the Bank's Balance Sheet and ensures that the bank remains liquid at all times. A robust Liquidity and Funding Risk Type Framework helps to ensure that the bank maintains sufficient liquidity and a cushion of unencumbered, high quality liquid assets to withstand a range of stress events including those involving the loss or impairment of both unsecured and secured funding sources.

A range of tools are used for the management of liquidity and presented to ALCO on monthly basis:

- Wholesale Borrowing – External
- Wholesale Borrowing – Internal
- Swapped Funds
- Maximum Cumulative Outflow
- Intraday Liquidity Risk
- Liquidity Stress Testing
- Advances to Deposit Ratio
- Liquidity Coverage Ratio
- Net Stable Funding Ratio
- Asset Encumbrance
- Concentration of funding
- Top advances concentration
- Behavioural and Contractual Maturity mismatch

In addition, liquidity contingency funding plans are reviewed periodically to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimize the liquidity risk that may arise due to unforeseen adverse changes in the market place. The Bank also maintains significant levels of marketable securities either for compliance with local statutory requirements or as prudential investments of surplus funds.

Furthermore, stress testing and scenario analysis are used to assess the financial and management capability to continue to operate effectively under extreme, but plausible, operating conditions and to understand the potential threats to the bank's liquidity and other financial resources. Routine stress tests for liquidity risk under the Liquidity and Funding Risk Policy comprises of name-specific and market-wide stress.

2.1 BASEL III Liquidity Standards Implementation

As per SBP Basel III Liquidity Standards issued under BPRD circular no 08 dated June 23, 2016, banks are required to report BASEL III Liquidity standards to SBP and disclose the same in their financial statements

Liquidity Coverage Ratio (LCR)
It refers to the highly liquid assets held by the bank to meet its short term obligations. LCR is used as a tool to manage liquidity risk. LCR has two components: high quality liquid asset (HQLA) and total net cash outflows. HQLA comprises of those assets that can be readily sold or employed as collateral for obtaining fund HQLA structure has been divided into 1) cash and treasury balance, 2) marketable securities, 3) corporate debt securities with credit rating, 4) non-financial equity shares respectively. Outflows are mainly deposit outflows net of cash inflows which consist of inflows from financing and money market placements up to 1 month.

Net Stable Funding Ratio (NSFR)
It is used 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. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on – and off-balance sheet items and promotes funding stability. The ratio is defined as the amount of available stable funding (ASF), relative to the amount of required stable funding (RSF).

Concentration of Funding Sources
Standard Chartered bank mainly relies on funds provided by depositors. Bank has one of the best CASA to total deposits ratio in the industry of 92%. Moreover the Bank does not rely on top few depositors to meet its funding requirements which reflect its effective diversification strategy. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds.

Currency Mismatch in the LCR

Currency mismatch is minimal as PKR deposits are 84% of Bank's total deposits. Also bank separately monitors local and foreign currency maturity mismatch on a monthly basis.

2.2 Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is a quantitative requirement which aims to ensure that a bank maintains an adequate level of unencumbered high quality liquid assets which can easily be converted into cash at little or no loss of value in private markets, to withstand an acute liquidity stress scenario over a 30-day horizon.

(in local currency)		TOTAL UNWEIGHTED[a] VALUE (average of last four quarters)	TOTAL WEIGHTED[b] VALUE (average of last four quarters)
HIGH QUALITY LIQUID ASSETS		-	-
1	Total high quality liquid assets (HQLA)	-	315,026,677
	CASH OUTFLOWS	-	-
2	Retail deposits and deposits from small business customers of which:	-	-
2.1	Stable deposit	-	-
2.2	Less stable deposit	267,394,923	26,739,492
3	Unsecured wholesale funding of which:	-	-
3.1	Operational deposits (all counterparties)	87,537,106	21,884,276
3.2	Non-operational deposits (all counterparties)	56,632,472	22,652,989
3.3	Unsecured debt	12,266,154	12,266,154
4	Secured wholesale funding	2,139,594	-
5	Additional requirements of which:	-	-
5.1	Outflows related to derivative exposures and other collateral requirements	5,704,589	5,704,589
5.2	Outflows related to loss of funding on debt products	-	-
5.3	Credit and Liquidity facilities	88,165,174	876,307
6	Other contractual funding obligations	27,055,334	27,055,334
7	Other contingent funding obligations	-	-
8	**TOTAL CASH OUTFLOWS**	-	117,179,141
	CASH INFLOWS	-	-
9	Secured lending	-	-
10	Inflows from fully performing exposures	45,346,241	27,044,768
11	Other Cash inflows	13,180,313	10,909,499
12	**TOTAL CASH INLFOWS**	-	37,954,267

21	**TOTAL HQLA (1)**	315,026,677
22	**TOTAL NET CASH OUTFLOWS (8-12)**	79,224,875
23	**LIQUIDITY COVERAGE RATIO (21/22)**	397.6%

a unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows)

b Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows)

c Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on level 2B and level 2 assets for HQLA and cap on inflows.

2.3 Net Stable Funding Ratio

The objective of 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.

(Amount in PKR in thousands)

		unweighted value by residual maturity				weighted value
		No Maturity	**< 6 months**	**6 months to < 1 yr**	**≥ 1 yr**	
	ASF Item					
1	Capital:	-	-	-	-	-
2	Regulatory capital	**61,709,697**	-	-	-	**61,709,697**
3	Other capital instruments	**6,397,797**	-	-	-	**6,397,797**
4	Retail deposits and deposit from small business customers:	-	-	-	-	-
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	**267,439,914**	**2,963,820**	**841,307**	**827,458**	**244,120,537**
7	Wholesale funding:	-	-	-	-	-
8	Operational deposits	**96,443,162**	-	-	-	**48,221,581**
9	Other wholesale funding	**36,722,016**	**36,772,166**	**16,657,812**	**1,000**	**41,910,445**
10	Other liabilities:	-	-	-	-	-
11	NSFR derivative liabilities	-	**6,271,670**	-	-	-
12	All other liabilities and equity not included in other categories	**38,062,604**	-	-	**5,747,766**	**6,576,225**
13	**Total ASF**	-	-	-	-	**408,936,281**
	RSF item					
14	Total NSFR high-quality liquid assets (HQLA)	-				-
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
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	-	**6,465,508**	-	-	**969,826**
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	**20,423,691**	**17,360,137**
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	**8,365,574**	**5,437,623**
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	-	-	-	-	-
22	Other assets:	-	-	-	-	-
23	Physical traded commodities, including gold	**8,401,487**	-	-	-	**3,384,151**
24	Assets posted as initial margin for derivative contracts	-	-	-	-	-
25	NSFR derivative assets	-	-	-	-	-
26	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
27	All other assets not included in the above categories	-	-	**169,682,515**	**33,444,825**	**118,286,083**
28	Off-balance sheet items	-	-	-	-	**11,202,804**
29	Total RSF	-	-	-	-	**156,640,624**
30	Net Stable Funding Ratio (%) (13/29)					**261%**