

**Habib Metropolitan Bank Limited**  
**Capital Adequacy, Leverage Ratio and Liquidity Disclosures - Unconsolidated**  
**As at 31 December 2018**

**1. CAPITAL ASSESSMENT AND ADEQUACY**

**Scope of Applications**

The State Bank of Pakistan (SBP) through its BPRD Circular No 6 dated August 15, 2013 has issued Basel III Capital instructions for Banks / DFIs. The revision to the previously applicable Capital Adequacy regulations pertain to components of eligible capital and related deductions. The amendments have been introduced with an aim to further strengthen the existing capital related rules. Basel III instructions have become effective from December 31, 2013; however, there is a transitional phase during which the complete requirements would become applicable with full implementation by December 31, 2019. This Capital Adequacy framework is applicable to the

The Bank's capital adequacy is reported using the rules and ratios provided by the State Bank of Pakistan. The capital adequacy ratio is a measure of the amount of a Bank's capital expressed as a percentage of its risk weighted assets (RWAs). Banking operations are categorized as either Trading Book or Banking Book and RWAs are determined according to specific treatments as per the requirement of SBP that measure the varying levels of risk attached to on balance sheet and off-balance sheet exposures. Under the current capital adequacy regulations, credit risk and market risk exposures are measured using the Standardized Approach and operational risk is measured using the Basic Indicator Approach. Credit risk mitigants are also applied against the Bank's exposures based on eligible collateral.

**Capital Management**

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, depositor and market confidence and to sustain future development of the business. The Bank aims to maintain an optimum level of capital along with maximizing shareholders' return.

**Statutory minimum capital requirement and Capital Adequacy Ratio**

The SBP through its BSD Circular No. 07 dated April 15, 2009 has prescribed the minimum paid-up capital (net of accumulated losses) for Banks to be raised to Rs.10 billion by the year ending December 31, 2013. The paid-up capital of the Bank for the year ended December 31, 2018 stood at Rs. 10,478 million (2017: Rs. 10,478 million) and is in compliance with SBP requirements.

Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 11.90% of the risk weighted exposures of the Bank. Further, under Basel III instructions, Banks are also required to maintain a Common Equity Tier 1 (CET 1) ratio and Tier 1 ratio of 6.00% and 7.50%, respectively, as at December 31, 2018. As at December 31, 2018 the Bank was fully compliant with prescribed ratios as the Bank's CAR was 13.12% whereas CET 1 and Tier 1 ratios both stood at 12.75%. The Bank and its individually regulated operations have complied with all capital requirements throughout the year.

Tier 1 capital comprises of Common Equity Tier 1 (CET 1) and Additional Tier 1 (AT 1) capital.

CET 1 capital includes fully paid-up capital, balance in share premium account, general reserves as per the financial statements, net un-appropriated profits meeting the eligibility criteria.

AT 1 capital includes instruments meeting the prescribed SBP criteria e.g. perpetual non-cumulative preference shares.

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The deductions from Tier 1 capital include mainly;

- i) Book value of goodwill / intangibles;
- ii) Deficit on revaluation of available for sale investments;
- iii) Reciprocal cross holdings in equity capital instruments of other banks, financial institutions and insurance companies;
- iv) Investment in mutual funds above a prescribed ceiling; and
- v) Threshold deductions applicable from 2014 on deferred tax assets and certain investments.

Tier 2 capital includes general provisions for loan losses, surplus on the revaluation of assets - net of tax, foreign exchange translation reserves and subordinated debts (meeting the revised eligibility criteria).

**1.1 Capital Structure**

	<i>Note</i>	<b>31 December 2018</b>	31 December 2017	Source based on reference number from note 1.3.2
		----- (Rupees in '000) -----		
<b>Common Equity Tier 1 capital (CET 1):</b>				
<b>Instruments and reserves</b>				
Fully Paid-up capital / capital deposited with SBP		<b>10,478,315</b>	10,478,315	(t)
Balance in share premium account		<b>2,550,985</b>	2,550,985	(t)
Reserve for issue of bonus shares		-	-	
Discount on issue of shares		-	-	
General / Statutory reserves		<b>13,716,808</b>	12,484,691	(u)
Gain / (Loss) on derivatives held as cash flow hedge		-	-	
Unappropriated/unremitted profits / (losses)		<b>15,829,504</b>	14,042,566	(w)
Minority interests arising from CET 1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET 1 capital of the consolidation group)		-	-	
<b>CET 1 before regulatory adjustments</b>		<b>42,575,612</b>	39,556,557	
Total regulatory adjustments applied to CET 1	<i>1.2.1</i>	<b>8,537,732</b>	526,487	
<b>CET 1 after regulatory adjustments</b>		<b>34,037,880</b>	39,030,070	
<b>Additional Tier 1 (AT 1) Capital</b>				
Qualifying AT 1 instruments plus any related share premium		-	-	
of which: classified as equity		-	-	
of which: classified as liabilities		-	-	
AT 1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		-	-	
of which: instrument issued by subsidiaries subject to phase out		-	-	
<b>AT 1 before regulatory adjustments</b>		-	-	
Total regulatory adjustment applied to AT 1 capital	<i>1.2.2</i>	-	-	
AT 1 capital after regulatory adjustments		-	-	
<b>Additional Tier 1 capital recognized for capital adequacy</b>		-	-	
<b>Tier 1 (T 1) Capital (CET1 + admissible AT1)</b>		<b>34,037,880</b>	39,030,070	

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	Note	31 December 2018	31 December 2017	Source based on reference number from note 1.3.2
		----- (Rupees in '000) -----		
<b>Tier 2 (T2) Capital</b>				
Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-	-	
T2 capital instruments subject to phase out arrangement issued under pre-Basel III Rules		-	-	
T2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group T 2)		-	-	
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		1,236,190	257,841	
Revaluation reserves (net of taxes)				
of which: revaluation reserves on fixed assets		-	-	
of which: unrealized gains / (losses) on AFS		-	675,837	(aaa)
Foreign exchange translation reserves		-	-	
Undisclosed / other Reserves (if any)		-	-	
<b>T2 before regulatory adjustments</b>		<b>1,236,190</b>	<b>933,678</b>	
Total regulatory adjustment applied to T2 capital	1.2.3	<b>259,435</b>	<b>83,000</b>	
<b>T2 after regulatory adjustments</b>		<b>976,755</b>	<b>850,678</b>	
T2 capital recognized for capital adequacy		<b>976,755</b>	<b>850,678</b>	
Portion of AT 1 capital recognized in T2 capital		-	-	
<b>Total Tier 2 capital admissible for capital adequacy</b>		<b>976,755</b>	<b>850,678</b>	
<b>TOTAL CAPITAL (T1 + admissible T2)</b>		<b>35,014,635</b>	<b>39,880,748</b>	
<b>Total Risk Weighted Assets (RWA)</b>		<b>266,947,709</b>	<b>231,978,712</b>	
<b>Capital ratios and buffers</b>				
(in percentage of risk weighted assets)				
<b>CET 1 to total RWA</b>		<b>12.75%</b>	<b>16.82%</b>	
<b>Tier-1 capital to total RWA</b>		<b>12.75%</b>	<b>16.82%</b>	
<b>Total capital to total RWA</b>		<b>13.12%</b>	<b>17.19%</b>	
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		<b>6.00%</b>	<b>6.00%</b>	
of which: capital conservation buffer requirement		-	-	
of which: countercyclical buffer requirement		-	-	
of which: D-SIB or G-SIB buffer requirement		-	-	
CET1 available to meet buffers (as a percentage of risk weighted assets)		<b>6.75%</b>	<b>10.82%</b>	
<b>National minimum capital requirements prescribed by SBP</b>				
<b>CET 1 minimum ratio</b>		<b>6.00%</b>	<b>6.00%</b>	
<b>Tier 1 minimum ratio</b>		<b>7.50%</b>	<b>7.50%</b>	
<b>Total capital minimum ratio</b>		<b>11.90%</b>	<b>11.275%</b>	

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**1.2 Regulatory adjustments & additional information**

	31 December 2018	Amounts subject to Pre- Basel III treatment (Rupees in '000)	31 December 2017	Source based on reference number from note 1.3.2
<b>1.2.1 Common Equity Tier 1 capital: Regulatory adjustments</b>				
Goodwill (net of related deferred tax liability)	-	-	-	
All other intangibles (net of any associated deferred tax liability)	121,442	-	224,287	(h) - (p)
Shortfall in provisions against classified assets	-	-	-	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-	-	
Defined-benefit pension fund net assets	-	-	-	
Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	187,396	-	219,200	(d)
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 fixed assets/ AFS	5,753,117	-	-	(ab)
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)	14,439	-	-	portion of (a)
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)	-	-	-	
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	2,267,892	-	-	(j)
Amount exceeding 15% threshold	-	-	-	
of which: significant investments in the common stocks of financial entities	-	-	-	
of which: 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	193,446	-	83,000	
<b>Total regulatory adjustments applied to CET1</b>	<b>8,537,732</b>	<b>-</b>	<b>526,487</b>	

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<b>1.2.2 Additional Tier 1 Capital: Regulatory adjustments</b>				
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-	-	
Investment in own AT1 capital instruments	-	-	-	
Reciprocal cross holdings in AT 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)	193,446	-	-	portion of (a)
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 T1 and T 2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from AT 1 capital	-	-	-	
Adjustments applied to AT 1 due to insufficient Tier 2 to cover deductions	-	-	-	
Regulatory adjustment applied to CET1 due to insufficient AT1	(193,446)	-	-	
<b>Total of Regulatory Adjustment applied to AT1 capital</b>	-	-	-	
<b>1.2.3 Tier 2 Capital: regulatory adjustments</b>				
Portion of deduction applied 50:50 to T1 and T 2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from T 2 capital	-	-	83,000	
Reciprocal cross holdings in T 2 instruments of banking, financial and insurance entities	-	-	-	
Investment in own T 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)	259,435	-	-	portion of (a)
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>	259,435	-	83,000	

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	<b>31</b>	<b>31</b>
	<b>December</b>	<b>December</b>
	<b>2018</b>	<b>2017</b>
	<b>----- (Rupees in '000) -----</b>	
<b>1.2.4 Additional Information</b>		
<b>Risk weighted assets in respect of amounts 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	<b>4,118,686</b>	3,105,522
Significant investments in the common stock of financial entities	-	664,000
Deferred tax assets arising from temporary differences (net of related tax liability)	<b>5,917,814</b>	2,933,496
<b>Applicable caps on the inclusion of provisions in T 2</b>		
Provisions eligible for inclusion in T 2 in respect of exposures subject to standardized approach (prior to application of cap)	<b>1,236,190</b>	257,841
Cap on inclusion of provisions in T 2 under standardized approach	<b>2,866,109</b>	2,435,020
Provisions eligible for inclusion in T 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
Cap for inclusion of provisions in T 2 under internal ratings-based approach	-	-

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**1.3 Capital Structure Reconciliation**

**1.3.1 Step 1**

The accounting consolidation is identical to the scope of regulatory consolidation.

**1.3.2 Step 2**

	<b>Balance sheet as in published financial statements 31 December 2018</b>	<b>Under regulatory scope of consolidation</b>	<b>Ref.</b>
	<b>----- (Rupees in '000) -----</b>		
<b>Assets</b>			
Cash and balances with treasury banks	48,177,009	48,177,009	
Balances with other banks	1,115,557	1,115,557	
Lendings to financial institutions	11,984,795	11,984,795	
Investments	346,665,904	346,665,904	
of which: non-significant investments in capital instruments of banking, financial and insurance entities exceeding 10% threshold	467,320	467,320	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)	187,396	187,396	d
of which: others	-	-	e
Advances	226,689,617	226,689,617	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in T 2 capital	1,236,190	1,236,190	g
Fixed Assets	4,021,021	4,021,021	
of which: intangibles	121,442	121,442	h
Deferred tax assets	5,821,182	5,821,182	
of which: DTAs that rely on future profitability excluding those arising from temporary differences	-	-	i
of which: DTAs arising from temporary differences exceeding regulatory threshold	2,267,892	2,267,892	j
Other assets	28,920,696	28,920,696	
of which: Goodwill	-	-	k
of which: defined-benefit pension fund net assets	-	-	l
<b>Total assets</b>	<b>673,395,781</b>	<b>673,395,781</b>	

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	Balance sheet as in published financial statements	Under regulatory scope of consolidation	
	<b>31 December 2018</b>		
	<b>----- (Rupees in '000) -----</b>		<b>Ref.</b>
<b>Liabilities &amp; Equity</b>			
Bills payable	12,173,407	12,173,407	
Borrowings	51,347,381	51,347,381	
Deposits and other accounts	543,577,510	543,577,510	
Sub-ordinated loans	-	-	m
of which: eligible for inclusion in AT1	-	-	n
of which: eligible for inclusion in T2	-	-	
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	o
of which: DTLs related to goodwill	-	-	p
of which: DTLs related to intangible assets	-	-	q
of which: DTLs related to defined pension fund net assets	-	-	r
of which: other deferred tax liabilities	-	-	
Other liabilities	29,295,527	29,295,527	
<b>Total liabilities</b>	<b>636,393,825</b>	<b>636,393,825</b>	
Share capital	13,029,300	13,029,300	s
of which: amount eligible for CET1	13,029,300	13,029,300	t
of which: amount eligible for AT1	-	-	
Reserves	13,716,808	13,716,808	u
of which: portion eligible for inclusion in CET1			
(statutory reserve, special reserve & revenue reserve)	13,716,808	13,716,808	v
of which: portion eligible for inclusion in T2	-	-	
Unappropriated profit/ (losses)	15,829,504	15,829,504	w
Minority Interest	-	-	x
of which: portion eligible for inclusion in CET 1	-	-	y
of which: portion eligible for inclusion in AT1	-	-	z
of which: portion eligible for inclusion in T2	-	-	
Surplus on revaluation of assets	(5,573,656)	(5,573,656)	aa
of which: Revaluation reserves on Fixed Assets			
of which: Unrealized Gains/Losses on AFS-Recognised	-	-	aaa
of which: Unrealized Gains/Losses on AFS-Unrecognised	(5,573,656)	(5,573,656)	
In case of Deficit on revaluation (deduction from CET 1)	(5,573,656)	(5,573,656)	(ab)
<b>Total Equity</b>	<b>37,001,956</b>	<b>37,001,956</b>	
<b>Total liabilities and Equity</b>	<b>673,395,781</b>	<b>673,395,781</b>	

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**1.4 Main features template of regulatory capital instruments**

1	Issuer	Habib Metropolitan Bank Ltd.
2	Unique identifier (eg. KSE Symbol or Bloomberg identifier etc.)	HMB
3	Governing law(s) of the instrument	Capital Market Law
	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	Group & standalone
7	Instrument type	Common Shares
8	Amount recognized in regulatory capital (Currency in PKR thousand, as of reporting date)	35,014,635
9	Par value of instrument	PKR 10
10	Accounting classification	Shareholder equity
11	Original date of issuance	1992
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
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 coupons / dividends	Not Applicable
17	Fixed or floating dividend/ coupon	Not Applicable
18	Coupon rate and any related index / benchmark	Not Applicable
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	Not Applicable
23	Convertible or non-convertible	Non-convertible
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)	Not Applicable
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable

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**1.5 Risk Weighted Assets**

The risk weighted assets to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy is as follows:

<b>Credit risk</b>	<b>Capital Requirements</b>		<b>Risk Weighted Assets</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Portfolios subject to standardised approach <u>(Simple)</u>	<b>----- (Rupees in '000) -----</b>			
<b>On-Balance Sheet</b>				
Cash and cash equivalents	-	-	-	-
Government of Pakistan and SBP	-	-	-	-
Public Sector Entities	198,117	236,674	1,981,170	2,366,735
Banks	932,125	924,220	9,321,249	9,242,203
Corporate	14,156,919	11,568,352	141,569,187	115,683,517
Retail	821,188	699,340	8,211,875	6,993,398
Residential mortgage finance	85,902	84,491	859,020	844,909
Past due loans	242,763	262,889	2,427,634	2,628,886
Operating fixed assets	389,958	313,158	3,899,579	3,131,578
Other assets	1,234,404	1,068,607	12,344,039	10,686,066
	<b>18,061,376</b>	<b>15,157,731</b>	<b>180,613,753</b>	<b>151,577,292</b>
<b>Off-Balance Sheet</b>				
Non market related	4,387,997	3,865,512	43,879,972	38,655,120
Market related	104,542	131,504	1,045,419	1,315,040
	<b>4,492,539</b>	<b>3,997,016</b>	<b>44,925,391</b>	<b>39,970,160</b>
<b>Equity Exposure Risk in the Banking Book</b>				
Under simple risk weight method e.g. Listed, Unlisted	374,961	325,413	3,749,612	3,254,127
Under Internal models approach	-	-	-	-
	<b>374,961</b>	<b>325,413</b>	<b>3,749,612</b>	<b>3,254,127</b>
<b>Total Credit Risk</b>	<b>22,928,876</b>	<b>19,480,160</b>	<b>229,288,756</b>	<b>194,801,579</b>
<b>Market risk</b>				
Capital requirement for portfolios subject to <u>Standardised Approach</u>				
Interest rate risk	-	2,006	-	25,075
Equity position risk	72,121	220,193	901,513	2,752,413
Foreign exchange risk	53,586	35,330	669,829	441,619
<b>Total market risk</b>	<b>125,707</b>	<b>257,529</b>	<b>1,571,342</b>	<b>3,219,107</b>
<b>Operational risk</b>				
Capital requirement for operational risks subject to <u>Basic Indicator Approach</u>	2,887,009	2,716,642	36,087,611	33,958,026
<b>Total Risk Weighted Assets</b>	<b>25,941,592</b>	<b>22,454,331</b>	<b>266,947,709</b>	<b>231,978,712</b>
<b>Capital adequacy ratio</b>	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Required</b>	<b>Actual</b>	<b>Required</b>	<b>Actual</b>
CET1 to total RWA	6.00%	12.75%	6.00%	16.82%
Tier-1 capital to total RWA	7.50%	12.75%	7.50%	16.82%
Total capital to total RWA	11.90%	13.12%	11.275%	17.19%

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#### 1.6 Credit risk - General disclosures

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements.

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numerical scale of each agency used with risk bucket is as per SBP guidelines as is given below:

#### Types of Exposures and ECAI's used

Exposures	2018				
	JCR - VIS	PACRA	S & P	Fitch	Moody's
Corporate	√	√	-	-	-
Banks	√	√	√	√	√
Sovereigns	-	-	-	-	-
SME's	√	√	-	-	-
Securitisation	-	-	-	-	-
Others	-	-	-	-	-

#### 1.7 Credit exposures subject to Standardized Approach

Exposures	Rating Category	2018			2017		
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
		----- (Rupees in '000) -----					
Corporate	1	28,561,091	455,860	28,105,231	15,658,351	1,054,176	14,604,175
	2	43,670,690	1,781,841	41,888,849	10,896,405	135,481	10,760,924
	3,4	7,009,370	-	7,009,370	1,481,014	-	1,481,014
	5,6	-	-	-	-	-	-
Claims on banks with original maturity of 3 months or less		16,600,943	3,138,596	13,462,347	9,882,982	260,168	9,622,814
Retail		18,392,113	4,732,720	13,659,393	15,204,886	3,951,956	11,252,930
Public sector entities	1	4,892,198	261,074	4,631,124	9,598,961	59,425	9,539,536
	2,3	3,535,030	-	3,535,030	3,357,187	-	3,357,187
Others		429,927,319	13,273,000	416,654,319	481,925,960	11,468,000	470,457,960
Unrated		172,690,464	30,633,581	142,056,883	154,703,349	23,326,692	131,376,657

The forms of collateral that are deemed eligible under the 'Simple Approach' to credit risk mitigation as per SBP guidelines are used by the Bank and primarily includes cash, government and rated debt securities.

The Bank applies SBP specified haircut to collateral for credit risk mitigation. Collateral management is embedded in the Bank's risk taking and risk management policy and procedures. A standard credit granting procedure exists which has been well-disseminated down the line, ensuring proper pre-sanction evaluation, adequacy of security, pre-examination of charge / control documents and monitoring of each exposure on an ongoing basis.

Collateral information is recorded diligently in the Bank's main processing systems by type of collateral, amount of collateral against relevant credit exposures. A cohesive accounting / risk management system facilitates effective collateral management for Basel II reporting.

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**2. LEVERAGE RATIO**

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage. As at 31 December 2018 the Bank's Leverage ratio stood at 4.12% (2017: 4.92%) which is well above the minimum requirement of 3.0%.

	<i>Note</i>	<b>2018</b>	<b>2017</b>
		<b>----- (Rupees in '000) -----</b>	
<b>Eligible Tier-1 Capital (A)</b>	<i>1.1</i>	<b>34,037,880</b>	39,030,070
<b>Total exposures (B)</b>		<b>825,463,970</b>	793,510,597
<b>Leverage Ratio (A/B)</b>		<b>4.12%</b>	4.92%

**3. LIQUIDITY DISCLOSURES**

The SBP has introduced two liquidity standards through its guidelines on Basel III: Liquidity Standards. These are the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The objective of the LCR is to ensure that banks have an adequate stock of unencumbered high quality liquid assets (HQLA) to survive a significant stress scenario. The objective of the NSFR is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding on an ongoing basis.

**LCR and NSFR results**

The Bank calculates the Liquidity Coverage Ratio (LCR) on monthly basis as per SBP Basel III Liquidity Standards issued under BPRD circular no. 08 dated 23 June 2016. The objective of LCR is to ensure the short-term resilience of the liquidity risk profile of the Bank and requires banks to maintain sufficient High Quality Liquid Assets (HQLAs) to meet stressed cash outflows over a prospective 30 calendar-days period. As of 31 December 2018, the Bank's LCR stood at 252% against the SBP's minimum requirement of 90%.

The objective of Net Stable Funding Ratio (NSFR) is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. Banks are expected to meet the NSFR requirement of at least 100% on an ongoing basis from 31 December 2017. As of 31 December 2018, the Bank's NSFR stood at 203%.

**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 SBP.

**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. The Bank has taken cash & treasury balances, investments in government securities classified as 'Available for Sale'. Further, Level 2-B asset category includes investment in qualifying corporate bonds and equity investments classified as available for sales.

**Currency mismatch in the LCR**

Currency mismatch is minimal as PKR deposits are 84% of Bank's total deposits.

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**3.1 LIQUIDITY COVERAGE RATIO**

	2018		2017	
	Total Unweighted value (average)	Total weighted value (average)	Total Unweighted value (average)	Total weighted value (average)
----- (Rupees in '000) -----				
<b>High Quality Liquid Assets (HQLA)</b>				
Total HQLA		<u><u>317,763,854</u></u>		<u><u>301,679,059</u></u>
<b>Cash outflows</b>				
Retail deposits and deposits from small business customers of which:		<b>30,499,757</b>		28,193,245
stable deposit	-	-	-	-
less stable deposit	<b>304,997,567</b>	<b>30,499,757</b>	281,932,448	28,193,245
Unsecured wholesale funding of which:		<b>125,499,380</b>		99,978,817
Operational deposits (all counterparties)	<b>7,939,116</b>	<b>1,984,779</b>	16,510,724	4,127,681
Non-operational deposits (all counterparties)	<b>215,514,190</b>	<b>86,205,676</b>	182,084,468	72,833,787
Unsecured debt	<b>37,308,925</b>	<b>37,308,925</b>	23,017,349	23,017,349
Secured wholesale funding	<b>33,435,037</b>	-	36,655,684	-
Additional requirements of which:		<b>7,418,495</b>		6,225,099
Outflows related to derivative exposures and other collateral requirements	-	-	-	-
Outflows related to loss of funding on debt products	-	-	-	-
Credit and Liquidity facilities	<b>148,125,993</b>	<b>7,418,495</b>	124,226,946	6,225,099
Other contractual funding obligations		-		-
Other contingent funding obligations		-		-
<b>Total cash outflows (A)</b>		<u><u>163,417,632</u></u>		<u><u>134,397,160</u></u>
<b>Cash inflows</b>				
Secured lending	<b>17,091,123</b>	-	4,527,118	-
Inflows from fully performing exposures	<b>61,458,728</b>	<b>30,729,364</b>	54,522,589	27,261,294
Other Cash inflows	<b>7,889,483</b>	<b>6,839,089</b>	13,173,769	10,491,221
<b>Total cash inflows (B)</b>		<u><u>37,568,453</u></u>		<u><u>37,752,515</u></u>
<b>Total adjusted value</b>				
Total HQLA		<u><u>317,763,854</u></u>		<u><u>301,679,059</u></u>
Total Net Cash Outflows		<u><u>125,849,179</u></u>		<u><u>96,644,645</u></u>
Liquidity coverage ratio (%)		<u><u>252</u></u>		<u><u>312</u></u>

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**3.2 Net Stability Funding Ratio**

	2018				weighted value	2017				weighted value
	unweighted value by residual maturity					unweighted value by residual maturity				
	No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
----- (Rupees in '000) -----										
<b>Available Stable Funding (ASF) Item</b>										
Capital:	38,238,146	-	-	-	38,238,146	40,490,235	-	-	-	40,490,235
Regulatory capital	-	-	-	-	-	-	-	-	-	-
Other capital instruments										
Retail deposits and deposit from small business customers:										
Stable deposits	-	-	-	-	-	-	-	-	-	-
Less stable deposits	-	230,884,814	46,505,768	-	249,651,524	-	273,538,398	15,444,556	6,264,267	266,348,926
Wholesale funding:										
Operational deposits	-	-	-	-	-	30,208,589	-	-	-	15,104,295
Other wholesale funding	-	165,039,947	20,236,543	-	92,638,245	-	182,786,667	14,180,723	6,429,268	104,912,963
Other liabilities:										
NSFR derivative liabilities	-	-	-	-	-	-	-	-	-	-
All other liabilities and equity not included in other categories	-	124,567,600	3,274,743	59,853,973	59,617,940	-	75,203,057	-	-	-
<b>Total ASF</b>					<b>440,145,855</b>					<b>426,856,419</b>
<b>Required Stable Funding (RSF) item</b>										
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	37,288,006	-	-	-	-	36,293,419
Deposits held at other financial institutions for operational purposes	-	-	-	-	-	-	2,353,260	-	-	1,176,630
Performing loans and securities:										
Performing loans to financial institutions secured by Level 1 HQLA	-	4,184,795	-	-	418,480	-	346,890	-	-	34,689
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans	-	7,954,751	218,540	-	1,302,483	-	7,166,443	492,968	-	1,567,934
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of	-	-	-	-	-	-	-	-	-	-
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	29,036,873	5,119,228	4,418,347	19,949,976	-	34,291,098	2,235,362	2,769,079	36,090,999
Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	-	-	-	-	-	-	-	-	-	-
Other assets:										
Physical traded commodities, including gold	-	-	-	-	-	-	-	-	-	-
Assets posted as initial margin for derivative contract	-	-	-	-	-	-	-	-	-	-
NSFR derivative assets	-	-	-	-	-	-	-	-	-	-
NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-	-	-	-	-	-
All other assets not included in the above categories	-	170,515,480	30,653,916	24,154,846	137,956,344	-	168,208,279	13,087,628	18,080,085	78,767,236
Off-balance sheet items	-	362,786,660	19,064,789	8,441,407	19,519,615	-	246,676,156	12,827,354	6,616,114	13,305,985
<b>Total RSF</b>					<b>216,434,904</b>					<b>167,236,892</b>
<b>Net Stable Funding Ratio (%)</b>					<b>203</b>					<b>255</b>