

#### 40. CAPITAL - ASSESSMENT AND ADEQUACY - BASEL III SPECIFIC

##### 40.1 Capital Adequacy Framework

As per requirements of SBP, the Bank is required to comply with the capital adequacy framework which comprises of the following capital standards:

**i) Minimum Capital Requirement (MCR):**

MCR defines the minimum paid-up capital that the Bank is required to hold at all times. As of statement of financial position date, the Bank's paid up capital stands at Rs. 10.193 billion as against the required MCR of Rs. 10 billion.

**ii) Capital Adequacy Ratio (CAR):**

The Capital Adequacy Ratio (CAR) assesses the capital requirement based on the risks faced by the banks. The Banks are required to comply with the CAR as specified by SBP on standalone as well as consolidated basis.

SBP issued the instructions on the computation of CAR based on Basel III capital reform as published by Basel Committee on Banking Supervision. These instructions are effective from 31 December 2013 with full implementation intended by 31 December 2019. These instructions also specify the transitional arrangements from 2013 to 2019.

Accordingly, the Bank has assessed and reported its Capital Adequacy Ratio in these financial statements on the basis of BASEL III requirements as prescribed by SBP.

##### 40.2 Scope of Applications

The Basel-III framework is applicable to the Bank on a standalone basis as the Bank does not have a subsidiary. Standardized Approach has been used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

##### 40.3 Capital Structure

Bank's regulatory capital has been analyzed in two tiers;

- Common equity Tier 1 capital (CET 1), which includes fully paid up capital, discount on issuance of shares, statutory reserves, accumulated losses and regulatory adjustments applicable on CET 1.
- Tier 2 capital, which includes subordinated debt/instrument, general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets) and reserves on revaluation of investments.

**ALBARAKA BANK (PAKISTAN) LIMITED**

	2018	2017
Note	-----Rupees in '000-----	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
Share Capital including advance against issuance of shares	20.2 <b>13,739,628</b>	13,739,628
Balance in share premium account	-	-
Reserve for issue of bonus shares	-	-
Discount on Issuance of shares - net	20.3 <b>(632,766)</b>	(632,766)
Statutory reserves	<b>159,348</b>	159,348
Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
Accumulated loss	<b>(2,914,337)</b>	(2,675,723)
Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
<b>CET 1 before Regulatory Adjustments</b>	<b>10,351,873</b>	10,590,487
<b>Total regulatory adjustments applied to CET1</b>	40.4.1 <b>4,169,469</b>	4,189,323
<b>Common Equity Tier 1</b>	<b>6,182,404</b>	6,401,164
<b>Additional Tier 1 (AT 1) Capital</b>		
Qualifying Additional Tier-1 capital instruments plus any related share premium	<b>1,389,241</b>	-
of which: Classified as equity	<b>1,389,241</b>	-
of which: Classified as liabilities	-	-
Additional Tier-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>AT1 before regulatory adjustments</b>	<b>1,389,241</b>	-
Total regulatory adjustment applied to AT1 capital	40.4.2 -	-
Additional Tier 1 Capital after regulatory adjustments	<b>1,389,241</b>	-
<b>Additional Tier 1 capital recognized for capital adequacy</b>	<b>1,192,947</b>	-
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>7,375,351</b>	6,401,164
<b>Tier 2 Capital</b>		
Qualifying Tier 2 capital instruments under Basel III	18 <b>1,671,429</b>	1,842,857
Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel 3 rules	-	-
Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	-	-
of which: instruments issued by subsidiaries subject to phase out	-	-
General provisions for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	11.5 <b>145,979</b>	87,086
Revaluation Reserves (net of taxes)	<b>20,384</b>	-
of which: Revaluation reserves on fixed assets	-	-
of which: Unrealized gains on AFS	<b>20,384</b>	-
Foreign Exchange Translation Reserves	-	-
Undisclosed/Other Reserves	-	-
<b>T2 before regulatory adjustments</b>	<b>1,837,791.44</b>	1,929,944
Total regulatory adjustment applied to T2 capital	40.4.3 -	-
<b>Tier 2 capital (T2) after regulatory adjustments</b>	<b>1,837,791</b>	1,929,944
Tier 2 capital recognized for capital adequacy	<b>1,837,791</b>	1,929,944
Portion of Additional Tier 1 capital recognized in Tier 2 capital	<b>150,453</b>	-
<b>Total Tier 2 capital admissible for capital adequacy</b>	<b>1,988,245</b>	1,929,944
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>9,363,595</b>	8,331,107
<b>Total Risk Weighted Assets (RWA)</b>	40.6 <b>79,529,791</b>	81,883,065
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>		
<b>CET1 to total RWA</b>	<b>7.77%</b>	7.82%
<b>Tier-1 capital to total RWA</b>	<b>9.27%</b>	7.82%
<b>Total capital to RWA</b>	<b>11.77%</b>	10.17%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	-	-
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>National minimum capital requirements prescribed by SBP</b>		
CET1 minimum ratio	<b>6.00%</b>	6.00%
Tier 1 minimum ratio	<b>7.50%</b>	7.50%
Total capital minimum ratio	<b>10.00%</b>	10.00%

## 40.4 Regulatory Adjustments and Additional Information

	Amount	Amounts subject to Pre- Basel III treatment	Amount	Amounts subject to Pre- Basel III treatment
	2018		2017	
-----Rupees in '000-----				
<b>40.4.1 Common Equity Tier 1 capital: Regulatory adjustments</b>				
- Goodwill (net of related deferred tax liability)	396,117	-	396,117	-
- All other intangibles (net of any associated deferred tax liability)	1,157,849	-	1,309,848	-
- Shortfall in provisions against classified assets	-	-	278,307	-
- Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2,265,152	2,265,152	1,857,616	2,322,020
- Defined-benefit pension fund net assets	-	-	-	-
- Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-	-	-
- Cash flow hedge reserve	-	-	-	-
- Investment in own shares/ CET1 instruments	-	-	-	-
- Securitization gain on sale	-	-	-	-
- Capital shortfall of regulated subsidiaries	-	-	-	-
- Deficit on account of revaluation of investments classified as AFS	-	-	161,593	-
- 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)	350,351	350,351	185,843	232,304
- 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	-	-	-	-
- Investments in TFCs of other banks exceeding the prescribed limit	-	-	-	-
- Any other deduction specified by SBP	-	-	-	-
- Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-	-	-
<b>Total regulatory adjustments applied to CET1</b>	<b>4,169,469</b>	<b>2,615,504</b>	<b>4,189,323</b>	<b>2,554,324</b>
<b>40.4.2 Additional Tier-1 &amp; 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 Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-	-	-
- Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not	-	-	-	-
- Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
- 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	-	-	-	-
- Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
<b>Total regulatory adjustment applied to AT1 capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

40.4.3 Tier 2 Capital: regulatory adjustments

-	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	-	-	-	-
-	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-	-	-
-	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>Total regulatory adjustment applied to T2 capital</b>	-	-	-	-

40.4.4 Additional Information

	<u>2017</u>	<u>2018</u>
<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	-	464,404
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	<b>29,587</b>	32,563
Deferred tax assets arising from temporary differences (net of related tax liability)	<b>653,275</b>	612,260
<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)	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	-	-
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	-	-

## 40.5 Capital Structure Reconciliation

Step 1	As per published financial statements	Under regulatory scope of consolidation	As per published financial statements	Under regulatory scope of consolidation	Ref
	2018		2017		
----- Rupees in '000 -----					
<b>Assets</b>					
Cash and balances with treasury banks	14,934,799	14,934,799	8,915,585	8,915,585	
Balanced with other banks	854,171	854,171	2,932,165	2,932,165	
Due to financial institutions	-	-	5,095,411	5,095,411	
Investments	21,345,325	21,345,325	19,393,486	19,393,486	
Islamic financing and related assets	75,011,975	75,011,975	71,203,056	71,203,056	
Operating fixed assets	3,883,439	3,883,439	4,082,153	4,082,153	
Deferred tax assets	3,238,909	3,238,909	3,238,985	3,238,985	
Other assets	9,544,420	9,544,420	5,799,760	5,799,760	
<b>Total assets</b>	<b>128,813,038</b>	<b>128,813,038</b>	<b>120,660,601</b>	<b>120,660,601</b>	
<b>Liabilities</b>					
Bills payable	1,381,308	1,381,308	1,691,141	1,691,141	
Due to financial institutions	3,836,022	3,836,022	3,209,400	3,209,400	
Deposits and other accounts	102,231,179	102,231,179	98,589,904	98,589,904	
Sub-ordinated loans	3,746,377	3,060,670	2,642,852	1,929,944	
Liabilities against assets subject to Financial Lease	-	-	-	-	
Deffered Tax Liabilities	-	-	-	-	
Other liabilities	6,913,069	6,913,069	3,765,083	3,765,083	
<b>Total liabilities</b>	<b>118,107,955</b>	<b>117,422,248</b>	<b>109,898,380</b>	<b>109,185,472</b>	
<b>Represented by</b>					
Share capital (including advance against issuance of shares and discount)	13,106,862	13,106,862	13,106,862	13,106,862	
Reserves	159,348	159,348	159,348	159,348	
Accumulated loss	(2,914,337)	(2,914,337)	(2,675,723)	(2,675,723)	
Minority Interest	-	-	-	-	
Deficit on revaluation of Investments-net of tax	353,210	353,210	171,734	171,734	
<b>Total equity</b>	<b>10,705,083</b>	<b>10,705,083</b>	<b>10,762,221</b>	<b>10,762,221</b>	
<b>Total liabilities &amp; equity</b>	<b>128,813,039</b>	<b>128,127,331</b>	<b>120,660,601</b>	<b>119,947,692</b>	
----- Rupees in '000 -----					
Step 2	As per published financial statements	Under regulatory scope of consolidation	As per published financial statements	Under regulatory scope of consolidation	Ref
	2018		2017		
<b>Assets</b>					
Cash and balances with treasury banks	14,934,799	14,934,799	8,915,585	8,915,585	
Balanced with other banks	854,171	854,171	2,932,165	2,932,165	
Due from Financial institutions	-	-	5,095,411	5,095,411	
Investments	21,345,325	21,345,325	19,393,486	19,393,486	
<i>of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold</i>	-	-	-	-	a
<i>of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold</i>	-	-	-	-	b
<i>of which: Mutual Funds exceeding regulatory threshold</i>	-	-	-	-	c
<i>of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)</i>	-	-	-	-	d
<i>of which: others (mention details)</i>	-	-	-	-	e
Islamic financing and related assets	75,011,975	75,011,975	71,203,056	71,203,056	
<i>shortfall in provisions against classified assets</i>	-	-	278,307	278,307	f
<i>general provisions reflected in Tier 2 capital</i>	145,979	145,979	87,086	87,086	g
Operating fixed assets	3,883,439	3,883,439	4,082,153	4,082,153	
Deferred Tax Assets	3,238,909	3,238,909	3,238,985	3,238,985	
<i>of which: DTAs that rely on future profitability excluding those arising from temporary differences</i>	2,265,152	2,265,152	2,322,020	2,322,020	h
<i>of which: DTAs arising from temporary differences exceeding regulatory threshold</i>	350,351	350,351	185,843	185,843	i
Other assets	9,544,420	9,544,420	5,799,760	5,799,760	
<i>of which: Goodwill</i>	396,117	396,117	396,117	396,117	j
<i>of which: Intangibles</i>	1,157,849	1,157,849	1,309,848	1,309,848	k
<i>of which: Defined-benefit pension fund net assets</i>	-	-	-	-	l
<b>Total assets</b>	<b>128,813,038</b>	<b>128,813,038</b>	<b>120,660,601</b>	<b>120,660,601</b>	

## Step 2

	As per published financial statements	Under regulatory scope of consolidation	As per published financial statements	Under regulatory scope of consolidation	Ref
	2018	2017	2018	2017	
-----Rupees in '000-----					
<b>Liabilities &amp; Equity</b>					
Bills payable	1,381,308	1,381,308	1,691,141	1,691,141	
Due to Financial institutions	3,836,022	3,836,022	3,209,400	3,209,400	
Deposits and other accounts	102,231,179	102,231,179	98,589,904	98,589,904	
Sub-ordinated loans	3,746,377	3,060,670	2,642,852	1,842,857	
<i>of which: eligible for inclusion in AT1</i>	1,389,241	1,389,241	-	-	m
<i>of which: eligible for inclusion in Tier 2</i>	2,357,136	1,671,429	2,642,852	1,842,857	n
Liabilities against assets subject to finance lease	-	-	-	-	
Deferred tax liabilities	-	-	-	-	
<i>of which: DTLs related to goodwill</i>	-	-	-	-	o
<i>of which: DTLs related to intangible assets</i>	-	-	-	-	p
<i>of which: DTLs related to defined pension fund net assets</i>	-	-	-	-	q
<i>of which: other deferred tax liabilities</i>	-	-	-	-	r
Other liabilities	6,913,069	6,913,069	3,765,083	3,765,083	
<b>Total liabilities</b>	<b>118,107,955</b>	<b>117,422,248</b>	<b>109,898,380</b>	<b>109,098,385</b>	
Share capital					
<i>of which: amount eligible for CET1</i>	13,106,862	13,106,862	13,106,862	13,106,862	s
<i>of which: amount eligible for AT1</i>	1,389,241	1,192,947	-	-	t
Reserves	159,348	159,348	159,348	159,348	
<i>of which: portion eligible for inclusion in CET1 (provide breakup)</i>	159,348	159,348	159,348	159,348	u
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	-	-	v
Accumulated losses	(2,914,337)	(2,914,337)	(2,675,723)	(2,675,723)	w
Minority Interest	-	-	-	-	
<i>of which: portion eligible for inclusion in CET1</i>	-	-	-	-	x
<i>of which: portion eligible for inclusion in AT1</i>	-	-	-	-	y
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	-	-	z
Surplus on revaluation of assets	-	-	-	-	
<i>of which: Revaluation reserves on Fixed Assets</i>	353,210	20,384	10,142	10,142	aa
<i>of which: Unrealized Gains/Losses on AFS</i>	-	-	-	-	
<i>In case of Deficit on revaluation (deduction from CET1)</i>	-	-	161,593	161,593	ab
<b>Total equity and liabilities</b>	<b>10,705,083</b>	<b>10,372,257</b>	<b>10,752,079</b>	<b>10,752,079</b>	
<b>Total Equity</b>	<b>128,813,039</b>	<b>127,794,505</b>	<b>120,650,459</b>	<b>119,850,464</b>	

## Step 3

	Component of regulatory capital reported by bank 2018	Source based on reference number from step 2	Component of regulatory capital reported by bank 2017	Source based on reference number from step 2
	Rupees in '000		Rupees in '000	
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>				
Share capital (including advance against issuance of shares )	13,739,628		13,739,628	
Discount against issuance of shares	(632,766)	(s)	(632,766)	(s)
Reserve for issue of Bonus Shares	-		-	
Statutory Reserves	159,348	(u)	159,348	(u)
Gain/(Losses) on derivatives held as Cash Flow Hedge	-		-	
Accumulated losses	(2,914,337)	(w)	(2,675,723)	(w)
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)	-	(x)
<b>CET 1 before Regulatory Adjustments</b>	<b>10,351,873</b>		<b>10,590,487</b>	
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>				
Goodwill (net of related deferred tax liability)	396,117	(j) - (o)	396,117	(j) - (o)
All other intangibles (net of any associated deferred tax liability)	1,157,849	(k) - (p)	1,309,848	(k) - (p)
Shortfall of provisions against classified assets	-	(f)	278,307	(f)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2,265,152	{{(h) - (r)} * 100%	1,857,616	{{(h) - (r)} * 80%
Defined-benefit pension fund net assets	-	{{(l) - (q)} * 0%	-	{{(l) - (q)} * 0%
Reciprocal cross holdings in CET1 capital instruments	-	(d)	-	(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	-	(ab)	161,593	(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)	-	(a) - (ac) - (ae)	-	(a) - (ac) - (ae)
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)	-	(b) - (ad) - (af)
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		-	
Amount exceeding 15% threshold	350,351	(i)	185,843	(i)
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	-		-	
of which: Investment in TFCs of other banks exceeding the prescribed limit	-		-	
of which: Any other deduction specified by SBP (mention details)	-		-	
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-		-	
<b>Total regulatory adjustments applied to CET1</b>	<b>4,169,469</b>		<b>4,189,323</b>	

<b>Common Equity Tier 1</b>	<b>6,182,404</b>		<b>6,401,164</b>	
<b>Additional Tier 1 (AT 1) Capital</b>				
Qualifying Additional Tier-1 instruments plus any related share premium				
of which: Classified as equity	<b>1,192,947</b>	(t)	-	(t)
of which: Classified as liabilities	-		-	
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)	-	(y)
of which: instrument issued by subsidiaries subject to phase out	-		-	
<b>AT1 before regulatory adjustments</b>	<b>1,192,947</b>		-	
<b>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 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)	-	(ac)	-	(ac)
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)	-	(ad)
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-		-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		-	
Total of Regulatory Adjustment applied to AT1 capital	-		-	
Additional Tier 1 capital	<b>1,192,947</b>		-	
<b>Additional Tier 1 capital recognized for capital adequacy</b>	<b>1,192,947</b>		-	
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>7,375,351</b>		<b>6,401,164</b>	
<b>Tier 2 Capital</b>				
Qualifying Tier 2 capital instruments under Basel III plus any related share premium	<b>1,671,429</b>	(n)	<b>1,842,857</b>	(n)
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-		-	
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)	-	(z)
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	<b>145,979</b>	(g)	<b>87,086</b>	(g)
Revaluation Reserves	-		-	
of which: Revaluation reserves on fixed assets	-		-	
of which: Unrealized Gains/Losses on AFS	<b>20,384</b>	portion of (aa)	-	portion of (aa)
Foreign Exchange Translation Reserves	-	(v)	-	(v)
Undisclosed/Other Reserves (if any)	-		-	
<b>T2 before regulatory adjustments</b>	<b>1,837,791</b>		<b>1,929,944</b>	
<b>Tier 2 Capital: regulatory adjustments</b>				
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)	-	(ae)	-	(ae)
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)	-	(af)
Amount of Regulatory Adjustment applied to T2 capital	-		-	
Tier 2 capital (T2)	<b>1,837,791</b>		<b>1,929,944</b>	
Tier 2 capital recognized for capital adequacy	<b>1,837,791</b>		<b>1,929,944</b>	
Excess Additional Tier 1 capital recognized in Tier 2 capital	<b>150,453</b>		-	
Total Tier 2 capital admissible for capital adequacy	<b>1,837,791</b>		<b>1,929,944</b>	
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>9,363,595</b>		<b>8,331,107</b>	

## 40.6 Risk-Weighted Exposures

	2018		2017	
	-----Rupees in '000-----			
<b>Credit Risk</b>	<b>Capital Requirement</b>	<b>Risk weighted Assets</b>	<b>Capital Requirement</b>	<b>Risk weighted Assets</b>
<b>On-Balance sheet</b>				
<b>Portfolios subject to standardized approach (Simple or Comprehensive)</b>				
Cash and cash equivalents	-	-	-	-
Sovereign	8,282	82,817	7,492	74,920
Public Sector entities	56,108	561,084	-	-
Banks	79,406	794,061	143,189	1,431,894
Corporate	3,937,215	39,372,151	3,911,922	39,119,222
Retail	1,051,263	10,512,633	1,163,056	11,630,560
Residential mortgages	135,426	1,354,261	152,285	1,522,851
Past due loans	260,206	2,602,057	524,074	5,240,737
Operating fixed assets	231,058	2,310,583	236,157	2,361,575
Other assets	665,408	6,654,085	522,518	5,225,182
	<b>6,424,373</b>	<b>64,243,733</b>	<b>6,660,694</b>	<b>66,606,941</b>
<b>Portfolios subject to Internal Rating Based (IRB) Approach</b>				
Corporate, Sovereign, Corporate, Retail, Securitization etc.	-	-	-	-
<b>Off-Balance sheet</b>				
Non-market related				
Financial guarantees, acceptances, performance related commitments, trade related etc.	424,487	4,244,866	493,697	4,936,971
Market related				
Foreign exchange contracts	31,476	314,764	11,561	115,614
<b>Equity Exposure Risk in the Banking Book</b>				
Under simple risk weight method				
- Listed	-	-	4,003	40,026
- Unlisted	-	-	8,141	81,408
Under Internal models approach				
<b>Market Risk</b>				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	17,307	216,341	9,512	118,898
Equity position risk	145,314	1,816,421	142,103	1,776,292
Foreign Exchange risk	2,919	36,482	8,251	103,139
Capital Requirement for portfolios subject to Internal Models Approach	-	-	-	-
<b>Operational Risk</b>				
Capital Requirement for operational risks	692,575	8,657,185	648,302	8,103,776
	<b>1,314,077</b>	<b>15,286,058</b>	<b>1,325,570</b>	<b>15,276,124</b>
<b>Total Risk-Weighted Exposures</b>	<b>7,738,451</b>	<b>79,529,791</b>	<b>7,986,264</b>	<b>81,883,065</b>

## 40.6.1 Capital Adequacy Ratios

	2018		2017	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	7.77%	6.00%	8.75%
Tier-1 capital to total RWA	7.50%	9.27%	7.50%	8.75%
Total capital to total RWA	10.00%	11.77%	10.00%	10.26%



## 40.7 Main Features Template of Regulatory Capital Instruments

		COMMON SHARES	TIER II SUKUK
1	Issuer	Al Baraka Bank (Pakistan) Limited	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	Not Applicable	AlBaraka Bank (Pakistan) Limited - Tier II Sukuk
3	Governing law(s) of the instrument	Laws applicable in Pakistan	Laws applicable in Pakistan
<b>Regulatory treatment</b>			
4	Transitional Basel III rules	Common equity Tier 1	Tier 2
5	Post-transitional Basel III rules	Common equity Tier 1	Ineligible
6	Eligible at solo / group / group&solo	Solo	Solo
7	Instrument type	Common shares	Subordinated Debt
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	7,375,351	1,837,791
9	Par value of instrument	Rs 10 per share	Rs 1 million per certificate
10	Accounting classification	Shareholder equity	Liability - subordinated loans
11	Original date of issuance	2005-2016	September 2014
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	26 September 2021
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	Not Applicable	25 September 2019
16	Subsequent call dates, if applicable	Not Applicable	Any time after the option call date
<b>Coupons / dividends</b>			
17	Fixed or floating dividend/ coupon	Not Applicable	Floating
18	coupon rate and any related index/ benchmark	Not Applicable	6 months Kibor + 1.25% per annum
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	<b>Convertible or non-convertible</b>	Non Convertible	Convertible
24	If convertible, conversion trigger (s)	Not Applicable	The Instrument is subject to loss absorbency, under which SBP may convert the instrument, fully or partially, into common ordinary shares upon the occurrence of a non-viability trigger event (the "PONV"). The conversion shall be based on the price as agreed with SBP.
25	If convertible, fully or partially	Not Applicable	May convert fully or partially upon the occurrence of PONV.
26	If convertible, conversion rate	Not Applicable	To be determined in the case of Trigger event.
27	If convertible, mandatory or optional conversion	Not Applicable	Mandatory
28	If convertible, specify instrument type convertible into	Not Applicable	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	Not Applicable	AlBaraka Bank (Pakistan) Limited
30	<b>Write-down feature</b>	NO	
31	If write-down, write-down trigger(s)	Not Applicable	The Instrument is subject to loss absorbency, under which SBP, may either convert into common ordinary shares or immediately write off upon the occurrence of a non-viability trigger event (the "PONV").
32	If write-down, full or partial	Not Applicable	May be written down fully or may be written off partially
33	If write-down, permanent or temporary	Not Applicable	Permanent
34	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt as shareholders' equity represents residual interest	Subordinate to all other indebtedness to the Bank including depositors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable

## 40.8 Leverage ratio

During 2013, SBP issued the instructions on the computation of Tier 1 Leverage Ratio. In line with these instructions, parallel run period for leverage ratio will commence from 31 December 2013 to 31 December 2017. During the period, banks has to maintain Tier 1 Leverage ratio of 3%.

	2018	2017
	----- Rupees in '000 -----	
Tier-1 Capital	7,375,351	6,401,164
Total Exposures	137,949,522	141,187,419
Leverage Ratio	5.35%	4.53%

**41.2 Credit Risk – General Disclosures**

The Bank has adopted Standardised Approach, under Basel III.

**41.3 Credit Risk: Standardized Approach**

The Bank use rating assigned by JCR-VIS and PACRA as External Credit Assessment Institutions (ECAI) for the purpose of risk weighing its exposure. In the case of foreign currency exposure, ratings assigned by S&P and Moody's have been applied.

Following are the types of exposure for which each agency is used:

Exposure	MOODY'S	S&P	JCR-VIS	PACRA
Corporate	-	-	✓	✓
Banks	✓	✓	✓	✓
Sovereigns	✓	-	-	-

Most of the Bank's asset base is short or medium term. Therefore, the Bank uses the entity's rating to assess the risk of its exposure without any adjustments.

For exposure amounts after risk mitigation subject to the standardised approach, amount of Bank's outstandings (rated and unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating category No.	Amount outstanding	Deduction	Net Amount
			CRM* Rupees in '000	
Corporate	1	3,484,356	10,349	3,474,007
	2	10,373,241	351,224	10,022,017
	3,4	1,883,925	286,941	1,596,983
	Unrated-1	26,981,533	3,465,569	23,515,964
	Unrated-2	7,376,366	533,651	6,842,715
		50,099,421	4,647,734	45,451,687
Banks	1,2,3	3,970,307	-	3,970,307
Sovereigns etc.		22,022,069	-	22,022,069
Public sector enterprises	1	4,873,279	4,541,404	331,875
	2,3	508,121	-	508,121
	Unrated	8,480,422	7,999,124	481,298
		13,861,822	12,540,528	1,321,293
Others		32,096,264	988,561	31,107,704
Total		122,049,882	18,176,823	103,873,060

\* CRM= Credit Risk Mitigation

Main types of collateral taken by the Bank are:

- Cash margin
- Lien on deposits
- Government guarantee
- Bank guarantee

The Bank has adopted simple approach to credit risk mitigation under Basel III and therefore has not applied any haircuts to the collateral. Moreover the Bank's eligible collateral only includes cash / liquid securities.