



MCB Islamic Bank Limited

Capital Adequacy & Liquidity Disclosures

As at December 31, 2022

MCB ISLAMIC BANK LIMITED
CAPITAL ADEQUACY AND LIQUIDITY DISCLOSURES
AS AT DECEMBER 31, 2022

CAPITAL ASSESSMENT AND ADEQUACY

Scope of Applications

The Basel-III Framework is applicable to the bank. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

Capital management

Objectives and goals of managing capital

The Bank manages its capital to attain the following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities;
- retain flexibility to harness future investment opportunities; build and expand even in stressed times.

Statutory minimum capital requirement and Capital Adequacy Ratio (CAR)

The capital adequacy ratio of the Bank was subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019.

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

| Ratio | Year End December 31, | | | | | | As at Dec 31, |
|---------------------------------|-----------------------|---------------|---------------|---------------|----------------|---------------|---------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 1 CET1 | 5.00% | 5.50% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| 2 ADT-1 | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% |
| 3 Tier 1 | 6.50% | 7.00% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| 4 Total Capital | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% |
| 5 *CCB | - | - | 0.25% | 0.65% | 1.275% | 1.90% | 2.50% |
| 6 Total Capital plus CCB | 10.00% | 10.00% | 10.25% | 10.65% | 11.275% | 11.90% | 12.50% |

* Capital Conservation Buffer (CCB) Consisting of CET1 only

SBP vide its BPRD Circular Letter No. 12 of 2020 dated March 26, 2020 has reduced the Capital Conservation Buffer (CCB) from 2.50% to 1.50%. The Minimum Capital Requirement of the Bank stands at Rs.10 Billion at the respective reporting dates and is in compliance with the required capital adequacy ratio including CCB (11.50% of the risk-weighted assets). Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel-III requirements. The Bank measures and manages Market Risk by using conventional methods i.e. notional amounts, sensitivity and combinations of various limits. Beside conventional methods, the Bank also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its Treasury and FX Group. In-house based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Thresholds for different positions are established to compare the expected losses at a given confidence level and over a specified time horizon. Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA).

Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy under Basel III treatment is presented below:

| | 2022 | 2021 |
|--|-------------------|-------------------|
| | Rupees in '000 | |
| Common Equity Tier 1 capital(CET1): Instruments and reserves | | |
| Fully Paid-up Capital / Capital deposited with SBP | 15,550,000 | 11,550,000 |
| Balance in Share Premium Account | - | - |
| Reserve for issue of Bonus Shares | - | - |
| Discount on Issue of shares | - | - |
| General/ Statutory Reserves | 397,819 | 88,193 |
| Gain/(Losses) on derivatives held as Cash Flow Hedge | - | - |
| Unappropriated/unremitted profits/ (losses) | (1,767) | (1,282,002) |
| Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group) | - | - |
| CET 1 before Regulatory Adjustments | 15,946,052 | 10,356,191 |
| Total regulatory adjustments applied to CET1 | 576,754 | 1,654,514 |
| Common Equity Tier 1 | 15,369,298 | 8,701,677 |
| Additional Tier 1 (AT 1) Capital | | |
| Qualifying Additional Tier-1 capital instruments plus any related share premium | - | - |
| of which: Classified as equity | - | - |
| 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 | - | - |
| AT1 before regulatory adjustments | - | - |
| Total regulatory adjustment applied to AT1 capital | - | - |
| Additional Tier 1 capital after regulatory adjustments | - | - |
| Additional Tier 1 capital recognized for capital adequacy | - | - |
| Tier 1 Capital (CET1 + admissible AT1) | 15,369,298 | 8,701,677 |
| Tier 2 Capital | | |
| Qualifying Tier 2 capital instruments under Basel III plus any related share premium | - | - |
| 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 or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets | 409,909 | 61,882 |
| Revaluation Reserves (net of taxes) | 400,830 | 248,364 |
| of which: Revaluation reserves on fixed assets | 480,758 | 305,671 |
| of which: Unrealized gains/losses on AFS | (79,928) | (57,307) |
| Foreign Exchange Translation Reserves | - | - |
| Undisclosed/Other Reserves (if any) | - | - |
| T2 before regulatory adjustments | 810,739 | 310,246 |
| Total regulatory adjustment applied to T2 capital | - | - |
| Tier 2 capital (T2) after regulatory adjustments | 810,739 | 310,246 |
| Tier 2 capital recognized for capital adequacy | 810,739 | 310,246 |
| Portion of Additional Tier 1 capital recognized in Tier 2 capital | - | - |
| Total Tier 2 capital admissible for capital adequacy | 810,739 | 310,246 |
| TOTAL CAPITAL (T1 + admissible T2) | 16,180,037 | 9,011,923 |
| Total Risk Weighted Assets (RWA) | 79,265,524 | 74,548,396 |

| | 2022 | 2021 |
|--|---------------|---------------|
| Capital Ratios and buffers (in percentage of risk weighted assets) | | |
| CET1 to total RWA | 19.39% | 11.67% |
| Tier-1 capital to total RWA | 19.39% | 11.67% |
| Total capital to total RWA | 20.41% | 12.09% |
| Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) | 7.50% | 7.50% |
| of which: capital conservation buffer requirement | 1.50% | 1.50% |
| 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) | 11.89% | 4.17% |
| National minimum capital requirements prescribed by SBP | | |
| CET1 minimum ratio | 6.00% | 6.00% |
| Tier 1 minimum ratio | 7.50% | 7.50% |
| Total capital minimum ratio | 10.00% | 10.00% |
| Total capital minimum ratio plus CCB | 11.50% | 11.50% |

| Regulatory Adjustments and Additional Information | 2022 | 2021 |
|---|--------|--------|
| | Amount | Amount |

Common Equity Tier 1 capital: Regulatory adjustments

| | | |
|--|----------------|------------------|
| Goodwill (net of related deferred tax liability) | - | - |
| All other intangibles (net of any associated deferred tax liability) | 576,754 | 579,767 |
| 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) | - | 1,074,747 |
| 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 from bank's holdings of fixed assets/ AFS | - | - |
| Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | - | - |
| Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | - | - |
| Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | - | - |
| Amount exceeding 15% threshold | - | - |
| of which: significant investments in the common stocks of financial entities | - | - |
| 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 (mention details) | - | - |
| Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions | - | - |
| Total regulatory adjustments applied to CET1 | 576,754 | 1,654,514 |

| Regulatory Adjustments and Additional Information | 2022 | 2021 |
|---|----------------|--------|
| | Rupees in '000 | |
| | Amount | Amount |
| Additional Tier-1 & Tier-1 Capital: regulatory adjustments | | |
| Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment] | - | - |
| Investment in own AT1 capital instruments | - | - |
| Reciprocal cross holdings in Additional Tier 1 capital instruments 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 own more than 10% of the issued share capital (amount above 10% threshold) | - | - |
| 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 | - | - |
| Total regulatory adjustment applied to AT1 capital | - | - |
| 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 | - | - |
| Total regulatory adjustment applied to T2 capital | - | - |
| Risk Weighted Assets subject to pre-Basel III treatment | | |
| Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment) | - | - |
| of which: deferred tax assets | - | - |
| of which: Defined-benefit pension fund net assets | - | - |
| of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity | - | - |
| of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity | - | - |
| Amounts below the thresholds for deduction (before risk weighting) | | |
| Non-significant investments in the capital of other financial entities | - | - |
| Significant investments in the common stock of financial entities | - | - |
| Deferred tax assets arising from temporary differences (net of related tax liability) | - | - |
| Applicable caps on the inclusion of provisions in Tier 2 | | |
| Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap) | - | - |
| 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 | - | - |

Capital Structure Reconciliation

| Step 1 | Balance sheet as per published financial statements | Under regulatory scope of consolidation | |
|---|--|--|------------|
| As at December 31, 2022 | | | |
| Rupees in '000 | | | |
| Assets | | | |
| Cash and balances with treasury banks | 13,906,238 | 13,906,238 | |
| Balances with other banks | 1,238,320 | 1,238,320 | |
| Due from financial institutions | 6,170,000 | 6,170,000 | |
| Investments - net | 72,668,657 | 72,668,657 | |
| Islamic financing and related assets - net | 90,301,709 | 90,301,709 | |
| Fixed assets | 4,936,840 | 4,936,840 | |
| Intangible assets | 576,754 | 576,754 | |
| Deferred tax assets - net | 12,527 | 12,527 | |
| Other assets - net | 9,228,528 | 9,228,528 | |
| Total assets | 199,039,573 | 199,039,573 | |
| Liabilities and Equity | | | |
| Bills payable | 3,737,482 | 3,737,482 | |
| Due to financial institutions | 14,670,759 | 14,670,759 | |
| Deposits and other accounts | 154,001,460 | 154,001,460 | |
| Sub-ordinated loans | - | - | |
| Liabilities against assets subject to finance lease | - | - | |
| Deferred tax liabilities - net | - | - | |
| Other liabilities | 10,282,990 | 10,282,990 | |
| Total liabilities | 182,692,691 | 182,692,691 | |
| Share capital | 15,550,000 | 15,550,000 | |
| Reserves | 397,819 | 397,819 | |
| Accumulated loss | (1,767) | (1,767) | |
| Minority Interest | - | - | |
| Total Equity | 15,946,052 | 15,946,052 | |
| Surplus / (deficit) on revaluation of assets - net of tax | 400,830 | 400,830 | |
| Total liabilities and equity | 16,346,882 | 16,346,882 | |
| Step 2 | Balance sheet of the published financial statements | Under regulatory scope of consolidation | Ref |
| As at December 31, 2022 | | | |
| Rupees in '000 | | | |
| Assets | | | |
| Cash and balances with treasury banks | 13,906,238 | 13,906,238 | |
| Balances with other banks | 1,238,320 | 1,238,320 | |
| Due from financial institutions | 6,170,000 | 6,170,000 | |
| Investments | 72,668,657 | 72,668,657 | |
| 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 |

| Step 2 | Balance sheet of the published financial statements | Under regulatory scope of consolidation | Ref |
|---|--|--|------------|
| | As at December 31, 2022 | | |
| | Rupees in '000 | | |
| Islamic financing and related assets | 90,301,709 | 90,301,709 | |
| shortfall in provisions/ excess of total EL amount | - | - | f |
| over eligible provisions under IRB | - | - | |
| general provisions reflected in Tier 2 capital | 409,909 | 409,909 | g |
| Operating fixed assets | 5,513,594 | 5,513,594 | |
| of which: Intangibles | 576,754 | 576,754 | k |
| Deferred tax assets | 12,527 | 12,527 | |
| 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 | (67,789) | (67,789) | i |
| Other assets | 9,228,528 | 9,228,528 | |
| of which: Goodwill | - | - | j |
| of which: Defined-benefit pension fund net assets | - | - | l |
| Total assets | 199,039,573 | 199,039,573 | |
| Liabilities and Equity | | | |
| Bills payable | 3,737,482 | 3,737,482 | |
| Due to financial institutions | 14,670,759 | 14,670,759 | |
| Deposits and other accounts | 154,001,460 | 154,001,460 | |
| 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 | - | - | |
| of which: DTLs related to goodwill | - | - | 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 | - | - | r |
| Other liabilities | 10,282,990 | 10,282,990 | |
| Total liabilities | 182,692,691 | 182,692,691 | |
| Share capital | 15,550,000 | 15,550,000 | |
| of which: amount eligible for CET1 | 15,550,000 | 15,550,000 | s |
| of which: amount eligible for AT1 | - | - | t |
| Reserves | 397,819 | 397,819 | |
| of which: portion eligible for inclusion in CET1 | 397,819 | 397,819 | u |
| of which: portion eligible for inclusion in Tier 2 | - | - | v |
| Accumulated loss | (1,767) | (1,767) | w |
| Minority Interest | - | - | |
| of which: portion eligible for inclusion in CET1 | - | - | x |
| of which: portion eligible for inclusion in AT1 | - | - | y |
| of which: portion eligible for inclusion in Tier 2 | - | - | z |
| Surplus / (deficit) on revaluation of assets | 400,830 | 400,830 | |
| of which: revaluation reserves on fixed assets | 480,758 | 480,758 | aa |
| of which: unrealized loss on AFS | (79,928) | (79,928) | |
| In case of deficit on revaluation (deduction from CET1) | - | - | ab |
| Total liabilities and Equity | 199,039,573 | 199,039,573 | |

Step 3

**Component
of regulatory
capital
reported by
bank**

**Source
based on
reference
number from
step 2**

**As at December 31, 2022
Rupees in '000**

| Common Equity Tier 1 capital (CET1): Instruments and reserves | | | |
|--|---|-------------------|-------------------|
| 1 | Fully Paid-up Capital | 15,550,000 | |
| 2 | Balance in share premium account | - | (s) |
| 3 | Reserve for issue of bonus shares | - | |
| 4 | General / Statutory Reserves | 397,819 | (u) |
| 5 | Gain/(Losses) on derivatives held as Cash Flow Hedge | - | |
| 6 | Unappropriated profit | (1,767) | (w) |
| 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) | - | (x) |
| 8 | CET 1 before Regulatory Adjustments | - | |
| | Common Equity Tier 1 capital: Regulatory adjustments | 15,946,052 | |
| 9 | Goodwill (net of related deferred tax liability) | - | (j) - (o) |
| 10 | All other intangibles (net of any associated deferred tax liability) | 576,754 | (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) * 40% |
| 13 | Defined-benefit pension fund net assets | - | (l) - (q) * 40% |
| 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 | - | (ab) |
| 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) - (ac) - (ae) |
| 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) - (ad) - (af) |
| 22 | Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | - | (i) |
| 23 | Amount exceeding 15% threshold | - | |
| 24 | of which: significant investments in the common stocks of financial entities | - | |
| 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 | 576,754 | |
| 31 | Common Equity Tier 1 | 15,369,298 | |
| | Additional Tier 1 (AT 1) Capital | | |
| 32 | Qualifying Additional Tier-1 instruments plus any related share premium | - | |
| 33 | of which: Classified as equity | - | (t) |
| 34 | of which: Classified as liabilities | - | (m) |
| 35 | Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1) | - | (y) |
| 36 | of which: instrument issued by subsidiaries subject to phase out | - | |
| 37 | AT1 before regulatory adjustments | - | |

| | Component of regulatory capital reported by bank | Source based on reference number from step 2 |
|---|--|--|
| Step 3 | | |
| As at December 31, 2022 | | |
| Rupees in '000 | | |
| Additional Tier 1 Capital: regulatory adjustments | | |
| 38 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment) | - | |
| 39 Investment in own AT1 capital instruments | - | |
| 40 Reciprocal cross holdings in Additional Tier 1 capital instruments | - | |
| 41 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) |
| 42 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation | - | (ad) |
| 43 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 | - | |
| 44 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions | - | |
| 45 Total of Regulatory Adjustment applied to AT1 capital | - | |
| 46 Additional Tier 1 capital | - | |
| 47 Additional Tier 1 capital recognized for capital adequacy | - | |
| 48 Tier 1 Capital (CET1 + admissible AT1) | 15,369,298 | |
| Tier 2 Capital | | |
| 49 Qualifying Tier 2 capital instruments under Basel III plus any related share premium | - | (n) |
| 50 Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments) | - | (z) |
| 51 Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2) | - | |
| 52 of which: instruments issued by subsidiaries subject to phase out | - | |
| 53 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets | 409,909 | (g) |
| 54 Revaluation Reserves | | |
| 55 of which: Revaluation reserves on fixed assets | 480,758 | |
| 56 of which: Unrealized Gains/Losses on AFS | (79,928) | portion of (aa) |
| 57 Foreign Exchange Translation Reserves | - | (v) |
| 58 Undisclosed/Other Reserves (if any) | - | |
| 59 T2 before regulatory adjustments | 810,739 | |
| Tier 2 Capital: regulatory adjustments | | |
| 60 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 | - | |
| 61 Reciprocal cross holdings in Tier 2 instruments | - | |
| 62 Investment in own Tier 2 capital instrument | - | |
| 63 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) |
| 64 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation | - | (af) |
| 65 Amount of Regulatory Adjustment applied to T2 capital | - | |

Step 3

| Component of regulatory capital reported by bank | Source based on reference number from step 2 |
|--|--|
|--|--|

As at December 31, 2022
Rupees in '000

| | | |
|----|---|-------------------|
| 66 | Tier 2 capital (T2) | 810,739 |
| 67 | Tier 2 capital recognized for capital adequacy | 810,739 |
| 68 | Excess Additional Tier 1 capital recognized in Tier 2 capital | - |
| 69 | Total Tier 2 capital admissible for capital adequacy | 810,739 |
| 70 | TOTAL CAPITAL (T1 + admissible T2) | 16,180,037 |

Main Features Template of Regulatory Capital Instruments

| | | |
|----|---|--|
| 1 | Issuer | MCB Islamic Bank Limited |
| 2 | Unique identifier (e.g. PSX Symbol) | MCBIBL |
| 3 | Governing law(s) of the instrument | Relevant Capital Market 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 | Standalone |
| 7 | Instrument type | Common Shares |
| 8 | Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date) | 15,550,000 |
| 9 | Par value of instrument | PKR 10 per share |
| 10 | Accounting classification | Shareholder equity |
| 11 | Original date of issuance | 2015 |
| 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 | 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 | 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 | 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) | Common equity ranks after all creditors and depositors |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | Not applicable |

Risk Weighted Assets

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

| | 2022 | | 2021 | |
|--|----------------------|---------------------|----------------------|---------------------|
| | Risk weighted assets | Capital requirement | Risk weighted assets | Capital requirement |
| Rupees in '000 | | | | |
| Risk-weighted exposures | | | | |
| Credit risk | | | | |
| Portfolios subject to standardised approach (Simple Approach) | | | | |
| On-Balance sheet | | | | |
| Corporate portfolio | 33,946,191 | 4,194,543 | 41,390,929 | 5,023,511 |
| Banks / DFIs | 1,482,881 | 183,231 | 1,069,314 | 129,780 |
| Public sector entities | 318,519 | 39,358 | 422,496 | 51,277 |
| Sovereigns / cash & cash equivalents | 155,365 | 19,198 | 67,511 | 8,194 |
| Loans secured against residential property | 878,279 | 108,524 | 568,271 | 68,970 |
| Retail | 6,661,636 | 823,141 | 5,560,067 | 674,811 |
| Past due loans | 2,250,775 | 278,116 | 802,619 | 97,412 |
| Operating fixed assets | 4,936,840 | 610,018 | 4,932,122 | 598,599 |
| Other assets | 3,327,909 | 411,211 | 1,762,480 | 213,908 |
| | 53,958,395 | 6,667,340 | 56,575,809 | 6,866,460 |
| Off-Balance sheet | | | | |
| Non-market related | 9,569,084 | 1,182,399 | 6,467,953 | 784,999 |
| Market related | 155,015 | 19,154 | 29,862 | 3,624 |
| | 9,724,099 | 1,201,553 | 6,497,815 | 788,623 |
| Equity Exposure Risk in the Banking Book | | | | |
| Listed | - | - | - | - |
| Unlisted | - | - | - | - |
| | - | - | - | - |
| Total Credit Risk | 63,682,494 | 7,868,893 | 63,073,624 | 7,655,084 |
| Market Risk | | | | |
| Capital Requirement for portfolios subject to Standardized Approach | | | | |
| Interest rate risk | 2,567,999 | 205,440 | 1,372,363 | 109,789 |
| Equity position risk | 119,180 | 9,534 | 754,854 | 60,388 |
| Foreign Exchange risk | 575,036 | 46,003 | 273,015 | 21,841 |
| Total Market Risk | 3,262,215 | 260,977 | 2,400,232 | 192,019 |
| Operational Risk | | | | |
| Capital Requirement for operational risks | 12,320,815 | 985,665 | 9,074,540 | 725,963 |
| TOTAL | 79,265,524 | 9,115,535 | 74,548,396 | 8,573,065 |
| | 2022 | | 2021 | |
| | Required | Actual | Required | Actual |
| | % | % | % | % |
| Capital Adequacy Ratios | | | | |
| CET1 to total RWA | 6.00% | 19.39% | 6.00% | 11.67% |
| Tier-1 capital to total RWA | 7.50% | 19.39% | 7.50% | 11.67% |
| Total capital to total RWA | 10.00% | 18.91% | 10.00% | 10.59% |
| Total capital plus CCB to total RWA | 11.50% | 20.41% | 11.50% | 12.09% |

* As SBP capital requirement of 11.50 % (2021: 11.50%) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total capital required.

Credit Risk - General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with SBP's requirements.

Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. The Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company – Vital Information Systems), Fitch, Moody's and Standard & Poors. Credit rating data for financing is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

| Exposures | JCR-VIS | PACRA | Other (S&P / Moody's / Fitch) |
|------------|---------|-------|-------------------------------|
| Corporate | Yes | Yes | - |
| Banks | Yes | Yes | Yes |
| Sovereigns | - | - | Yes |
| SME's | Yes | Yes | - |

The criteria for transfer of public issue ratings onto comparable assets in the banking book and the alignment of the alphanumerical scale of each agency used with risk buckets is the same as specified by the banking regulator SBP.

Long - Term Ratings Grades Mapping

| SBP Rating Grade | PACRA | JCR-VIS | Fitch | Moody's | S&P | ECA Scores |
|------------------|-------------------------|-------------------------|-------------------------|--------------------------|-------------------------|------------|
| 1 | AAA AA+ AA AA- | AAA AA+ AA AA- | AAA AA+ AA AA- | Aaa Aa1 Aa2 Aa3 | AAA AA+ AA AA- | 1 |
| 2 | A+ A A- | A+ A A- | A+ A A- | A1 A2 A3 | A+ A A- | 2 |
| 3 | BBB+ BBB BBB- | BBB+ BBB BBB- | BBB+ BBB BBB- | Baa1 Baa2 Baa3 | BBB+ BBB BBB- | 3 |
| 4 | BB+ BB BB- | BB+ BB BB- | BB+ BB BB- | Ba1 Ba2 Ba3 | BB+ BB BB- | 4 |
| 5 | B+ B B- | B+ B B- | B+ B B- | B1 B2 B3 | B+ B B- | 5,6 |
| 6 | CCC+ and below | CCC+ and below | CCC+ and below | Caa1 and Below | CCC+ and below | 7 |

Short - Term Ratings Grades Mapping

| SBP Rating Grade | PACRA | JCR-VIS | Fitch | Moody's | S&P |
|------------------|--------|---------|--------|---------|-----------|
| S1 | A-1 | A-1 | F1 | P-1 | A-1+, A-1 |
| S2 | A-2 | A-2 | F2 | P-2 | A-2 |
| S3 | A-3 | A-3 | F3 | P-3 | A-3 |
| S4 | Others | Others | Others | Others | Others |

Credit Exposures subject to Standardized approach

| Exposure Type | SBP Grade | Risk Weight | 2022 | | | 2021 | | |
|--|-----------|-------------|--------------------------------------|---------------|------------|--------------------------------------|---------------|------------|
| | | | Amount Outstanding Credit Equivalent | Deduction CRM | Net Amount | Amount Outstanding Credit Equivalent | Deduction CRM | Net Amount |
| Rupees in '000 | | | | | | | | |
| Cash and Cash Equivalents | | 0% | 4,343,540 | - | 4,343,540 | 3,146,761 | - | 3,146,761 |
| Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR | | 0% | 62,419,323 | 36,391,216 | 26,028,107 | 50,333,298 | 40,673,542 | 9,659,756 |
| Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan | | 0% | 631,969 | - | 631,969 | 554,429 | - | 554,429 |
| Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR | 1 | 0% | - | - | - | - | - | - |
| | 2 | 20% | - | - | - | - | - | - |
| | 3 | 50% | - | - | - | - | - | - |
| | 4,5 | 100% | - | - | - | - | - | - |
| | 6 | 150% | 103,577 | - | 103,577 | 67,511 | - | 67,511 |
| | Unrated | 100% | - | - | - | - | - | - |
| Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community | | 0% | - | - | - | - | - | - |
| Claims on Multilateral Development Banks | | 0% | - | - | - | - | - | - |
| | 1 | 20% | - | - | - | - | - | - |
| | 2,3 | 50% | - | - | - | - | - | - |
| | 4,5 | 100% | - | - | - | - | - | - |
| | 6 | 150% | - | - | - | - | - | - |
| | Unrated | 50% | - | - | - | - | - | - |
| Claims on Public Sector Entities in Pakistan | | 0% | - | - | - | - | - | - |
| | 1 | 20% | - | - | - | - | - | - |
| | 2,3 | 50% | - | - | - | - | - | - |
| | 4,5 | 100% | - | - | - | - | - | - |
| | 6 | 150% | - | - | - | - | - | - |
| | Unrated | 50% | 637,038 | - | 637,038 | 844,992 | - | 844,992 |
| Claims on Banks | | 0% | - | - | - | - | - | - |
| | | 10% | - | - | - | - | - | - |
| | 1 | 20% | - | - | - | - | - | - |
| | 2,3 | 50% | - | - | - | - | - | - |
| | 4,5 | 100% | - | - | - | - | - | - |
| | 6 | 150% | - | - | - | - | - | - |
| Claims, denominated in foreign currency, on banks with original maturity of 3 months or less | | 0% | - | - | - | - | - | - |
| | 1,2,3 | 20% | 1,169,042 | - | 1,169,042 | 1,604,887 | - | 1,604,887 |
| | 4,5 | 50% | - | - | - | - | - | - |
| | 6 | 150% | - | - | - | - | - | - |
| | unrated | 20% | 68,096 | - | 68,096 | 2,025,163 | - | 2,025,163 |
| Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR | | 20% | - | - | - | - | - | - |
| | | 20% | 6,177,268 | - | 6,177,268 | 1,716,523 | - | 1,716,523 |
| Claims on Corporates (excluding equity exposures) | | 0% | - | - | - | - | - | - |
| | | 10% | - | - | - | - | - | - |
| | 1 | 20% | 7,670,389 | 2,127 | 7,668,262 | 3,233,753 | - | 3,233,753 |
| | 2 | 50% | 16,022,121 | 6,086 | 16,016,035 | 19,805,588 | 2,273 | 19,803,315 |
| | 3,4 | 100% | 2,258,859 | 6,737 | 2,252,122 | 1,948,037 | 22,952 | 1,925,085 |
| | 5,6 | 150% | - | - | - | - | - | - |
| | Unrated-1 | 100% | 10,659,489 | 126,536 | 10,532,953 | 12,612,624 | 96,275 | 12,516,349 |
| Unrated-2 | 125% | 9,500,843 | 205,286 | 9,295,557 | 13,343,764 | 222,895 | 13,120,869 | |
| Claims categorized as retail portfolio | | 0% | - | - | - | - | - | - |
| | | 20% | - | - | - | - | - | - |
| | | 50% | - | - | - | - | - | - |
| | | 75% | 9,340,863 | 458,682 | 8,882,181 | 7,773,281 | 359,859 | 7,413,422 |
| Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1) | | 35% | 2,509,369 | - | 2,509,369 | 1,623,630 | - | 1,623,630 |
| Claims against Low Cost Housing Finance | | 25% | - | - | - | - | - | - |
| Past Due loans: | | | - | - | - | - | - | - |
| 1. The unsecured portion of any claim (other than loans and claims secured against eligible residential mortgages as defined in section 2.1 of circular 8 of 2006) that is past due for more than 90 days and/or impaired: | | | - | - | - | - | - | - |
| 1.1 where specific provisions are less than 20 per cent of the outstanding amount of the past due claim. | | 150% | 1,497,527 | 580 | 1,496,947 | 460,613 | 671 | 459,942 |
| 1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim. | | 100% | 4,489 | - | 4,489 | 108,787 | - | 108,787 |
| 1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim. | | 50% | 148 | - | 148 | 814 | - | 814 |
| 2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired | | 100% | - | - | - | - | - | - |
| 3. Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held thereagainst is more than 20% of outstanding amount | | 50% | 1,581 | - | 1,581 | 7,024 | - | 7,024 |
| Investment in the equity of commercial entities (which exceeds 10% of the issued common share capital of the issuing entity) or where the entity is an unconsolidated affiliate. | | 100% | - | - | - | - | - | - |
| Significant investment and DTAs above 15% threshold (refer to Section 2.4.10 of Basel III instructions) | | 250% | - | - | - | - | - | - |
| Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book. | | 100% | - | - | - | - | - | - |
| Unlisted equity investments (other than that deducted from capital) held in banking book | | 150% | - | - | - | - | - | - |
| Investments in venture capital | | 150% | - | - | - | - | - | - |
| Investments in premises, plant and equipment and all other fixed assets | | 100% | 4,936,840 | - | 4,936,840 | 4,932,122 | - | 4,932,122 |
| Claims on all fixed assets under operating lease | | 100% | - | - | - | - | - | - |
| All other assets | | 100% | 3,327,909 | - | 3,327,909 | 1,762,480 | - | 1,762,480 |

Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Basel-II's Standardized Approach for Credit Risk.

Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Credit risk arises from our dealings with individuals, corporate clients, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its financing and investment activities. It stems from the Bank's both, on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of Credit Risk Management function is to identify, measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and reviews clients' performance on an ongoing basis.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel-III requirements. The approach mainly takes into account the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Risk Rating Systems, the Bank has developed rating systems and all its corporate and commercial financing customers are internally rated. The Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage the Bank's credit risk, following policies and procedures are in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- Credit facility or material change to the credit facility is allowed subject to credit review;
- Approval and review process is reviewed by RM&PRC and internal audit;

As a part of credit assessment the Bank uses an internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations group, is responsible for performing the following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework. Continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within an appropriate limits framework. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non- Performing Financings (NPFs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer, small entities and micro financings made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on financings.

Leverage Ratio (LR):

In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, monitoring of Leverage Ratio is in place as per SBP directives with the following objectives:

- constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and
- reinforce the risk based requirements with an easy to understand and a non-risk based measure.

A minimum Tier 1 leverage ratio of 3% has been prescribed both at solo and consolidated level.

Leverage Ratio (LR):

Eligible Tier-1 Capital
Total Exposures
Leverage Ratio

| | 2022 | 2021 |
|-------------------------|----------------|--------------|
| | Rupees in '000 | |
| Eligible Tier-1 Capital | 15,369,298 | 8,701,677 |
| Total Exposures | 226,108,533 | 184,200,849 |
| Leverage Ratio | 6.80% | 4.72% |

Basel III Liquidity Requirement

The Basel Committee for Banking Supervision (BCBS) has introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) under its BASEL III reforms. As part of Basel III implementation in Pakistan, SBP issued guidelines on June 23, 2016 to implement Liquidity standards in line with BCBS timelines, keeping in view the conditions as applicable in Pakistan. The Bank is maintaining both the liquidity ratios, under Basel III, with a considerable cushion over and above the regulatory requirement to mitigate any liquidity risk.

Liquidity Coverage Ratio (LCR)

The objective of Liquidity Coverage Ratio (LCR) is to ensure short-term resilience of the liquidity risk profile of the bank by ensuring availability of adequate High Quality Liquid Assets to survive a significant stress scenario lasting for 30 calendar days. All banks are required to maintain LCR at least 100% on an ongoing basis.

| | Total unweighted value | | Total weighted value | |
|--|------------------------|-------------------|----------------------|-------------------|
| | 2022 | | 2021 | |
| | a | b | a | b |
| | Rupees in '000 | | Rupees in '000 | |
| HIGH QUALITY LIQUID ASSETS | | | | |
| 1 Total high quality liquid assets (HQLA) | - | 52,914,884 | - | 34,199,441 |
| CASH OUTFLOWS | | | | |
| 2 Retail deposits and deposits from small business customers of which: | 69,637,218 | 6,963,722 | 61,195,925 | 6,119,593 |
| 2.1 Stable deposit | - | - | - | - |
| 2.2 Less stable deposit | 69,637,218 | 6,963,722 | 61,195,925 | 6,119,593 |
| 3 Unsecured wholesale funding of which: | 70,036,852 | 34,201,279 | 52,924,076 | 27,430,970 |
| 3.1 Operational deposits (all counterparties) | - | - | - | - |
| 3.2 Non-operational deposits (all counterparties) | 59,725,955 | 23,890,382 | 42,488,511 | 16,995,404 |
| 3.3 Unsecured debt | 10,310,897 | 10,310,897 | 10,435,565 | 10,435,565 |
| 4 Secured wholesale funding | - | - | - | - |
| 5 Additional requirements of which: | 61,171,514 | 5,691,634 | 48,651,673 | 4,656,147 |
| 5.1 Outflows related to derivative exposures and other collateral requirements | - | - | - | - |
| 5.2 Outflows related to loss of funding on debt products | - | - | - | - |
| 5.3 Credit and Liquidity facilities | 735,723 | 73,572 | 932,138 | 93,214 |
| 6 Other contractual funding obligations | 4,215,580 | 4,215,580 | 3,440,195 | 3,440,195 |
| 7 Other contingent funding obligations | 56,220,211 | 1,402,482 | 44,279,339 | 1,122,738 |
| 8 TOTAL CASH OUTFLOWS | | 46,856,635 | | 38,206,709 |
| CASH INFLOWS | | | | |
| 9 Secured lending | - | - | - | - |
| 10 Inflows from fully performing exposures | 13,595,227 | 6,885,454 | 11,279,843 | 5,643,965 |
| 11 Other Cash inflows | 6,589,628 | 4,662,611 | 5,839,815 | 2,828,507 |
| 12 TOTAL CASH IN FLOWS | | 11,548,065 | | 8,472,472 |
| 21 TOTAL HQLA | | 52,914,884 | | 34,199,441 |
| 22 TOTAL NET CASH OUTFLOWS | | 35,308,570 | | 29,734,237 |
| 23 LIQUIDITY COVERAGE RATIO | | 149.86% | | 115.02% |

Governance of Liquidity Risk Management

Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost. The Bank's Board of Directors sets Bank's policy for managing liquidity risk and entrusts accountability for supervision of the implementation of this strategy to senior management. Senior management exercises its responsibilities for managing market & liquidity risk through various committees including the Asset & Liability Management Committee (ALCO). Treasury department manages the Bank's liquidity position on a daily basis. The Bank's main approach of managing the liquidity risk is to make certain that it will always have adequate liquidity to meet its liabilities when they are due in normal and stressed scenarios without incurring any untoward expenditure or risking reputational harm. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. There is an Asset Liability Management Framework in place for focused handling of Liquidity. This framework also incorporates early warning indicators.

Liquidity Gap Reporting

Regarding behaviour of non-maturity deposits (non-contractual deposits), the Bank conducted a behavioural study using value at risk methodology. On the basis of its findings 19.03% of current accounts and saving accounts are bucketed into Upto 1- year maturity while 80.97% of current accounts saving accounts are bucketed in over 1 year maturity.

Net Stable Funding Ratio (NSFR)

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 on ongoing basis. Banks are required to maintain NSFR requirement of at least 100% on an ongoing basis from December 31, 2017.

| | | 2022 | | | | |
|-----------|---|---------------------------------------|--------------------|--------------------------------|--------------------------------|--------------------|
| | | Unweighted value by residual maturity | | | | |
| | | No Maturity | Less than 6 months | 6 months to greater than 1year | Greater than or equal to 1year | |
| | | Rupees in '000 | | | | |
| ASF Items | | | | | | |
| 1 | Capital: | | | | | 16,346,883 |
| 2 | Regulatory capital | 16,346,883 | | | | 16,346,883 |
| 3 | Other capital instruments | | | | | - |
| 4 | Retail deposits and deposit from small business customers: | | | | | 68,608,371 |
| 5 | Stable deposits | | | | | - |
| 6 | Less stable deposits | 65,742,140 | 7,977,717 | 2,480,123 | 31,543 | 68,608,371 |
| 7 | Wholesale funding: | | | | | 33,633,958 |
| 8 | Operational deposits | | | | | - |
| 9 | Other wholesale funding | 38,842,209 | 17,288,436 | 8,081,271 | 3,056,000 | 33,633,958 |
| 10 | Other liabilities: | | 16,221 | 12,512,376 | 4,788,824 | 11,045,012 |
| 11 | NSFR derivative liabilities | | | | 33,301 | |
| 12 | All other liabilities and equity not included in other categories | | 21,842,529 | | | |
| 13 | Total ASF | - | - | - | - | 129,634,224 |
| RSF Items | | | | | | |
| 14 | Total NSFR high-quality liquid assets (HQLA) | | | | | 29,796 |
| 15 | Deposits held at other financial institutions for operational purposes | 1,236,213 | | | | 618,107 |
| 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 | | | | | - |
| 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: | | | | | 33,301,831 |
| 20 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | | | 39,178,625 | 911,047 |
| 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 | | | | | - |
| 24 | Assets posted as initial margin for derivative contracts | 103,643 | | | | - |
| 25 | NSFR derivative assets | 70,342 | | | | 70,342 |
| 26 | NSFR derivative liabilities before deduction of variation margin posted | 6660.1696 | | | | 6,660 |
| 27 | All other assets not included in the above categories | 32,613,385 | 6,172,107 | 49,721,474 | | 58,399,938 |
| 28 | Off-balance sheet items | | 40,030,142 | | 32,905,198 | 3,646,767 |
| 29 | Total RSF | - | - | - | - | 96,984,488 |
| 30 | Net Stable Funding Ratio (%) | - | - | - | - | 133.66% |

2021

Unweighted value by residual maturity

| | | No Maturity | Less than 6 months | 6 months to greater than 1 year | Greater than or equal to 1 year | |
|------------------|---|-------------|--------------------|---------------------------------|---------------------------------|--------------------|
| Rupees in '000 | | | | | | |
| ASF Items | | | | | | |
| 1 | Capital: | | | | | 10,604,555 |
| 2 | Regulatory capital | 10,604,555 | | | | 10,604,555 |
| 3 | Other capital instruments | | | | | - |
| 4 | Retail deposits and deposit from small business customers: | | | | | 59,201,764 |
| 5 | Stable deposits | | | | | - |
| 6 | Less stable deposits | 59,664,128 | 4,308,927 | 1,755,687 | 50,996 | 59,201,764 |
| 7 | Wholesale funding: | | | | | 26,695,653 |
| 8 | Operational deposits | | | | | - |
| 9 | Other wholesale funding | 27,050,506 | 23,481,800 | 2,859,000 | - | 26,695,653 |
| 10 | Other liabilities: | | 15,900 | 4,253,243 | 7,793,074 | 9,919,696 |
| 11 | NSFR derivative liabilities | | | | | |
| 12 | All other liabilities and equity not included in other categories | | | | | |
| 13 | Total ASF | - | - | - | - | 106,421,668 |
| RSF Items | | | | | | |
| 14 | Total NSFR high-quality liquid assets (HQLA) | | | | | 188,714 |
| 15 | Deposits held at other financial institutions for operational purposes | 3,629,331 | | | | 1,814,666 |
| 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 | - | - | - | - | - |
| 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: | | | | 53,629,172 | 45,584,796 |
| 20 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | | | 596,352 | 387,629 |
| 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 | - | - | - | - | - |
| 24 | Assets posted as initial margin for derivative contracts | 17,548 | | | | - |
| 25 | NSFR derivative assets | 7,859 | | | | 7,859 |
| 26 | NSFR derivative liabilities before deduction of variation margin posted | 1,938 | | | | 1,938 |
| 27 | All other assets not included in the above categories | 17,253,249 | 1,716,742 | 42,198,038 | | 38,609,780 |
| 28 | Off-balance sheet items | | 23,624,947 | | 24,508,472 | 2,406,671 |
| 29 | Total RSF | - | - | - | - | 89,002,052 |
| 30 | Net Stable Funding Ratio (%) | - | - | - | - | 119.57% |