

FAYSAL BANK LIMITED
CAPITAL ADEQUACY AND LIQUIDITY DISCLOSURES - UNCONSOLIDATED
AS AT DECEMBER 31, 2019

1 CAPITAL ADEQUACY

- 1.1** 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. Basel III instructions have become effective from December 31, 2013. 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. However, there is a transitional phase for implementation of Basel III requirements whereas the complete requirements would become applicable with full implementation by December 31, 2019.

Under Basel III framework, Bank's regulatory capital has been analyzed into two tiers as follows:

- Tier 1 capital (going concern capital) which is sub divided into:
 - a) Common Equity Tier 1 (CET1), which includes fully paid up capital, reserve for bonus issue, general reserves and un-appropriated profits (net of losses), etc. after threshold deductions on deferred tax assets, reciprocal crossholdings and deduction for book value of intangibles.
 - b) Additional Tier 1 capital (AT1), which includes instruments issued by the Bank which meet the specified criteria.

Presently the Bank does not have any AT1 capital.

- Tier II capital, which includes general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets), reserves on revaluation of fixed assets and available for sale investments after deduction of deficit on available for sale investments.
- The deductions from Tier II capital mainly involves reciprocal crossholdings and investment in majority owned securities.

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

1.2 Capital Management

The objective of capital management is to ensure the Bank's ability to operate as a going concern by maintaining appropriate capital base in line with minimum regulatory requirements. The Bank has implemented the applicable requirements of Basel III capital adequacy framework that applies to all Banks as prescribed under BPRD Circular No. 06 of August 15, 2013 and amendments made by State Bank of Pakistan through various circulars. The Bank has adopted Standardized Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risk.

The Bank ensures that it:

- a) complies with the capital requirements set by the State Bank of Pakistan;
- b) safeguards the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders; and
- c) maintains a strong capital base to support the developments of its business.

Capital adequacy is regularly monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as per the requirements of the SBP. The required information is submitted to the SBP on a quarterly basis.

As at December 31, 2019 the SBP requires each Bank or Banking group to: (a) hold the minimum level of the paid-up capital of Rs 10 billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets at or above the required minimum level of 10.00% and (c) maintain Common Equity Tier I (CET1) ratio and Tier 1 ratio of 6.0% and 7.5% respectively.

With effect from December 31, 2019 an additional Capital Conservation Buffer (CCB) of 2.50% (to be met from CET1) has to be maintained over and above the minimum required level.

The paid-up capital of the Bank for the year ended December 31, 2019 stood at Rs 15.176 billion (2018: Rs 15.176 billion). As at December 31, 2019 Bank's CAR stood at 19.14% whereas CET1 and Tier 1 ratios both stood at 15.53%.

The Bank is also in compliance with the CCB requirements.

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The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflection of an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. A similar treatment is adopted for off balance sheet exposures, with some adjustments to reflect the more contingent nature of the associated risks.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

The required capital adequacy ratio is achieved by the Bank through:

- (a) Adequate level of paid up capital;
- (b) Adequate risk profile of asset mix;
- (c) Ensuring better recovery management; and
- (d) Maintaining acceptable profit margins.

1.3 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy, under Basel III and Pre-Basel III treatment using Standardized Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risk is presented below:

Particulars	2019	2018
	Amount	
	----- Rupees '000 -----	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
- Fully paid-up capital / capital deposited with the SBP	15,176,965	15,176,965
- Balance in share premium account	10,130	10,130
- Reserve for issue of bonus shares	-	-
- Discount on issue of shares	-	-
- General / statutory reserves	9,820,828	8,768,778
- Gain / (losses) on derivatives held as cash flow hedge	-	-
- Unappropriated profit	19,507,870	14,448,975
- Minority interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
CET 1 before regulatory adjustments	44,515,793	38,404,848
Total regulatory adjustments applied to CET1	1,280,311	1,544,633
Common Equity Tier 1 (a)	43,235,482	36,860,215
Additional Tier 1 (AT 1) Capital		
- Qualifying Additional Tier-1 instruments plus any related share premium of which:		
- classified as equity	-	-
- classified as liabilities	-	-
- Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties 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 recognised for capital adequacy (b)	-	-
Tier 1 Capital (CET1 + admissible AT1) (c=a+b)	43,235,482	36,860,215
Tier 2 Capital		
- Qualifying Tier 2 capital instruments under Basel III	-	-
- Tier 2 capital instruments subject to phase out arrangement	-	-
- Tier 2 capital instruments issued to third party by consolidated subsidiaries of which:		
- instruments issued by subsidiaries subject to phase out	-	-
- General provisions or general reserves for loan losses-up to maximum of 1.25% of credit risk weighted assets	761,951	678,187
- Revaluation reserves of which:		
- revaluation reserves on fixed assets	5,924,492	4,291,972
- unrealized gain / (loss) on AFS	3,383,915	-
- Foreign exchange translation reserves	-	-
- Undisclosed / other reserves (if any)	-	-
T2 before regulatory adjustments	10,070,358	4,970,159
Total regulatory adjustment applied to T2 capital	-	-
Tier 2 capital (T2) after regulatory adjustments	10,070,358	4,970,159
Portion of Tier 1 capital recognised in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy (d)	10,070,358	4,970,159
TOTAL CAPITAL (T1 + admissible T2) (e=c+d)	53,305,840	41,830,374
Total risk weighted assets (i)	278,460,751	248,969,881

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Particulars	2019	2018
	Percentage	
Capital ratios and buffers (in percentage of risk weighted assets)		
- CET1 to total RWA (a / i)	15.53%	14.81%
- Tier-1 capital to total RWA (c / i)	15.53%	14.81%
- Total capital to RWA (e / i)	19.14%	16.80%
- Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) of which:	8.50%	7.900%
- capital conservation buffer requirement	2.50%	1.900%
- counter cyclical buffer requirement	0.00%	0.00%
- Domestic Systemically Important Banks (SIB) or Global SIB buffer requirement	0.00%	0.00%
- CET1 available to meet buffers (as a percentage of risk weighted assets)	7.03%	6.91%
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	12.50%	11.90%

Particulars	2019		2018	
	Amount	Pre - Basel III treatment*	Amount	Pre - Basel III treatment*

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

1.3.1 Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	-	-	-	-
All other intangibles (net of any associated deferred tax liability)	1,141,641	-	991,418	-
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	138,670	-	117,269	-
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	-	-	435,946	-
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	1,280,311	-	1,544,633	-

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Particulars	2019		2018	
	Amount	Pre - Basel III treatment*	Amount	Pre - Basel III treatment*

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

1.3.2 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	-	-	-	-

1.3.3 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	-	-	-	-
Total regulatory adjustment applied to T2 capital	-	-	-	-

* This column highlights items that are still subject to Basel II treatment during the transitional period.

1.3.4 Additional Information

	2019	2018
	----- Rupees '000 -----	
"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	2,605,416	2,210,563
Significant investments in the common stock of financial entities	639,891	639,893
Deferred tax assets arising from temporary differences (net of related tax liability)	-	523,518
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)	761,951	678,187
Cap on inclusion of provisions in Tier 2 under standardized approach	2,701,577	2,485,707
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	-	-

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1.4 Capital Structure Reconciliation

1.4.1 Reconciliation of each financial statement line item to item under regulatory scope of reporting

Particulars	2019	
	Balance sheet	Under regulatory scope of reporting
	-----Rupees '000-----	
Assets		
Cash and balances with treasury banks	60,368,417	60,368,417
Balances with other banks	2,835,570	2,835,570
Lendings to financial institutions	-	-
Investments	204,068,952	204,068,952
Advances	309,573,002	309,573,002
Operating fixed assets	25,670,965	25,670,965
Deferred tax assets - net	-	-
Other assets	27,335,751	27,335,751
Total assets	629,852,657	629,852,657
Liabilities and equity		
Bills payable	8,356,460	8,356,460
Borrowings	72,746,795	72,746,795
Deposits and other accounts	457,789,109	457,789,109
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities - net	2,763,998	2,763,998
Other liabilities	32,932,422	32,932,422
Total liabilities	574,588,784	574,588,784
Represented by:		
Share capital	15,176,965	15,176,965
Reserves	9,830,958	9,830,958
Unappropriated profit	19,507,870	19,507,870
Minority Interest	-	-
Surplus on revaluation of assets - net of tax	10,748,080	10,748,080
	55,263,873	55,263,873
Total liabilities and equity	629,852,657	629,852,657

1.4.2 Reconciliation of balance sheet to eligible regulatory capital

Particulars	Reference	Balance sheet as in published financial statements	Under regulatory scope of reporting
		-----Rupees '000-----	
Assets			
Cash and balances with treasury banks		60,368,417	60,368,417
Balances with other banks		2,835,570	2,835,570
Lendings to financial institutions		-	-
Investments of which:		204,068,952	204,068,952
- non-significant capital investments in capital of other financial institutions exceeding 10% threshold	a	-	-
- significant capital investments in financial sector entities exceeding regulatory threshold	b	-	-
- mutual funds exceeding regulatory threshold	c	-	-
- reciprocal crossholding of capital instrument	d	138,670	138,670
- others	e	-	-
Advances		309,573,002	309,573,002
- shortfall in provisions / excess of total EL amount over eligible provisions under IRB	f	-	-
- general provisions reflected in Tier 2 capital	g	761,951	761,951
Operating fixed assets of which:		25,670,965	25,670,965
- Intangibles	k	1,141,641	1,141,641
Deferred tax assets of which:		-	-
- DTAs that rely on future profitability excluding those arising from temporary differences	h	-	-
- DTAs arising from temporary differences exceeding regulatory threshold	i	-	-
Other assets of which:		27,335,751	27,335,751
- goodwill	j	-	-
- defined-benefit pension fund net assets	l	-	-
Total assets		629,852,657	629,852,657

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Particulars	Reference	Balance sheet as in published financial statements	Under regulatory scope of reporting
-----Rupees '000-----			
Liabilities and Equity			
Bills payable		8,356,460	8,356,460
Borrowings		72,746,795	72,746,795
Deposits and other accounts		457,789,109	457,789,109
Sub-ordinated loans of which:		-	-
- eligible for inclusion in AT1	m	-	-
- eligible for inclusion in Tier 2	n	-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities of which:		-	-
- DTLs related to goodwill	o	-	-
- DTLs related to intangible assets	p	-	-
- DTLs related to defined pension fund net assets	q	-	-
- other deferred tax liabilities	r	2,763,998	2,763,998
Other liabilities		32,932,422	32,932,422
Total liabilities		574,588,784	574,588,784
Share capital		15,176,965	15,176,965
- of which: amount eligible for CET1	s	15,176,965	15,176,965
- of which: amount eligible for AT1	t	-	-
Reserves of which:		9,830,958	9,830,958
- portion eligible for inclusion in CET1 - Statutory reserves	u	9,320,943	9,320,943
- portion eligible for inclusion in CET1 - General and other reserves		510,015	510,015
- portion eligible for inclusion in Tier 2	v	-	-
Unappropriated profit	w	19,507,870	19,507,870
Minority Interest of which:		-	-
- portion eligible for inclusion in CET1	x	-	-
- portion eligible for inclusion in AT1	y	-	-
- portion eligible for inclusion in Tier 2	z	-	-
Surplus on revaluation of assets of which:		10,748,080	10,748,080
- Revaluation reserves on fixed assets		5,924,492	5,924,492
- Revaluation reserves on Non-banking assets acquired in satisfaction of claims		1,439,673	1,439,673
- Unrealized gains / (losses) on AFS securities	aa	3,383,915	3,383,915
- In case of deficit on revaluation (deduction from CET1)	ab	-	-
Total liabilities and equity		629,852,657	629,852,657

1.4.3 Basel III Disclosure (with added column)

Particulars	Source based on reference number from 1.4.2	Component of regulatory capital reported by the Bank
Rupees '000		
Common equity Tier 1 capital (CET1): instruments and reserves		
1 Fully paid-up capital		15,176,965
2 Balance in share premium account	(s)	10,130
3 Reserve for issue of bonus shares		-
4 General / statutory reserves	(u)	9,820,828
5 Gain / (losses) on derivatives held as cash flow hedge		-
6 Unappropriated profit	(w)	19,507,870
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		44,515,793

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Particulars	Source based on reference number from 1.4.2	Component of regulatory capital reported by the Bank
		Rupees '000
Common Equity Tier 1 capital: Regulatory adjustments		
9 Goodwill (net of related deferred tax liability)	(j) - (s)	
10 All other intangibles (net of any associated deferred tax liability)	(k) - (p)	1,141,641
11 Shortfall of provisions against classified assets	(f)	-
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(h) - (r) * x%	-
13 Defined-benefit pension fund net assets	(l) - (q) * x%	-
14 Reciprocal cross holdings in CET1 capital instruments	(d)	138,670
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 securities	(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) * x%	-
23 Amount exceeding 15% threshold of which:		-
- significant investments in the common stocks of financial entities		-
- deferred tax assets arising from temporary differences		-
24 National specific regulatory adjustments applied to CET1 capital of which:		-
- investment in TFCs of other banks exceeding the prescribed limit		-
- any other deduction specified by the SBP		-
25 Regulatory adjustment applied to CET1 due to insufficient AT1 and		
- Tier 2 to cover deductions		-
26 Total regulatory adjustments applied to CET1		1,280,311
Common equity tier 1		43,235,482
Additional Tier 1 (AT 1) Capital		
27 Qualifying additional Tier-1 instruments plus any related share premium		-
of which:		
- classified as equity	(t)	-
- classified as liabilities	(m)	-
28 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties	(y)	-
- of which: instrument issued by subsidiaries subject to phase out		-
29 AT1 before regulatory adjustments		-
Additional Tier 1 Capital: regulatory adjustments		
30 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		-
31 Investment in own AT1 capital instruments		-
32 Reciprocal cross holdings in additional Tier 1 capital instruments		-
33 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)	-

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Particulars	Source based on reference number from 1.4.2	Component of regulatory capital reported by the Bank
		Rupees '000
34 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(ad)	-
35 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		-
36 Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions		-
37 Total of regulatory adjustment applied to AT1 capital		-
38 Additional Tier 1 capital		-
39 Additional Tier 1 capital recognised for capital adequacy		-
Tier 1 Capital (CET1 + admissible AT1)		43,235,482
Tier 2 Capital		
40 Qualifying Tier 2 capital instruments under Basel III		-
41 Capital instruments subject to phase out arrangement from Tier 2	(n)	-
42 Tier 2 capital instruments issued to third party by consolidated subsidiaries	(z)	-
- of which: instruments issued by subsidiaries subject to phase out		-
43 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	761,951
44 Revaluation reserves eligible for Tier 2 of which:		9,308,407
- portion pertaining to fixed assets		5,924,492
- portion pertaining to AFS securities		3,383,915
45 Foreign exchange translation reserves	(v)	-
46 Undisclosed / other reserves (if any)		-
47 T2 before regulatory adjustments		10,070,358
Tier 2 Capital: regulatory adjustments		
48 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		-
49 Reciprocal cross holdings in Tier 2 instruments	(d)	-
50 Investment in own Tier 2 capital instruments		-
51 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)	-
52 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
53 Amount of regulatory adjustment applied to T2 capital		-
54 Tier 2 capital (T2)		10,070,358
55 Tier 2 capital recognised for capital adequacy		10,070,358
56 Excess additional Tier 1 capital recognised in Tier 2 capital		-
57 Total Tier 2 capital admissible for capital adequacy		10,070,358
TOTAL CAPITAL (T1 + admissible T2)		53,305,840

1.5 Main features of regulatory capital instruments

S.No	Main Features	Common Shares
1	Issuer	Faysal Bank Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	FABL
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	Group & Solo
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	15,176,965
9	Par value of instrument	10
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend / coupon	N/A
18	Coupon rate and any related index / benchmark	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non - Cumulative
23	Convertible or non-convertible	Non - Convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Common equity (ranks after all creditors including depositors)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

1.6 Risk Weighted Assets

	Capital Requirements		Risk Weighted Assets	
	2019	2018	2019	2018
----- Rupees '000 -----				
Credit risk				
On-Balance sheet				
<i>Portfolios subject to standardized approach</i>				
<i>(Comprehensive)</i>				
Sovereign	15,347	22,729	122,773	191,001
Public Sector entities	289,713	363,578	2,317,708	3,055,281
Banks	469,364	241,801	3,754,910	2,031,942
Corporate	13,224,690	12,435,101	105,797,523	104,496,646
Retail	3,973,619	3,358,349	31,788,954	28,221,420
Residential Mortgages	238,406	203,701	1,907,245	1,711,776
Past Due loans	968,465	426,997	7,747,720	3,588,213
Operating Fixed Assets	3,066,165	1,381,829	24,529,324	11,612,008
Other assets	1,157,829	1,448,565	9,262,632	12,172,813
	23,403,599	19,882,650	187,228,789	167,081,100
Off-Balance sheet				
Non-market related				
Loan Repayment Guarantees	1,927,603	1,380,138	15,420,820	11,597,801
Purchase and Resale Agreements	-	-	-	-
Performance Bonds etc	300,691	359,926	2,405,529	3,024,586
Revolving underwriting Commitments	730,147	1,331,701	5,841,180	11,190,763
Stand By Letters of Credit	309,416	364,500	2,475,324	3,063,021
Market related				
Derivative Instruments	6	6	50	48
Foreign Exchange Contracts	246,086	249,679	1,968,691	2,098,140
	3,513,949	3,685,950	28,111,594	30,974,358
Equity Exposure Risk in the Banking Book				
<i>Under simple risk weight method</i>				
Listed Shares	83,156	80,986	665,248	680,557
Unlisted Shares	15,065	14,342	120,519	120,519
	98,221	95,328	785,767	801,076
Total Credit Risk-Weighted Exposures	27,015,769	23,663,928	216,126,150	198,856,534
Market Risk - capital requirement for portfolios subject to standardised approach				
Interest rate risk	487,232	351,751	6,090,396	4,396,889
Equity position risk	899,000	777,849	11,237,500	9,723,107
Foreign exchange risk	118,658	6,402	1,483,223	80,027
Total market risk	1,504,890	1,136,002	18,811,119	14,200,024
Operational Risk - Capital requirement for operational risks				
Total operational risk	3,481,879	2,873,066	43,523,481	35,913,323
	32,002,537	27,672,996	278,460,751	248,969,881
Capital Adequacy Ratio	2019	2018		
Total Eligible Regulatory Capital held	53,305,840	41,830,374		
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	15.53%	6.00%	14.81%
Tier-1 capital to total RWA	7.50%	15.53%	7.50%	14.81%
Total capital to total RWA	12.50%	19.14%	11.90%	16.80%

1.7 Credit Risk: General disclosures Basel II specific

The Bank has adopted the Standardized Approach under Basel. According to the regulatory statement submitted under the Standardised approach, the portfolio has been divided into claims on public sector entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorised as retail portfolio. Claims on corporate constitute 58.88% (2018: 64.34%) of the total risk weighted assets, 2.41% (2018: 3.33%) represents claims on PSEs and 16.23% (2018: 15.72%) exposure pertains to claims categorised as retail portfolio.

1.7.1 Credit Risk: Disclosures for portfolio subject to Standardised Approach

For domestic claims, External Credit Assessment Institutions (ECAIs) recommended by the SBP, namely Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) are used. For claims on foreign entities, ratings assigned by Standard and Poor's, Fitch and Moody's are used. Exposures not rated by any of the aforementioned rating agencies are categorized as unrated.

Types of exposure for which each agency is used in the year ended December 31, 2019 are as follows;

Exposures	PACRA	JCR-VIS	Standard and Poor's	Moody's	Fitch
Corporate	✓	✓	-	-	-
Banks	✓	✓	✓	✓	✓
Sovereigns	-	-	✓	✓	✓
PSEs	✓	✓	-	-	-

The SBP indicative mapping process as instructed in the SBP's circular "Minimum Capital Requirements for Banks and DFIs" (indicated in table below) was used to map alpha numeric ratings of PACRA, JCR-VIS, S&P's, Moody's, Fitch Ratings, and numeric scores of ECAs, to the SBP's rating grades.

Long Term Rating Grades Mapping

SBP Rating	ECA Scores	PACRA	JCR-VIS	S & P	Moody's	Fitch
1	0,1	AA- and above	AA- and above	AA- and above	Aa3 and above	AA- and above
2	2	A+ to A-	A+ to A-	A+ to A-	A1 to A3	A+ to A-
3	3	BBB+ to BBB-	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	4	BB+ to BB-	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	5,6	B+ to B-	B+ to B-	B+ to B-	B1 to B3	B+ to B-
6	7	CCC+ & Below	CCC+ & Below	CCC+ & Below	Caa1 & Below	CCC+ & Below

Short Term Rating Grades Mapping

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

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

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net Amount
Rupees '000				
- Cash and Cash Equivalent		13,924,113	-	13,924,113
- Corporate	1	58,277,809	-	58,277,809
	2	46,056,936	509,000	45,547,936
	3,4	1,155,990	-	1,155,990
	5,6	-	-	-
	Unrated	39,134,554	1,727,171	37,407,383
	Unrated-2	26,243,696	-	26,243,696
- Public Sector Entities	1	9,323,918	-	9,323,918
	2,3	-	-	-
	Unrated	905,848	-	905,848
- Banks	1,2,3	9,035,938	-	9,035,938
	4,5,6	404,265	-	404,265
	Unrated	10,927	-	10,927
- Sovereigns etc.	1	-	-	-
	2	-	-	-
	3	-	-	-
	4,5	122,773	-	122,773
	6	-	-	-
	Unrated	-	-	-
- Government of Pakistan		144,561,763	-	144,561,763
- SBP		7,076,535	-	7,076,535
- Retail		42,523,160	137,888	42,385,271
- Residential Mortgage		5,449,273	-	5,449,273
- Past Dues Loans		6,065,637	6,016	6,059,620
- Past Dues against Residential Mortgage		214,299	-	214,299
- Significant investment in Commercial entities		-	-	-
- Significant investment and DTAs above 15% threshold		639,891	-	639,891
- Unlisted Equity Investments		80,346	-	80,346
- Listed Equity Investments		690,484	25,236	665,248
- Operating Fixed Assets		24,529,324	-	24,529,324
- Other Assets		7,662,904	-	7,662,904
		444,090,383	2,405,311	441,685,072

The Bank has adopted the Comprehensive Approach of Credit Risk Mitigation for the Banking Book. Under this approach, cash, lien on deposits, government securities and eligible guarantees etc. are considered as eligible collateral. Where the Bank's exposure to an obligor is secured by eligible collateral, the Bank reduces its exposure for the calculation of capital requirement by the realizable amount of the collateral, adjusted for any applicable haircuts.

Collaterals used by the Bank for Credit Risk Mitigation (CRM) were as follows:

- Cash margin
- Government securities
- Guarantees of governments and banks
- Shares listed on recognized stock exchange.

1.8 Leverage Ratio

SBP vide BPRD Circular No. 06 dated August 15, 2013 introduced leverage ratio (Tier 1 Capital to total exposure) under Basel III Framework. Banks are required to maintain minimum leverage ratio of 3%.

The leverage ratio of the Bank for the year ended December 31, 2019 stood at 5.86% (2018: 4.89%).

Particulars	2019	2018
	-----Rupees '000-----	
On balance sheet exposures		
On-balance sheet items (excluding derivatives but including collateral)	618,461,747	587,905,840
Derivatives	876,738	2,824,081
A) Total On balance sheet exposures	619,338,485	590,729,921
Off balance sheet exposures		
Off-balance sheet items (excluding derivatives)	117,796,950	161,548,419
Commitment in respect of derivatives (derivatives having negative fair value are also included)	1,159,348	814,156
B) Total Off balance sheet exposures	118,956,297	162,362,575
Capital and total exposures		
Tier 1 capital	43,235,482	36,860,215
Total Exposure (A+B)	738,294,782	753,092,496
Leverage ratio	5.86%	4.89%

2 Liquidity Coverage Ratio (LCR)

According to Basel III instructions issued by State Bank of Pakistan vide its BPRD Circular No. 08 dated June 23, 2016, it is mandatory for all the banks to calculate and report the LCR statement on monthly frequency with the minimum benchmark of 100% as of December 31, 2019.

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

The LCR has two components:

- Value of the stock of High Quality Liquid Assets (HQLA) in stressed conditions; and
- Total net cash outflows, calculated according to the stress scenario for which the Bank would need sufficient liquidity on hand to survive for up to 30 days.

Particulars	2019		2018	
	Total Unweighted Value	Total Weighted Value	Total Unweighted Value	Total Weighted Value
	(average)	(average)	(average)	(average)
	(Rupees '000)		(Rupees '000)	

High Quality Liquid Assets

1	Total High Quality Liquid assets(HQLA)	174,038,704	142,734,534
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CASH OUTFLOWS

2	Retail Deposits and deposits from small business customers	241,765,649	23,708,074	124,584,578	12,232,797
	of which:	-	-		
2.1	Stable deposits	9,369,820	468,491	4,513,209	225,660
2.2	Less stable deposits	232,395,829	23,239,583	120,071,370	12,007,137
3	Unsecured Wholesale funding of which:	198,751,024	96,544,961	269,311,718	84,610,443
3.1	Operational deposits(all counterparties)	26,612,161	6,653,040	22,663,517	5,665,879
3.2	Non operational deposits (all counterparties)	172,138,863	89,891,920	227,100,886	59,397,248
3.3	Unsecured debt	-	-	19,547,315	19,547,315
4	Secured wholesale funding	-	-		-
5	Additional requiremnts of which:	161,741	161,741	60,616,436	6,061,531
5.1	Outflows related to derivative exposures and other collateral requirements	161,741	161,741	-	-
5.2	Outflows related to loss of funding on debt products	-	-	-	-
5.3	Credit and Liquidity facilities	-	-	60,616,436	6,061,531
6	Other contractual funding obligations	42,511,970	4,250,322	14,622,461	14,622,461
7	Other contingent funding obligations	102,792,989	25,217,831	222,742,067	6,519,829
8	TOTAL CASH OUTFLOWS		149,882,928		124,047,061

CASH INFLOWS

9	Secured lending	13,175,309	-	4,570,240	-
10	Inflows from fully performing exposures	54,971,711	27,804,023	51,097,140	25,999,301
11	Other Cash inflows	1,243,293	(840,317)	1,155,674	(387,359)
12	TOTAL CASH INFLOWS	69,390,313	26,963,705	56,823,054	25,611,942

Total adjusted value

Total adjusted value

21	TOTAL HQLA	174,038,704	142,734,534
22	TOTAL NET CASH OUTFLOWS	122,919,223	98,435,120
23	LIQUIDITY COVERAGE RATIO	1.416	1.452

3 Net Stable Funding Ratio (NSFR)

According to Basel III instructions issued by State Bank of Pakistan BPRD Circular No. 08 dated June 23, 2016, it is mandatory for all the banks to calculate and report the Net Stable Funding Ratio (NSFR) on a quarterly basis with the minimum of 100% on an ongoing basis from December 31, 2017.

The purpose of the NSFR is to ensure that Bank holds a minimum amount of stable funding based on the liquidity characteristics of its assets and off-balance sheet activities over a one year horizon.

The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items and promotes funding stability. The objective is to reduce maturity mismatches between the asset and liability items on the balance sheet and thereby reduce funding and rollover risk.

		2019				
Particulars		unweighted value by residual maturity				weighted value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
		------(Rupees '000)-----				
Available Stable Funding (ASF) Item						
1	Capital:	54,586,151	-	-	30,079,963	84,666,114
2	Regulatory capital	54,586,151	-	-	-	54,586,151
3	Other capital instruments	-	-	-	30,079,963	30,079,963
4	Retail deposits and deposit from small business customers:	210,128,359	-	44,629,102	-	229,765,979
5	Stable deposits	9,341,063	-	344,217	-	9,201,016
6	Less stable deposits	200,787,296	-	44,284,885	-	220,564,963
7	Wholesale funding:	36,554,289	-	133,831,932	-	85,193,110
8	Operational deposits	36,554,289	-	-	-	18,277,144
9	Other wholesale funding	-	-	133,831,932	-	66,915,966
10	Other liabilities:	105,072,425	-	13,351,498	11,240,014	6,675,749
11	NSFR derivative liabilities		-	-	10,298,797	-
12	All other liabilities and equity not included in other categories	105,072,425	-	13,351,498	941,217	6,675,749
13	Total ASF					406,300,952

Required Stable Funding (RSF) Item

Required Stable Funding (RSF) item		250,039,937				4,335,972
14	Total NSFR high-quality liquid assets (HQLA)					
15	Deposits held at other financial institutions for operational purposes	2,835,570	-	-	-	1,417,785
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by nonLevel 1 HQLA and unsecured performing loans to financial institutions	-	4,954,433	32,736,441	-	17,111,385
19	Performing loans to nonfinancial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	80,626,109	68,532,193
20	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	-	-	-	67,279,427	43,731,628
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		-			-
25	NSFR derivative assets		9,357,580			
26	NSFR derivative liabilities before deduction of variation margin posted		10,298,797			
27	All other assets not included in the above categories	218,881,426	-	-	16,029,284	153,996,528
28	Off-balance sheet items					10,505,495
29	Total RSF					299,630,986
30	Net Stable Funding Ratio (%)					135.60%

		2018				
Particulars		unweighted value by residual maturity				weighted value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
		------(Rupees '000)-----				
Available Stable Funding (ASF) Item						
1	Capital:	43,375,007	-	-	21,386,138	64,761,145
2	Regulatory capital	43,375,007	-	-	-	43,375,007
3	Other capital instruments	-	-	-	21,386,138	21,386,138
4	Retail deposits and deposit from small business customers:	197,480,724	-	38,057,151	-	212,438,517
5	Stable deposits	8,824,704	-	263,886	-	8,634,160
6	Less stable deposits	188,656,021	-	37,793,265	-	203,804,357
7	Wholesale funding:	24,637,380	-	125,761,066	-	75,199,223
8	Operational deposits	24,637,380	-	-	-	12,318,690
9	Other wholesale funding	-	-	125,761,066	-	62,880,533
10	Other liabilities:	125,174,364	-	14,688,383	5,376,826	7,344,192
11	NSFR derivative liabilities	-	-	-	4,605,500	-
12	All other liabilities and equity not included in other categories	125,174,364	-	14,688,383	771,327	7,344,192
13	Total ASF					359,743,076

Required Stable Funding (RSF) Item						
14	Total NSFR high-quality liquid assets (HQLA)				243,950,435	8,113,640
15	Deposits held at other financial institutions for operational purposes	1,847,595	-	-	-	923,798
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	2,997,486	-	-	299,749
18	Performing loans to financial institutions secured by nonLevel 1 HQLA and unsecured performing loans to financial institutions	-	102,461	75,000	-	52,869
19	Performing loans to nonfinancial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	82,771,650	70,355,903
20	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	-	-	-	67,530,853	43,895,054
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		-			-
25	NSFR derivative assets				3,834,173	
26	NSFR derivative liabilities before deduction of variation margin posted				4,605,500	
27	All other assets not included in the above categories	196,250,418	-	-	16,945,699	136,394,001
28	Off-balance sheet items					15,265,048
29	Total RSF					275,300,061
30	Net Stable Funding Ratio (%)					130.67%