CAPITAL ADEQUACY RATIO

The Basel-III Framework is applicable to the Bank both at the consolidated level (comprising of wholly owned subsidiaries) and on a stand alone basis. Subsidiary is included while calculating consolidated capital adequacy for the Bank using full consolidation method. 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; and
- retain flexibility to harness future investment opportunities, build and expand even in stressed times.

Statutory Minimum Capital Requirement and Capital Adequacy Ratio

The State Bank of Pakistan through BSD Circular No. 07 of 2009 dated April 15, 2009 required the minimum paid-up capital (net of losses) for all locally incorporated banks to be raised to Rs.10 billion by the year ended on December 31, 2018. The raise was to be achieved in a phased manner. The paid-up capital of the Bank for the year ended December 31, 2018 stands at Rs.10.01 billion and is in compliance with the SBP

The capital adequacy ratio of the Bank is subject to the Basel-III capital adequacy guidelines stipulated by the State Bank of Pakistan through BPRD Circular No. 06 of 2013 dated August 15, 2013. These requirements are applicable from December 31, 2013 with full implementation in a phased manner intended by December 31, 2019. Under the Basel-III guidelines, banks are required to maintain the following ratios on an ongoing basis:

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

S. No.	Ratio	Year ended 2014	2015	2016	2017	2018	2019
1	CET1	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%
3	Tier-1	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%
5	* CCB	0.00%	0.25%	0.65%	1.275%	1.90%	2.50%
6	Total Capital plus CCB	10.00%	10.25%	10.65%	11.275%	11.90%	12.50%

* (Consisting of CET1 only)

Bank's regulatory capital is analysed into three tiers

- Common Equity Tier 1 capital (CET1), which includes fully paid-up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1.
- Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and share premium resulting from the issuance of preference shares, balance in share premium account after all regulatory adjustments applicable on AT1.
- Tier 2 capital, which includes Subordinated debt / Instruments, share premium on issuance of Subordinated debt / instruments, general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), net of tax reserves on revaluation of fixed assets and equity investments up to a maximum of 45% of the balance and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2.

The required capital adequacy ratio (11.90% of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. 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 risks attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Bank. As the Bank carries on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization and aggregate the risks so as to take an integrated approach / view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

Capital Adequacy

During the year 2018, the Bank suffered losses, arising mainly due to provisioning of non- performing loans. Due to these losses, Bank's equity as at December 31, 2018 is reduced to Rs. 11.2 billion from Rs. 16.1 billion as at December 31, 2017 and the Bank's Capital Adequacy Ratio as at 31 December 2018 is also reduced to 8.02 percent of Risk Weighted Assets (RWA), down from 15.67% as at December 31, 2017, as against required minimum of 11.90 percent. To address any material uncertainty about the Bank's going concern status and keeping in view the present and future capital requirements, the Bank has submitted to the State Bank of Pakistan, a time-bound capital plan, duly approved by its Board of Directors. Based on this plan, the management has prepared these financial statements on going concern basis. The plan, envisages injection of an amount of Rs.14.7 billion of which Rs. 11.2 billion will be injected by December 31, 2019 and a further amount of Rs.3.5 billion by June 30, 2020, in the following manner (subject to regulatory approvals):

- Cash equity injection of Rs. 8 billion.
- Equity injection of Rs. 3 billion through merger of Sindh Leasing Company Limited.
- Cash equity/ or issue of unsecured Term Finance Certificates of Rs. 1.3 billion for Additional Tier I capital (subject to GoS rules);
- Cash equity/ or issue of unsecured Term Finance Certificates of Rs. 2.4 billion for Tier II capital (subject to GoS rules).

The Board of Directors of the Bank and SLCL have already given their 'in principle' approval for merger of Sindh Leasing Company Limited into Sindh Bank as well as approved the Draft Term Sheets for the issuance of above TFCs, subject to regulatory approvals. Other formalities are in process.

The Bank is also undertaking an organizational restructuring exercise aimed at improving its business focus and setting up a dedicated Department/Unit for undertaking efforts for recovery/restructuring of its Non Performing Loans.

The Government of Sindh, the Bank's major shareholder holding 99.9 percent of the Bank's equity is fully committed to supporting the Bank, whenever required.

		2018	2017
	Capital Adequacy	**(Rupees in '000)**	
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital/ Capital deposited with SBP	**10,010,130**	10,010,130
2	Balance in Share Premium Account	**51**	51
3	Reserve for issue of Bonus Shares	**-**	-
4	Discount on Issue of shares	**-**	-
5	General/Statutory Reserves	**1,451,928**	1,451,928
6	Gain/(Losses) on derivatives held as Cash Flow Hedge	**-**	-
7	Unappropriated/unremitted profits/ (losses)	**3,958,289**	5,175,820
8	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	**-**	-
9	**CET 1 before Regulatory Adjustments**	**15,420,398**	16,637,929
10	Total regulatory adjustments applied to CET1 **(note 41.1.5)**	**8,325,565**	1,724,121
11	**Common Equity Tier 1**	**7,094,833**	14,913,808
	Additional Tier 1 (AT 1) Capital		
12	Qualifying Additional Tier-1 capital instruments plus any related share premium	**-**	-
13	of which: Classified as equity	**-**	-
14	of which: Classified as liabilities	**-**	-
15	Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	**-**	-
16	of which: instrument issued by subsidiaries subject to phase out	**-**	-
17	**AT1 before regulatory adjustments**	**-**	**-**
18	Total regulatory adjustment applied to AT1 capital **(note 41.1.5)**	**258,451**	-
19	Additional Tier 1 capital after regulatory adjustments	**-**	-
20	**Additional Tier 1 capital recognized for capital adequacy**	**-**	-
21	**Tier 1 Capital (CET1 + admissible AT1) (11+20)**	**7,094,833**	14,913,808
	Tier 2 Capital		
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	**-**	-
23	Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel 3 rules	**-**	-
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	**-**	-
25	of which: instruments issued by subsidiaries subject to phase out	**-**	-
26	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	**2,014**	811,379
27	Revaluation Reserves (net of taxes)		
28	of which: Revaluation reserves on fixed assets	**-**	-
29	of which: Unrealized gains/losses on AFS	**-**	-
30	Foreign Exchange Translation Reserves	**-**	-
31	Undisclosed/Other Reserves (if any)	**-**	-
32	**T2 before regulatory adjustments**	**2,014**	811,379
33	Total regulatory adjustment applied to T2 capital **(note 41.1.5)**	**260,465**	547,220
34	Tier 2 capital (T2) after regulatory adjustments	**-**	-
35	Tier 2 capital recognized for capital adequacy	**-**	-
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital	**-**	-
37	**Total Tier 2 capital admissible for capital adequacy**	**-**	264,159
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**	**7,094,833**	15,177,967
39	**Total Risk Weighted Assets (RWA) {for details refer note 41.1.8}**	**88,443,457**	96,873,102
	Capital Ratios and buffers (in percentage of risk weighted assets)		
40	**CET1 to total RWA**	**8.02%**	15.40%
41	**Tier-1 capital to total RWA**	**8.02%**	15.40%
42	**Total capital to total RWA**	**8.02%**	15.67%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	**7.90%**	7.28%
44	of which: capital conservation buffer requirement	**1.90%**	1.28%
45	of which: counter cyclical buffer requirement	**0.00%**	0.00%
46	of which: D-SIB or G-SIB buffer requirement	**0.00%**	0.00%
47	CET1 available to meet buffers (as a percentage of risk weighted assets)	**0.12%**	8.12%
	National minimum capital requirements prescribed by SBP		
48	**CET1 minimum ratio**	**6.00%**	6.00%
49	**Tier 1 minimum ratio**	**7.50%**	7.50%
50	**Total capital minimum ratio**	**10.00%**	10.00%
51	**Total capital minimum ratio plus CCB**	**11.90%**	11.28%

		2018		2017	
		Amount	**Amounts subject to Pre- Basel III treatment**	Amount	Amounts subject to Pre- Basel III treatment
	Regulatory Adjustments and Additional Information:	**------------------- Rupees in '000**		**-----------------**	
	Common Equity Tier 1 capital: Regulatory adjustments				
1	Goodwill (net of related deferred tax liability)	**-**	**-**	-	-
2	All other intangibles (net of any associated deferred tax liability)	**42,079**	**42,079**	51,357	51,357
3	Shortfall in provisions against classified assets	**-**	**-**	-	-
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**242,562**	**242,562**	-	-
5	Defined-benefit pension fund net assets	**-**	**-**	-	-
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	**-**	**-**	-	-
7	Cash flow hedge reserve	**-**	**-**	-	-
8	Investment in own shares/ CET1 instruments	**-**	**-**	-	-
9	Securitization gain on sale	**-**	**-**	-	-
10	Capital shortfall of regulated subsidiaries	**-**	**-**	-	-
11	Deficit on account of revaluation from bank's holdings of fixed assets/AFS	**4,181,968**	**4,181,968**	570,122	570,122
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	**438,008**	**438,008**	817,503	654,003
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	**-**	**-**	-	-
14	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	**2,734,148**	**2,734,148**	92,048	73,638
15	Amount exceeding 15% threshold :	**-**	**-**		-
16	15% threshold of significant investments & deferred tax assets	**428,349**	**428,349**	-	-
17	National specific regulatory adjustments applied to CET1 capital	**-**	**-**	-	-
18	Investments in TFCs of other banks exceeding the prescribed limit	**-**	**-**	-	-
19	Any other deduction specified by SBP (mention details)	**-**	**-**	-	-
20	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	**258,451**	**258,451**	-	375,000
21	Total regulatory adjustments applied to CET1 (sum of 1 to 21)	**8,325,565**	**8,325,565**	1,531,030	1,724,121
	Additional Tier-1 & Tier-1 Capital: regulatory adjustments				
22	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	**-**	**-**	-	-
23	Investment in own AT1 capital instruments	**-**	**-**	-	-
24	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	**-**	**-**	-	-
25	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)	**-**	**-**	-	-
26	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	**-**	**-**	-	375,000
27	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	**-**	**-**	-	-
28	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	**258,451**	**258,451**	-	-
29	Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)	**258,451**	**258,451**	-	375,000
	Tier 2 Capital: regulatory adjustments				
30	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	**-**	**-**	-	375,000
31	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	**-**	**-**	-	-
32	Investment in own Tier 2 capital instrument	**-**	**-**	-	-
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)	**260,465**	**260,465**	215,275	172,220
34	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	**-**	**-**	-	-
35	Total regulatory adjustment applied to T2 capital (sum of 31 to 35)	**260,465**	**260,465**	215,275	547,220

		2018	2017
		(Rupees in '000)	
	Additional Information		
36	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III treatment)	**3,786,164**	**2,634,423**
(i)	of which: deferred tax assets	**2,003,880**	-
(ii)	of which: defined-benefit pension fund net assets	**-**	-
(iii)	of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	**1,782,284**	2,634,423
(iv)	of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	**-**	-
		3,786,164	2,634,423
	Amounts below the thresholds for deduction (before risk weighting)		
37	Non-significant investments in the capital of other financial entities	**-**	-
38	Significant investments in the common stock of financial entities	**750,000**	-
39	Deferred tax assets arising from temporary differences (net of related tax liability)	**3,785,726**	1,611,943
		4,535,726	1,611,943
	Applicable caps on the inclusion of provisions in Tier 2		
40	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**-**	-
41	Cap on inclusion of provisions in Tier 2 under standardized approach	**-**	-
42	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	-
43	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	-

Capital Structure Reconciliation

Step 1	**As per published financial statements**	**Under regulatory scope of reporting**
	December 31, 2018	
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	**9,102,696**	**9,102,696**
Balanced with other banks	**507,605**	**507,605**
Lending to financial institutions	**5,383,162**	**5,383,162**
Investments	**55,350,066**	**55,350,066**
Advances	**73,631,631**	**73,631,631**
Operating fixed assets	**1,613,063**	**1,613,063**
Intangible assets	**50,405**	**50,405**
Deferred tax assets	**4,028,288**	**4,028,288**
Other assets	**5,894,051**	**5,894,051**
Total assets	**155,560,967**	**155,560,967**
Liabilities and equity		
Bills payable	**929,426**	**929,426**
Borrowings	**26,771,698**	**26,771,698**
Deposits and other accounts	**113,594,544**	**113,594,544**
Sub-ordinated loans	**-**	**-**
Liabilities against assets subject to finance lease	**-**	**-**
Deferred tax liabilities	**-**	**-**
Other liabilities	**3,026,869**	**3,026,869**
Total liabilities	**144,322,537**	**144,322,537**
Share capital / head office capital account	**10,010,130**	**10,010,130**
Reserves	**1,451,979**	**1,451,979**
Unappropriated / unremitted profit / (losses)	**3,958,289**	**3,958,289**
Minority interest	**-**	**-**
Deficit on revaluation of assets	**(4,181,968)**	**(4,181,968)**
Total equity	**11,238,430**	**11,238,430**
Total liabilities and equity	**155,560,967**	**155,560,967**

Step 2	As per published financial statements	Under regulatory scope of consolidation	Reference
	December 31, 2018		
	(Rupees in '000)		
Assets			
Cash and balances with treasury banks	9,102,696	9,102,696	
Balanced with other banks	507,605	507,605	
Lending to financial institutions	5,383,162	5,383,162	
Investments	55,350,066	55,350,066	
- of which: non-significant capital investments in capital of other financial institutions exceeding 10% threshold	-	-	a
CET-1	438,008	438,008	
ADT	-	-	
T2	260,465	260,465	
- of which: significant capital investments in financial sector entities exceeding regulatory threshold	-	-	b
CET-1	-	-	
ADT	-	-	
T2	-	-	
- of which: mutual funds exceeding regulatory threshold	-	-	c
- of which: reciprocal crossholding of capital instrument	-	-	d
- of which: others (mention details)	-	-	e
Advances	73,631,631	73,631,631	
Shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
General provisions reflected in Tier 2 capital	2,014	2,014	g
Fixed assets	1,613,063	1,613,063	
Deferred tax assets	4,028,288	4,028,288	
- of which: DTAs excluding those arising from temporary differences	242,562	242,562	h
- of which: DTAs arising from temporary differences exceeding regulatory threshold	2,734,148	2,734,148	i
Other assets	5,894,051	5,894,051	
- of which: goodwill	-	-	j
- of which: intangibles	50,405	50,405	k
- of which: Defined-benefit pension fund net assets	-	-	l
Total assets	155,560,967	155,560,967	
Liabilities and equity			
Bills payable	929,426	929,426	
Borrowings	26,771,698	26,771,698	
Deposits and other accounts	113,594,544	113,594,544	
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	8,326	8,326	
- of which: DTLs related to goodwill	-	-	o
- of which: DTLs related to intangible assets	8,326	8,326	p
- of which: DTLs related to defined pension fund net assets	-	-	q
- of which: other deferred tax liabilities	-	-	r
Other liabilities	3,026,869	3,026,869	
Total liabilities	144,322,537	144,322,537	
Share capital	10,010,130	10,010,130	
- of which: amount eligible for CET1	10,010,130	10,010,130	s
- of which: amount eligible for AT1	-	-	t
Reserves	1,451,979	1,451,979	
- of which: portion eligible for inclusion in CET1	1,451,979	1,451,979	u
- of which: portion eligible for inclusion in Tier 2	-	-	v
Unappropriated profit / (losses)	3,958,289	3,958,289	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 on revaluation of assets	(4,181,968)	(4,181,968)	
- of which: revaluation reserves on property	-	-	
- of which: unrealized gains / (losses) on AFS	-	-	aa
- In case of deficit on revaluation (deduction from CET1)	4,181,968	4,181,968	ab
Total equity	11,238,430	11,238,430	
Total liabilities and equity	155,560,967	155,560,967	

	Step 3	Source based on reference number from step 2	Source based on reference number
		Rupees in '000	
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully paid-up capital / capital deposited with SBP	**10,010,130**	(s)
2	Balance in share premium account	**51**	
3	Reserve for issue of bonus shares	**-**	
4	General / statutory reserves	**1,451,928**	(u)
5	Gain / (loss) on derivatives held as cash flow hedge	**-**	
6	Unappropriated / unremitted profits / (losses)	**3,958,289**	(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**	**15,420,398**	
	Common Equity Tier 1 capital: Regulatory Adjustments		
9	Goodwill (net of related deferred tax liability)	**-**	(j) - (o)
10	All other intangibles (net of any associated deferred tax liability)	**42,079**	(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)	**242,562**	{(h) - (r} * x%
13	Defined-benefit pension fund net assets	**-**	{(l) - (q)} * x%
14	Reciprocal cross holdings in CET1 capital instruments	**-**	(d)
15	Cash flow hedge reserve	**-**	
16	Investment in own shares/ CET1 instruments	**-**	
17	Securitization gain on sale	**-**	
18	Capital shortfall of regulated subsidiaries	**-**	
19	Deficit on account of revaluation from bank's holdings of property / AFS	**4,181,968**	(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)	**438,008**	(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)	**2,734,148**	(i)
23	Amount exceeding 15% threshold		
24	- of which: significant investments in the common stocks of financial entities	**428,349**	
25	- of which: deferred tax assets arising from temporary differences	**-**	
26	National specific regulatory adjustments applied to CET1 capital	**-**	
27	Investment in TFCs of other banks exceeding the prescribed limit	**-**	
28	Any other deduction specified by SBP (mention details)	**-**	
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	**258,451**	
30	**Total regulatory adjustments applied to CET1**	**8,325,565**	
31	**Common Equity Tier 1**	**7,094,833**	
	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**	**-**	

	Step 3	Source based on reference number from step 2	Source based on reference number from step 2
		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	(258,451)	
45	Total of regulatory adjustment applied to AT1 capital	(258,451)	
45.1	Transfer to CET1 due to insufficient amount in AT1	258,451	
46	Additional Tier 1 capital	-	
47	**Additional Tier 1 capital recognized for capital adequacy**	-	
48	**Tier 1 Capital (CET1 + admissible AT1)**	7,094,833	
	Tier 2 Capital		
49	Qualifying Tier 2 capital instruments under Basel III	-	(n)
50	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	
51	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)
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	2,014	(g)
54	Revaluation reserves eligible for Tier 2	-	
55	- of which: portion pertaining to Property	-	portion of (aa)
56	- of which: portion pertaining to AFS securities	-	
57	Foreign exchange translation reserves	-	(v)
58	Undisclosed / other reserves (if any)	-	
59	**T2 before regulatory adjustments**	2,014	
	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)	260,465	(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	260,465	
66	Tier 2 capital (T2)	(258,451)	
67	Tier 2 capital recognized for capital adequacy	(258,451)	
68	Transfer to ADT1 due to insufficient amount	258,451	
69	Total Tier 2 capital admissible for capital adequacy	-	
	Total capital (T1 + admissible T2)	7,094,833	

Main features template of Regulatory Capital Instruments

1	Issuer	Sindh Bank Ltd
2	Unique identifier (e.g PSX Symbol or Bloomberg identifier etc.)	Un-quoted
3	Governing law(s) of the instrument	Laws applicable in Pakistan
	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 recognized in regulatory capital (currency in PKR thousands	
	as of reporting date)	10,010,130
9	Par value of instrument	Rs.10
10	Accounting classification	Shareholders
11	Original date of issuance	October 29, 2010
12	Perpetual or dated	Perpetual
13	Original maturity date	Not applicable
14	Issuer call subject to prior supervisory approval	No
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	Floating Dividend
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	Non-cumulative or cumulative	
	Convertible or non-convertible	Non-convertible
23	If convertible, conversion trigger(s)	Not applicable
24	If convertible, fully or partially	Not applicable
25	If convertible, conversion rate	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable
27	If convertible, specify instrument type convertible into	Not applicable
28	If convertible, specify issuer of instrument it converts into	Not applicable
	Write-down feature	
29	If write-down, write-down trigger(s)	Not applicable
30	If write-down, full or partial	Not applicable
31	If write-down, permanent or temporary	Not applicable
32	If temporary write-down, description of write-up mechanism	Not applicable
33	Position in subordination hierarchy in liquidation (specify instrument)	
	type immediately senior to instrument	Residual Interest
34	Non-compliant transitioned features	No
35	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 are as follows:

		2018		2017	
		Capital Requirements	**Risk Weighted Assets**	Capital Requirements	Risk Weighted Assets
Credit Risk:		------------------------- (Rupees in '000) --------------------------			
Credit Risk on Balance Sheet Portfolios subject to standardized approach (simple)					
Public sector entities		**3,825**	**38,253**	5,149	51,494
Banks		**47,399**	**473,992**	108,345	1,083,452
Corporate		**3,254,533**	**32,545,329**	4,023,993	40,239,929
Retail		**155,389**	**1,553,894**	188,278	1,882,779
Residential mortgages		**14,388**	**143,881**	12,184	121,836
Past due loans		**1,398,779**	**13,987,795**	577,705	5,777,048
Deferred tax assets		**343,308**	**3,433,075**	381,815	3,818,145
Listed equity investment		**43,644**	**436,441**	38,983	389,828
Un-listed equity investment		**11,656**	**116,562**	9,196	91,958
Operating fixed assets		**161,306**	**1,613,063**	159,388	1,593,875
Other assets		**111,061**	**1,110,611**	62,580	625,795
		5,545,290	**55,452,897**	5,567,614	55,676,139
Off-Balance sheet:					
Non-market related					
Financial guarantees, acceptances, performance related commitments, trade related etc.		**680,277**	**6,802,769**	918,905	9,189,047
Market related					
Foreign exchange contracts/ derivatives etc.		**39,050**	**390,497**	4,514	45,140
		719,327	**7,193,266**	923,419	9,234,187
TOTAL CREDIT RISK	(a)	**6,264,616**	**62,646,163**	6,491,033	64,910,326
Market Risk:					
Capital Requirement for portfolios subject to standardized approach					
Interest rate risk		**1,067,977**	**10,679,770**	1,688,026	16,880,264
Equity position risk		**437,205**	**4,372,048**	507,214	5,072,138
Foreign exchange risk		**52,786**	**527,864**	11,897	118,968
TOTAL MARKET RISK	(b)	**1,557,968**	**15,579,682**	2,207,137	22,071,370
Operational Risk:					
Capital Requirement for portfolios subject to basic indicator approach					
Operational risk	(c)	**1,021,761**	**10,217,612**	989,141	9,891,406
TOTAL RISK WEIGHTED ASSETS	(a)+(b)+(c)	**8,844,346**	**88,443,457**	9,687,311	96,873,102

	2018		2017	
Capital Adequacy Ratios	**Required**	**Actual**	Required	Actual
CET1 to total RWA	**6.00%**	**8.02%**	6.00%	15.40%
Tier-1 capital to total RWA	**7.50%**	**8.02%**	7.50%	15.40%
Total capital to total RWA	**10.00%**	**8.02%**	10.00%	15.67%
Total capital plus CCB to total RWA	**11.90%**	**8.02%**	11.28%	15.67%

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.

The leverage ratio of the Bank for the year ended December 31, 2018 stood at 4.40% (2017: 7.13%).

	2018	2017
Total Exposure	-------- (Rupees in '000) -------	
On balance sheet exposures		
On-balance sheet items (excluding derivatives)	**156,582,503**	192,617,203
Derivatives	**-**	-
Total on balance sheet exposures (A)	**156,582,503**	192,617,203
Off balance sheet exposures		
Off-balance sheet items (excluding derivatives)	**11,498,768**	16,294,344
Derivatives in respective of commitments	**710,125**	69,333
Total Off balance sheet exposures (B)	**12,208,893**	16,363,677
Total Exposure (A+B)	**168,791,395**	208,980,880
Tier-1 Capital	**7,094,833**	14,913,809
Leverage Ratio (%)	**4.20%**	7.14%
Leverage Ratio (requirement)	**3.00%**	3.00%

Liquidity Coverage Ratio (LCR)

Asset & Liability Committee (ALCO) is responsible for reviewing and approving the liquidity risk limits, ensuring the liquidity risk management practices are in line with the defined strategy. ALCO is also responsible to recommend Liquidity Risk policy for approval to BOD.

Liquidity risk is defined as the risk that a bank does not have sufficient financial resources to meet its obligation and commitments as they fall due and have no other choice to secure funds at a higher cost. The Bank ensures to maintain a diversified portfolio of liquid assets and funding base. Sources of funding comprise of a good mix of deposits. All liquidity limits including deposit concentration is reviewed in ALCO on a periodic basis. The Bank performs its Liquidity Stress Test on a periodic basis in order to ensure that sufficient liquidity is always available in order to fulfill Bank's financial commitment. Stress testing technique is also used to identify the potential impact of extreme yet plausible events or movements on the value of a portfolio. Stress testing scenarios are developed in guidance provided by the regulator. The Bank also has in place approved Liquidity Contingency Plan. Further, Liquidity Risk Management is quantified by Liquidity Coverage Ratio and Net Stable Funding Ratio as communicated by the Regulator. Liquidity Coverage Ratio (LCR) refers to the highly liquid assets held by the bank to meet its short term obligations. LCR is used as a tool to manage liquidity risk. LCR has two components: high quality liquid asset (HQLA) and total net cash outflows. HQLA comprises of those assets that can be readily sold or employed as collateral for obtaining fund. HQLA structure has been divided into 1) cash and treasury balance, 2) marketable securities, 3) corporate debt securities with credit rating and 4) non-financial equity shares.

	2018		2017	
	Unweighted Value	**Weighted Value**	Unweighted Value	Weighted Value
	-------------------- (Rupees in '000) --------------------			
HIGH QUALITY LIQUID ASSETS				
Total high quality liquid assets (HQLA)		**37,014,311**		58,757,071
CASH OUTLFLOWS				
Retail deposits and deposits from small business customers of which:				
Stable deposit	**-**	**-**	-	-
Less stable deposit	**29,908,989**	**2,990,899**	4,592,361	459,236
Unsecured wholesale funding of which:				
Operational deposits (all counterparties)	**-**	**-**	-	-
Non-operational deposits (all counterparties)	**-**	**-**	-	-
Unsecured debt	**70,141,888**	**22,309,430**	11,646,103	5,436,414
Secured wholesale funding	**-**	**6,712,403**	20,963,844	2,791,315
Additional requirements of which:				
Outflows related to derivative exposures and other collateral requirements	**-**	**-**	-	-
Outflows related to loss of funding on debt products	**-**	**-**	-	-
Credit and liquidity facilities	**9,051,673**	**1,091,889**	15,399,094	1,821,699
Other contractual funding obligations	**455,158**	**455,158**	384,602	384,602
Other contingent funding obligations	**8,693,631**	**434,682**	10,280,399	514,020
TOTAL CASH OUTFLOWS	**118,251,339**	**33,994,461**	63,266,403	11,407,286
CASH INFLOWS				
Secured lending	**2,845,928**	**1,345,791**	1,489,466	-
Inflows from fully performing exposures	**16,568,931**	**8,907,640**	9,600,128	5,002,847
Other cash inflows	**1,950,798**	**-**	3,301,282	-
TOTAL CASH INFLOWS	**21,365,658**	**10,253,430**	14,390,877	5,002,847
	Total adjusted value		Total adjusted value	
Total HQLA		**37,014,311**		58,757,071
Total net Cash Out Flows		**23,741,031**		6,404,440
LIQUIDITY COVERAGE RATIO (LCR)		**156%**		917%

Net Stable Funding Ratio (NSFR)

The objective of NSFR is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

The ratio has been computed as prescribed by the State Bank of Pakistan through instructions for Basel-III - Liquidity Standards implementation in Pakistan.

	2018				
	Unweighted value by residual maturity				
	No maturity	Below 6 months	6 months to below 1 year	1 year and above 1 year	Weighted value
	---------- (Rupees in '000) ----------				
Capital:					
Regulatory capital	**15,420,398**	**-**	**-**	**-**	**15,420,398**
Other capital instruments	**-**	**-**	**-**	**1,560,845**	**1,560,845**
Retail deposits and deposit from small business customers:					
Stable deposits	**-**	**-**	**-**	**-**	**-**
Less stable deposits	**28,640,118**	**4,274,245**	**484,672**	**612,013**	**30,059,131**
Wholesale funding:					
Operational deposits	**-**	**-**	**-**	**-**	**-**
Other wholesale funding	**65,118,911**	**9,093,249**	**4,462,163**	**909,173**	**52,722,009**
Other liabilities:					
NSFR derivative liabilities	**-**	**-**	**-**	**-**	**-**
All other liabilities and equity not included in other categories	**2,163,870**	**27,522,759**	**88,277**	**37,655**	**44,139**
Total ASF					**99,806,522**
Total NSFR high-quality liquid assets (HQLA)				**42,681,342**	**1,277,651**
Deposits held at other financial institutions for operational purposes	**507,605**	**-**	**-**	**-**	**253,803**
Performing loans and securities:					
Performing loans to financial institutions secured by Level 1 HQLA	**-**	**5,383,162**	**-**	**-**	**538,316**
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	**-**	**2,820,122**	**869,338**	**358,095**	**1,215,783**
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	**-**	**30,522,994**	**4,591,504**	**20,281,342**	**27,155,543**
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	**-**	**138,075**	**532,007**	**1,345,669**	**1,108,387**
Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	**-**	**-**	**-**	**-**	**-**
Other assets:					
Physical traded commodities, including gold	**-**	**-**	**-**	**-**	**-**
Assets posted as initial margin for derivative contracts	**-**	**-**	**-**	**-**	**-**
NSFR derivative assets	**-**	**-**	**-**	**-**	**-**
NSFR derivative liabilities before deduction of variation margin posted	**-**	**-**	**-**	**-**	**-**
All other assets not included in the above categories	**16,894,173**	**21,152,930**	**1,026,748**	**48,374,395**	**48,149,407**
Off-balance sheet items	**-**	**4,768,194**	**2,543,723**	**713,414**	**980,332**
Total RSF					**80,679,221**
Net Stable Funding Ratio (%)					**124%**

Net Stable Funding Ratio (NSFR)

	2017				
	Unweighted value by residual maturity				
	No maturity	Below 6 months	6 months to below 1 year	1 year and above 1 year	Weighted value
	------------------------------------ (Rupees in '000)				-------------------------------
Capital:					
Regulatory capital	14,913,809	-	-	-	14,913,809
Other capital instruments	264,239	-	-	-	1,381,324
Retail deposits and deposit from small business customers:					
Stable deposits	-	-	-	-	-
Less stable deposits	10,997,656	3,044,866	460,601	1,294,781	13,052,811
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	15,692,612	5,052,835	7,622,321	154,167	17,692,215
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities and equity not included in other categories	71,240,671	57,346,594	16,143,567	292,962	47,256,802
Total ASF					94,296,961
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	-
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:					
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	473,125	2,684,645	471,535	1,884,826
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	29,540,065	11,092,197	19,390,101	38,191,662
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	626,099	148,585	315,481	661,285
Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for derivative contracts	-	-	-	-	-
NSFR derivative assets	-	-	-	-	-
NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	16,106,355	60,952,291	527,100	59,170,653	32,387,893
Off-balance sheet items	-	25,385,674	4,978,192	5,255,126	1,780,950
Total RSF					74,906,615
Net Stable Funding Ratio (%)					126%