

Meezan Bank Limited

Capital Adequacy, Leverage ratio & Liquidity requirements disclosures - Unconsolidated

As at December 31, 2020

1. CAPITAL ADEQUACY

1.1 The State Bank of Pakistan (SBP) has introduced new guidelines with respect to disclosure of capital adequacy related information in the financial statements of banks vide its communication dated November 5, 2014. These guidelines are based on the requirements of Basel III which were introduced earlier by the SBP in August 2013 for implementation by banks in Pakistan. The SBP had specified a transitional period for implementing new standards which came to its end on December 31, 2019. The disclosures below have been prepared on the basis of these new guidelines. The comparative information is as per requirements which were applicable last year.

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

1.2 Capital Management

The main objective of the capital management is to improve the financial position and strengthen the statement of financial position of the Bank to support the growth in business, provide protection to depositors and enhance shareholders' value.

The Bank's Board and the management is committed to maintaining a sound balance between depositors' liability and shareholders' funds so that optimal capital / debt ratio is maintained. The optimal capital / debt ratio will provide reasonable assurance to depositor's about safety and security of their funds and at the same time provide impetus to the management to invest their depositors' funds into profitable ventures without compromising the risk profile of the Bank. The capital requirement of the Bank has been determined based on the projected growth plan to be achieved in the next 3 years in all areas of business operations. Further, it also takes into account a road map for capital enhancement as directed by the State Bank of Pakistan vide its various circulars issued from time to time.

In implementing current capital requirements the State Bank of Pakistan requires banks to maintain minimum Capital Adequacy Ratio (CAR) of 11.50% as of December 31, 2020 whereas CAR stood at 17.82% at the year ended December 31, 2020.

1.3 Capital Adequacy Ratio (CAR) disclosure template:

Particulars	2020	2019**
	----- Rupees in '000 -----	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
Fully paid-up capital / capital deposited with the SBP	14,147,228	12,861,116
Balance in share premium account	2,406,571	2,406,571
Reserve for issue of bonus shares	-	-
Discount on issue of shares	-	-
General / Statutory Reserves	18,017,654	15,801,093
Gain / (Losses) on derivatives held as Cash Flow Hedge	-	-
Unappropriated profits	29,021,521	18,545,797
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	<u>63,592,974</u>	<u>49,614,577</u>
Total regulatory adjustments applied to CET1	<u>(1,145,409)</u>	<u>(821,657)</u>
Common Equity Tier 1	<u>62,447,565</u>	<u>48,792,920</u>
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
of which:		
- classified as equity	-	-
- classified as liabilities	7,000,000	7,000,000
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	<u>7,000,000</u>	<u>7,000,000</u>
Total of Regulatory Adjustment applied to AT1 capital	<u>-</u>	<u>-</u>
Additional Tier 1 capital after regulatory adjustments	<u>7,000,000</u>	<u>7,000,000</u>
Tier 1 Capital (CET1 + admissible AT1)	<u>69,447,565</u>	<u>55,792,920</u>
Tier 2 Capital		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium	11,000,000	7,000,000
Capital instruments subject to phase out arrangement issued	-	-
Tier 2 capital instruments issued to third parties 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	4,848,163	4,278,317
Revaluation Reserves (net of taxes)	-	-
of which:		
- Revaluation reserves on fixed assets	-	-
- Unrealized gains/losses on AFS	5,542,351	9,387,715
Foreign Exchange Translation Reserves	-	-
Undisclosed/Other Reserves (if any)	-	-
T2 before regulatory adjustments	<u>21,390,514</u>	<u>20,666,032</u>
Total regulatory adjustment applied to T2 capital	<u>(5,450)</u>	<u>(12,364)</u>
Tier 2 capital (T2) after regulatory adjustments	<u>21,385,064</u>	<u>20,653,668</u>
Tier 2 capital recognized for capital adequacy	<u>21,385,064</u>	<u>15,831,790</u>
Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy	<u>21,385,064</u>	<u>15,831,790</u>
TOTAL CAPITAL (T1 + admissible T2)	<u>90,832,629</u>	<u>71,624,710</u>
Total Risk Weighted Assets (RWA)	<u>509,619,379</u>	<u>431,864,979</u>

** As reported in last year annual financial statements.

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Particulars	2020	2019**
	Amount	
	----- Rupees in '000 -----	
Capital Ratios and buffers (in percentage of risk weighted assets)		
CET1 to total RWA	12.25%	11.30%
Tier-1 capital to total RWA	13.63%	12.92%
Total capital to total RWA	17.82%	16.58%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement) of which:		
- capital conservation buffer requirement	7.50%	8.50%
- countercyclical buffer requirement	1.50%	2.50%
- D-SIB or G-SIB buffer requirement	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	6.25%	5.30%
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%
CCB (Consisting of CET 1 only)	1.50%	2.50%
Total Capital plus CCB	11.50%	12.50%

Particulars	2020		2019 **	
	Amount	Pre-Basel III treatment*	Amount	Pre-Basel III treatment*
	----- Rupees in '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)	1,079,961	-	780,381	-
Shortfall of 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	-	-	-	-
Cash flow hedge reserve	-	-	-	-
Investment in own shares / CET1 instruments	65,448	-	41,276	-
Securitization gain on sale	-	-	-	-
Capital shortfall of regulated subsidiaries	-	-	-	-
Deficit on account of revaluation from bank's holdings of property / 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	-	-	-	-
- deferred tax assets arising from temporary differences	-	-	-	-
National specific regulatory adjustments applied to CET1 capital	-	-	-	-
Investment in TFCs of other banks exceeding the prescribed limit	-	-	-	-
Any other deduction specified by SBP	-	-	-	-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-	-	-
Total regulatory adjustments applied to CET1	1,145,409	-	821,657	-

1.3.2 Additional 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	-	-	-	-

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

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Particulars	2020		2019 **	
	Amount	Pre-Base III treatment*	Amount	Pre-Base III treatment*
----- Rupees in '000 -----				
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	-	-	-	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Base III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	-	-	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
Total of Regulatory Adjustment applied to AT1 capital	-	-	-	-

1.3.3 Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Base III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-	-	-
Reciprocal cross holdings in Tier 2 instruments	-	-	-	-
Investment in own Tier 2 capital instrument	5,450	-	12,364	-
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	-	-	-	-
Amount of Regulatory Adjustment applied to T2 capital	5,450	-	12,364	-

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

** As reported in last year annual financial statements.

1.3.4 Additional Information - Risk Weighted Assets subject to pre-Base III treatment

	2020	2019 **
	----- Rupees in '000 -----	
Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Base 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	636,571	665,142
Significant investments in the common stock of financial entities	63,050	63,050
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)	5,452,711	4,452,711
Cap on inclusion of provisions in Tier 2 under standardized approach	4,848,163	4,278,317
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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Particulars	Balance sheet as in published financial statements	Under regulatory scope of reporting
	As at Dec 31, 2020	
	------(Rupees in '000)-----	
Assets		
Cash and balances with treasury banks	136,242,495	136,242,495
Balances with other banks	19,445,879	19,445,879
Due from financial institutions	342,068,799	342,068,799
Investments	434,208,340	434,208,340
Islamic financing and related assets	512,531,930	512,531,930
Fixed assets	23,568,351	23,568,351
Intangible assets	1,079,961	1,079,961
Deferred tax assets	389,653	389,653
Other assets	52,024,055	52,024,055
Total assets	1,521,559,463	1,521,559,463
Liabilities and Equity		
Bills payable	26,494,006	26,494,006
Due to financial institutions	94,500,640	94,500,640
Deposits and other accounts	1,254,430,534	1,254,430,534
Sub-ordinated sukuk	18,000,000	18,000,000
Deferred tax liabilities	-	-
Other liabilities	58,979,017	58,979,017
Total liabilities	1,452,404,197	1,452,404,197
Share capital	14,147,228	14,147,228
Reserves	20,424,225	20,424,225
Unappropriated profit	29,021,521	29,021,521
Minority Interest	-	-
Surplus on revaluation of assets - net of tax	5,562,292	5,562,292
Total liabilities and equity	1,521,559,463	1,521,559,463

Reconciliation of balance sheet to eligible regulatory capital - Step 2

Particulars	Reference	Balance sheet as in published financial statements	Under regulatory scope of reporting
		As at Dec 31, 2020	
		------(Rupees in '000)-----	
Assets			
Cash and balances with treasury banks		136,242,495	136,242,495
Balances with other banks		19,445,879	19,445,879
Due from financial institutions		342,068,799	342,068,799

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Particulars	Reference	Balance sheet as	Under regulatory
		in published financial statements	scope of reporting
		As at Dec 31, 2020	
		------(Rupees in '000)-----	
Investments		434,208,340	434,208,340
<i>of which:</i>			
- 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	-	-
- others	e	70,898	70,898
Islamic financing and related assets		512,531,930	512,531,930
- shortfall in provisions / excess of total EL amount over eligible provisions under IRB	f	-	-
- general provisions reflected in Tier 2 capital	g	4,848,163	4,848,163
Fixed assets		23,568,351	23,568,351
Intangible assets	k	1,079,961	1,079,961
Deferred tax assets		389,653	389,653
<i>of which:</i>			
- DTAs that rely on future profitability excluding those arising from temporary differences	h	-	-
- DTAs arising from temporary differences exceeding regulatory threshold	i	-	-
Other assets		52,024,055	52,024,055
<i>of which:</i>			
- goodwill	j	-	-
- defined-benefit pension fund net assets	l	-	-
Total assets		1,521,559,463	1,521,559,463
Liabilities and Equity			
Bills payable		26,494,006	26,494,006
Due from financial institutions		94,500,640	94,500,640
Deposits and other accounts		1,254,430,534	1,254,430,534
Sub-ordinated sukuk of which:		18,000,000	18,000,000
- eligible for inclusion in AT1	m	7,000,000	7,000,000
- eligible for inclusion in Tier 2	n	11,000,000	11,000,000
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	-	-
Other liabilities		58,979,017	58,979,017
Total liabilities		1,452,404,197	1,452,404,197

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Particulars	Reference	Balance sheet as	Under regulatory
		in published financial statements	scope of reporting
As at Dec 31, 2020			
----- (Rupees in '000) -----			
Share capital		14,147,228	14,147,228
- of which: amount eligible for CET1	s	14,147,228	14,147,228
- of which: amount eligible for AT1	t	-	-
Reserves of which:		20,424,225	20,424,225
- portion eligible for inclusion in CET1 - Share premium		2,406,571	2,406,571
- portion eligible for inclusion in CET1 - Statutory reserve		14,833,341	14,833,341
- portion eligible for inclusion in CET1 - Gain on Bargain Purchase	u		
		3,117,547	3,117,547
- portion eligible for inclusion in CET1 - General reserve		66,766	66,766
- portion eligible for inclusion in Tier 2 General reserve	v	-	-
Unappropriated profit	w	29,021,521	29,021,521
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:		5,562,292	5,562,292
- Revaluation reserves on Property			
- Unrealized Gains/Losses on AFS	aa	5,542,351	5,542,351
- In case of Deficit on revaluation (deduction from CET1)	ab	-	-
Total liabilities and Equity		1,521,559,463	1,521,559,463

Basel III Disclosure (with added column) - Step 3

Particulars	Source based on reference number from step 2	Component of regulatory capital reported by bank
		(Rupees in '000)
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital		14,147,228
2 Balance in share premium account	(s)	2,406,571
3 Reserve for issue of bonus shares		-
4 General / Statutory Reserves	(u)	18,017,654
5 Gain / (Losses) on derivatives held as Cash Flow Hedge	(w)	-
6 Unappropriated / unremitted profits	(x)	29,021,521
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)		-
8 CET 1 before Regulatory Adjustments		63,592,974
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)	1,079,961
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)	-
15 Cash flow hedge reserve		-
16 Investment in own shares / CET1 instruments		65,448

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Particulars	Source based on reference number from step 2	Component of regulatory capital reported by bank
		(Rupees in '000)
17		-
18		-
19	(ab)	-
20	(a) - (ac) - (ae)	-
21	(b) - (ad) - (af)	-
22	(i)	-
23		-
24		-
25		-
26		-
27		-
28		1,145,409
		62,447,565
Common Equity Tier 1		
Additional Tier 1 (AT 1) Capital		
29		7,000,000
30	(t)	-
31	(m)	7,000,000
32	(y)	-
33		-
34		7,000,000
Additional Tier 1 Capital: regulatory adjustments		
35		-
36		-
37		-
38	(ac)	-
39	(ad)	-
40		-
41		-
42		-
43		7,000,000
44		7,000,000
		69,447,565
Tier 1 Capital (CET1 + admissible AT1)		

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Particulars	Source based on reference number from step 2	Component of regulatory capital reported by bank
(Rupees in '000)		
Tier 2 Capital		
45 Qualifying Tier 2 capital instruments under Basel III		11,000,000
46 Capital instruments subject to phase out arrangement from Tier 2	(n)	-
47 Tier 2 capital instruments issued to third party by consolidated subsidiaries	(z)	-
- of which: instruments issued by subsidiaries subject to phase out		-
48 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	4,848,163
49 Revaluation Reserves eligible for Tier 2 of which:		-
50 - portion pertaining to Property		-
51 - portion pertaining to AFS securities	100% of (aa)	5,542,351
52 Foreign Exchange Translation Reserves	(v)	-
53 Undisclosed / Other Reserves (if any)		-
54 T2 before regulatory adjustments		21,390,514
Tier 2 Capital: regulatory adjustments		
55 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		-
56 Reciprocal cross holdings in Tier 2 instruments		-
57 Investment in own Tier 2 capital instrument		5,450
58 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)	-
59 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
60 Amount of Regulatory Adjustment applied to T2 capital		5,450
61 Tier 2 capital (T2)		21,385,064
62 Tier 2 capital recognised for capital adequacy		21,385,064
63 Excess Additional Tier 1 capital recognised in Tier 2 capital		-
64 Total Tier 2 capital admissible for capital adequacy		21,385,064
TOTAL CAPITAL (T1 + admissible T2)		90,832,629

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1.5 Main features of regulatory capital instruments

1.5.1 Disclosure for main features of Regulatory Capital Instrument - Common Shares

	Main Features	Common Shares
1	Issuer	Meezan Bank Limited
2	Unique identifier (eg PSX Symbol or Bloomberg identifier etc.)	MEBL
3	Governing law(s) of the instrument	Listing regulations of Pakistan Stock Exchange Limited
	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	Solo & Group
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	14,147,228
9	Par value of instrument	10
10	Accounting classification	Shareholders' equity
11	Original date of issuance	August 16, 1997
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
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	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible
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 (specify instrument type immediately senior to instrument)	Deposits
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

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1.5.2 Disclosure for main features of Regulatory Capital Instrument - Additional Tier I Sukuk

	Main Features	Additional Tier I Sukuk
1	Issuer	Meezan Bank Limited
2	Unique identifier (eg PSX Symbol or Bloomberg identifier etc.)	Meezan Bank Limited - Additional Tier I Mudaraba Sukuk
3	Governing law(s) of the instrument	Laws applicable in Pakistan
	Regulatory treatment	
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	Additional Tier 1
6	Eligible at solo/ group/ group&solo	Solo & Group
7	Instrument type	Subordinated debt
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	7,000,000
9	Par value of instrument	1,000,000
10	Accounting classification	Liability - Subordinated Sukuk
11	Original date of issuance	August 01, 2018
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Callable with prior approval of SBP on or after five years from the date of issue subject to regulatory conditions
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/ coupon	Floating coupon
18	coupon rate and any related index/ benchmark	It is expected that profit may be similar to 3 month KIBOR plus 175 bps
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Partially discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative subject to weightage reduction to negligible
23	Convertible or non-convertible	Convertible
24	If convertible, conversion trigger (s)	Occurrence of a non-viability trigger event (the "PONV") or Pre-specified trigger event (the "PST")
25	If convertible, fully or partially	Fully/partially
26	If convertible, conversion rate	The conversion pricing formula is linked to the market value of the Common Shares on the date of PST/PONV trigger event and the fair value of the Sukuk determined by adding / deducting attributable profit / loss of the General Pool and any amount of profit held during the Loss Absorbency period
27	If convertible, mandatory or optional conversion	Option of SBP
28	If convertible, specify instrument type convertible into	Common Shares
29	If convertible, specify issuer of instrument it converts into	Meezan Bank Limited
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 (specify instrument type immediately senior to instrument)	Deposits if the Sukuk is converted into common equity at PONV
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

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1.5.3 Disclosure for main features of Regulatory Capital Instrument - Tier II Sukuk

	Main Features	Tier II Sukuk
1	Issuer	Meezan Bank Limited
2	Unique identifier (eg PSX Symbol or Bloomberg identifier etc.)	Meezan Bank Limited - Tier II Mudaraba Sukuk
3	Governing law(s) of the instrument	Laws applicable in Pakistan
	Regulatory treatment	
4	Transitional Basel III rules	Tier 2
5	Post-transitional Basel III rules	Tier 2
6	Eligible at solo/ group/ group&solo	Solo & Group
7	Instrument type	Subordinated debt
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	11,000,000
9	Par value of instrument	1,000,000
10	Accounting classification	Liability - Subordinated Sukuk
11	Original date of issuance	September 22, 2016 & January 09, 2020
12	Perpetual or dated	Dated
13	Original maturity date	September 21, 2026 & January 08, 2030
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Callable with prior approval of SBP on or after five years from the date of issue
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/ coupon	Floating coupon
18	coupon rate and any related index/ benchmark	It is expected that profit may be similar to 6 month KIBOR plus 50 bps & 6 month KIBOR plus 90 bps
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	Partially discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Convertible
24	If convertible, conversion trigger (s)	Occurrence of a non-viability trigger event (the "PONV")
25	If convertible, fully or partially	Fully
26	If convertible, conversion rate	The conversion pricing formula is linked to the market value of the Common Shares on the date of PONV trigger event and the fair value of the Sukuk determined by adding / deducting attributable profit / loss of the General Pool and any amount of profit held during the Loss Absorbency period
27	If convertible, mandatory or optional conversion	Option of SBP
28	If convertible, specify instrument type convertible into	Common Shares
29	If convertible, specify issuer of instrument it converts into	Meezan Bank Limited
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 (specify instrument type immediately senior to instrument)	Deposits if the Sukuk is converted into common equity at PONV
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

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1.6 Risk-weighted exposures	Minimum capital		Risk weighted assets	
	2020	2019 *	2020	2019 *
	------(Rupees in '000)-----			
Credit Risk				
Portfolios subject to on-balance sheet exposure (Simple Approach)				
Cash and cash equivalents	-	-	-	-
Sovereign	221,890	163,089	2,218,900	1,630,891
Public sector entities	507,963	268,347	5,079,633	2,683,466
Banks	2,355,061	1,450,896	23,550,608	14,508,962
Corporate	22,286,034	20,656,981	222,860,344	206,569,808
Retail	3,470,444	3,525,922	34,704,442	35,259,223
Residential mortgage	588,852	589,227	5,888,523	5,892,266
Past due loans	118,243	65,334	1,182,427	653,336
Operating fixed assets	2,356,835	2,328,442	23,568,351	23,284,415
All other assets	663,765	375,763	6,637,652	3,757,629
Portfolios subject to off-balance sheet exposure - non market related (Simple approach)				
Banks	288,176	188,253	2,881,758	1,882,525
Corporate	5,214,359	3,973,934	52,143,594	39,739,338
Public sector entities	77,851	16,872	778,510	168,716
Retail	172,543	195,979	1,725,426	1,959,792
Others	69,235	77,238	692,352	772,383
Portfolios subject to off-balance sheet exposures - market related (Current exposure method)				
Banks	233,976	131,388	2,339,761	1,313,877
Customers	64,726	90,802	647,257	908,020
Equity Exposure Risk in the Banking Book				
Unlisted equity investments held in banking book	79,582	112,310	795,821	1,123,100
Recognised portion of significant investment	15,763	15,763	157,625	157,625
Market Risk				
Capital Requirement for portfolios subject to Standardised Approach				
Interest rate risk	140,151	173,617	1,751,894	2,170,210
Equity position risk	1,284,040	995,042	16,050,500	12,438,019
Foreign Exchange risk	10,291	27,237	128,636	340,466
Operational Risk				
Capital requirement for operational risk	8,306,829	5,972,073	103,835,365	74,650,912
TOTAL	48,526,609	41,394,509	509,619,379	431,864,979
Capital Adequacy Ratio	Required	Actual	Required	Actual *
	December-20		December-19	
CET1 to total RWA	6.00%	12.25%	6.00%	11.30%
Tier-1 capital to total RWA	7.50%	13.63%	7.50%	12.92%
Total capital to total RWA	11.50%**	17.82%	12.50%	16.58%

* As reported in last year annual financial statements.

** Total Capital Adequacy Ratio requirement inclusive of Capital Conservation Buffer requirement (CCB) reduced by SBP under COVID-19 Relief measures till further instructions.

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2 LEVERAGE RATIO

According to Basel III instructions issued by the State Bank of Pakistan (BPRD circular no. 06 dated August 15, 2013), it is mandatory for all the banks to calculate and report the Leverage Ratio on a quarterly basis with the minimum benchmark of 3%.

The reason for calculating leverage ratio is to avoid excessive On- and Off-balance sheet leverage in the banking system. A simple, transparent and non-risk based Ratio has been introduced 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.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage:

$$\text{Leverage Ratio} = \frac{\text{Tier 1 capital (after related deductions)}}{\text{Total Exposure}}$$

Particulars	2020	2019
	----- Rupees in '000 -----	
On balance sheet exposures		
1 On-balance sheet items (excluding unrealised gain on forward contracts)	1,417,057,002	1,067,559,932
2 Forward exchange commitments with positive fair values	2,737,956	3,240,079
Total on balance sheet exposures	1,419,794,958	1,070,800,011
Off balance sheet exposures		
3 Off-balance sheet items	274,397,415	232,908,018
4 Commitment in respect of forward exchange contracts	2,014,372	2,361,682
Total Off balance sheet exposures	276,411,787	235,269,700
Capital and total exposures		
5 Tier 1 capital	69,447,565	55,792,920
6 Total exposures	1,696,206,745	1,306,069,711
Basel III leverage ratio	4.09%	4.27%

3 LIQUIDITY COVERAGE RATIO

The Bank calculates the Liquidity Coverage Ratio (LCR) on monthly basis as per SBP Basel III Liquidity Standards issued under BPRD Circular No. 08 dated June 23, 2016. The objective of LCR is to promote the short-term resilience of the liquidity risk profile of the Bank and this standard requires the banks to maintain sufficient High Quality Liquid Assets (HQLAs) to meet stressed cash outflows over a prospective 30 calendar-days period.

Main drivers of LCR Results are High Quality Liquid Assets and Net cash outflows. Outflows are mainly deposit outflows net of cash inflows which consist of inflows from financing and money market placements up to 1 month. The inputs for calculation of LCR are as prescribed by the regulator.

High Quality Liquid Assets composed of Level-1 Assets which can be included in the stock of liquid assets at 100% of their market value. Bank has taken Cash & treasury balances, Investments in GoP Ijarah Sukuks classified as Available for Sale category and foreign currency Sukuks issued by sovereigns. Bank does not have Level 2-A Assets which can meet the SBP criteria. Further, investment in listed common equity shares is taken in Level 2-B asset category at 50% of their market value.

Liquidity Coverage Ratio	2020		2019	
	Total Unweighted ¹ Value (Average)	Total Weighted ² Value (Average)	Total Unweighted ¹ Value (Average)	Total Weighted ² Value (Average)
	----- (Rupees in '000) -----		----- (Rupees in '000) -----	
High Quality Liquid Assets				
1 Total high quality liquid assets (HQLA)		275,456,729		173,028,388
Cash Outflows				
2 Retail deposits and deposits from small business customers of which:	737,036,754	66,753,693	570,905,220	50,790,191
2.1) Stable deposit	138,999,643	6,949,982	126,006,623	6,300,331
2.2) Less stable deposit	598,037,110	59,803,711	444,898,596	44,489,860
3 Unsecured wholesale funding of which:	313,239,163	95,883,825	258,194,763	80,927,241
3.1) Operational deposits (all counterparties)	313,239,163	95,883,825	258,194,763	80,927,241
3.2) Non-operational deposits (all counterparties)	-	-	-	-
3.3) Unsecured debt	-	-	-	-
4 Secured wholesale funding				
5 Additional requirements of which:	65,688,879	6,753,371	44,603,460	4,518,640
5.1) Outflows related to derivative exposures and other collateral requirements	204,981	204,981	64,771	64,771
5.2) Outflows related to loss of funding on debt products	-	-	-	-
5.3) Credit and Liquidity facilities	65,483,898	6,548,390	44,538,689	4,453,869
6 Other contractual funding obligations	3,684,764	3,684,764	2,984,914	2,984,914
7 Other contingent funding obligations	592,963,513	7,353,642	399,525,929	5,977,927
8 Total Cash Outflows		180,429,295		145,198,913
Cash Inflows				
9 Secured lending	58,592,503	58,592,503	39,087,937	39,087,937
10 Inflows from fully performing exposures	28,048,228	14,024,114	29,483,679	14,741,840
11 Other Cash inflows	12,267,463	5,079,719	10,505,181	4,418,226
12 Total Cash Inflows	98,908,194	77,696,337	79,076,797	58,248,003
21 Total HQLA		275,456,729		173,028,388
22 Total Net Cash Outflows		104,609,841		90,017,680
23 Liquidity Coverage Ratio		263%		192%

1 unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

2 Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

3 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on level 2B and level 2 assets for HQLA and cap on inflows).

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4 NET STABLE FUNDING RATIO

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

2020					weighted value
unweighted value by residual maturity					
No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr		

(Rupees in '000)

Available Stable Funding (ASF)					
1	Capital:				
2	Regulatory capital	63,592,974		-	63,592,974
3	Other capital instruments	7,000,000		11,000,000	18,000,000
4	Retail deposits and deposit from small business customers:				
5	Stable deposits	109,224,070	20,376,962	7,516,261	132,962,230
6	Less stable deposits	642,382,838	119,843,645	44,205,617	740,837,175
7	Wholesale funding:				
8	Operational deposits				
9	Other wholesale funding	206,858,189	38,591,690	14,234,960	132,534,532
10	Other liabilities:				
11	NSFR derivative liabilities				
12	All other liabilities and equity not included in other categories		67,140,644	67,140,644	71,941,185
13	Total ASF				1,159,868,096

Required Stable Funding (RSF)					
14	Total NSFR high-quality liquid assets (HQLA)				9,610,390
15	Deposits held at other financial institutions for operational purposes	9,289,353			4,644,677
16	Performing loans and securities:				
17	Performing loans to financial institutions secured by Level 1 HQLA	-	203,926,317	103,178,184	325,203,967
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	203,926,317	103,178,184	82,178,040
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				162,397,855
20	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.				63,737,469
21	Other assets:				74,774,584
22	Physical traded commodities, including gold			402,486,289	63,558,396
23	Assets posted as:				71,641,823
24	NSFR derivative				272,884,968
25	NSFR derivative				-
26	All other assets not included in the above categories			402,486,289	-
27	Off-balance sheet items				660,365,122
28	Total RSF				645,362,258
30	Net Stable Funding Ratio (%)				180%

2019					weighted value
unweighted value by residual maturity					
No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr		

(Rupees in '000)

Available Stable Funding (ASF)					
1	Capital:				
2	Regulatory capital	48,792,920		-	48,792,920
3	Other capital instruments	15,831,790		7,000,000	22,831,790
4	Retail deposits and deposit from small business customers:				
5	Stable deposits	105,338,644	23,972,378	4,574,632	122,011,408
6	Less stable deposits	450,909,608	102,615,481	19,582,040	494,790,225
7	Wholesale funding:				
8	Operational deposits				
9	Other wholesale funding	131,965,894	30,032,058	5,730,997	17,587,184
10	Other liabilities:				
11	NSFR derivative liabilities				
12	All other liabilities and equity not included in other categories		53,260,695	11,884,771	80,449,032
13	Total ASF				874,633,651

Required Stable Funding (RSF)					
14	Total NSFR high-quality liquid assets (HQLA)				8,122,933
15	Deposits held at other financial institutions for operational purposes	9,620,622			4,810,311
16	Performing loans and securities:				
17	Performing loans to financial institutions secured by Level 1 HQLA	-	411,236,408	126,337,161	308,913,678
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	138,094,587	71,912,286	56,670,331
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				141,313,583
20	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.				137,220,202
21	Other assets:				65,384,013
22	Physical traded commodities, including gold			343,651,938	96,469,848
23	Assets posted as:				18,661,807
24	NSFR derivative				190,487,776
25	NSFR derivative				-
26	All other assets not included in the above categories			343,651,938	-
27	Off-balance sheet items				485,001,676
28	Total RSF				536,584,783
30	Net Stable Funding Ratio (%)				163%