

CAPITAL STRUCTURE

The capital structure of the Bank Group consists of Common Equity Tier I capital (paid-up equity capital and reserves including fair value reserves) and Tier II capital, which includes general provision (subject to maximum of 1.25% of total credit risk weighted assets). There are no Additional Tier 1 capitals in the capital structure of the Bank.

Capital Structure as at 31st March 2018	(KD'000s)
Paid-up share capital/common stock	161,917
Reserves	395,122
Less:	
Treasury Shares	(5,053)
Other Intangibles (except Mortgage Servicing Rights)	(13,348)
Defined benefit pension fund liabilities	(277)
Common Equity Tier I	538,361
Additional Tier I	-
General provisions (subject to maximum of 1.25% of total credit risk weighted assets)	41,698
Threshold Deductions arising from Investments in FIs where ownership is <= 10%	-
Tier II	41,698
Total eligible capital after deductions	580,059

Composition Analysis

The composition of capital in terms of Tiers I, and Tier II is analysed to ensure capital stability and to reduce volatility in the capital structure.

Capital adequacy as at 31st March 2018	Required Capital (KD'000s)
1. Claims on sovereigns	2,962
2. Claims on public sector entities (PSEs)	4,306
3. Claims on banks	34,578
4. Claims on corporate	258,999
5. Regulatory retail exposures	74,701
6. Past due exposures	3,196
7. Other exposures	54,915
Total	433,657
Less: General provision in excess of 1.25% risk weighted assets	(21,813)
Net credit risk weighted exposure	411,844
Market risk exposure	501
Operational risk exposure	35,325
Grand Total	447,671
Capital Adequacy Ratios:	
Tier I	15.63%
CET 1	15.63%
Total	16.84%

Additional capital disclosures required by Basel III regulations are shown below.

Common Disclosure as at 31st March 2018	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of Balance Sheet under the Regulatory Scope of Consolidation
Common Equity Tier 1 capital: Instruments and Reserves		
Directly issued common share capital plus related stock surplus	270,814	c + d
Retained earnings	124,301	f
Accumulated other comprehensive income (and other reserves)	161,599	
Directly issued capital subject to phase out from CET 1 (only applicable to non – joint stock companies)	-	
Common share capital issued by subsidiaries and held by third parties (minority interest)	325	
Common Equity Tier 1 capital before regulatory adjustments	557,039	
Common Equity Tier 1 Capital: Regulatory Adjustments		
Prudential valuation adjustments	-	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage- servicing rights (net of related tax liability)	(13,348)	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	-	
Cash- flow hedge reserve	-	
Shortfall of provisions to expected losses	-	
Securitization gain on sale	-	
Gain and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	(277)	
Proposed Dividend	-	
Investments in own shares(if not already netted off paid-in capital on reported balance sheet)	(5,053)	e
Reciprocal cross- holdings in common equity of banks, FIs, and insurance entities	-	

Common Disclosure as at 31st March 2018

	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of Balance Sheet under the Regulatory Scope of Consolidation
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET 1 capital)	-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET 1 capital)	-	
Mortgage servicing rights (amount above 10% threshold of bank's CET 1 capital)	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amount exceeding the 15% threshold	-	
of which : significant investments in the common stock of financials	-	
of which : mortgage servicing rights	-	
of which : deferred tax assets arising from temporary differences	-	
National specific regulatory adjustments	-	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
Total regulatory adjustments to Common Equity Tier 1	(18,678)	
Common Equity Tier 1 capital (CET 1) after regulatory adjustments	538,361	
Additional Tier 1 capital : Instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
of which : classified as equity under applicable accounting standards	-	
of which : classified as liabilities under applicable accounting standards	-	
Directly issued capital instruments subject to phase out from Additional Tier 1	-	
Additional Tier 1 instruments issued by subsidiaries and held by third parties	-	
of which : instruments issued by subsidiaries subject to phase-out	-	

Common Disclosure as at 31st March 2018	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of Balance Sheet under the Regulatory Scope of Consolidation
Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 Capital : Regulatory Adjustments		
Investments in own Additional Tier 1 instruments	-	
Reciprocal cross-holdings in Additional Tier 1 instruments	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity	-	
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
National specific regulatory adjustments	-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
Total regulatory adjustments to Additional Tier 1 capital	-	
Additional Tier 1 capital (AT1)	-	
Tier 1 capital (T1 = CET1 + AT1)	538,361	
Tier 2 Capital: Instruments and Provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase-out from Tier 2	-	
Tier 2 instruments issued by subsidiaries and held by third parties	-	
of which : instruments issued by subsidiaries subject to phase-out	-	
General Provisions included in Tier 2 capital	41,698	
Tier 2 capital before regulatory adjustments	41,698	
Tier 2 Capital : Regulatory Adjustments		
Investments in own Tier 2 instruments	-	
Reciprocal cross-holdings in Tier 2 instruments	-	

Common Disclosure as at 31st March 2018	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of Balance Sheet under the Regulatory Scope of Consolidation
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity	-	
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
National specific regulatory adjustments	-	
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	41,698	
Total capital (TC = T1 + T2)	580,059	
Total risk weighted assets	3,443,604	
Capital Ratios and Buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	15.63%	
Tier 1 (as a percentage of risk weighted assets)	15.63%	
Total capital (as a percentage of risk weighted assets)	16.84%	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	13.0%	
of which : capital conservation buffer requirement	2.5%	
of which : bank specific countercyclical buffer requirement	2.5%	
of which : D-SIB buffer requirement	0.5% - 2.0%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets).	7.0%	
Notional Minima		
Notional Common Equity Tier 1 minimum ratio (i.e. 9.5%)	327,142	

Common Disclosure as at 31st March 2018	Component of Regulatory Capital reported by bank (KD'000s)	Reference of Balance Sheet under the Regulatory Scope of Consolidation
Notional Tier 1 minimum ratio (i.e. 11%)	378,796	
Notional total capital minimum ratio (i.e. 13% excluding CCY and D-SIB buffers)	447,669	
Amounts below the Threshold for Deductions (before Risk Weighting)		
Non – significant investments in the capital of other financials	-	
Significant investments in the common stock of financials	-	
Mortgage servicing rights (net of related tax liability)	-	
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)	209,494	b-a
Cap on inclusion of provisions in Tier 2 under standardized approach	167,796	
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	-	

A reconciliation of the balance sheet as per published financial statements to the regulatory scope of consolidation at 31st March 2018 is shown below. The bank follows IFRS standards for consolidations purposes which is applied for Basel III reporting as well.

Reconciliation as at 31st March 2018			
Item	Balance Sheet as in Published Financial <i>As at period end</i>	Under Regulatory Scope of <i>As at period end</i>	Reference to common
	(KD'000s)	(KD'000s)	
Assets			
Cash and balances with banks	645,398	645,398	
Kuwait Government treasury bonds	331,392	331,392	
Central Bank of Kuwait bonds	116,675	116,675	
Loans and advances (net of specific provisions)	3,243,365	3,243,365	
General provisions on Loans and advances	(197,147)	(197,147)	a
Investment securities	192,898	192,898	
Investment in an associate	20,543	20,543	
Other assets	43,863	43,863	
Intangible Assets	17,223	17,223	
Premises and equipment	53,701	53,701	
Total assets	4,467,911	4,467,911	
Liabilities			
Due to banks and other financial institutions	615,440	615,440	
Customers' deposits	3,021,226	3,021,226	
Medium Term Borrowings	148,756	148,756	
Other liabilities	103,171	103,171	
Specific provisions on contingent liabilities	4,796	4,796	
General provisions on contingent liabilities	12,347	12,347	b
Total liabilities	3,905,736	3,905,736	
Shareholders' Equity			
Share capital	161,917	161,917	c
Share premium	108,897	108,897	d
Treasury shares	(5,053)	(5,053)	e
Retained Earnings	124,301	124,301	f
Reserves	171,361	171,361	
Non-controlling interests	752	752	
Total shareholders' equity	562,175	562,175	