



PILLAR III DISCLOSURE

31 MARCH 2016

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 31 March 2016	(KD'000s)
Paid-up share capital/common stock	161,917
Reserves	382,659
Less:	
Treasury Shares	(4,858)
Other Intangibles (except Mortgage Servicing Rights)	(31,352)
Defined benefit pension fund liabilities	(90)
Common Equity Tier I	508,276
Additional Tier I	-
General provisions (subject to maximum of 1.25% of total credit risk weighted assets)	38,460
Threshold Deductions arising from Investments in FIs where ownership is <= 10%	-
Tier II	38,460
Total eligible capital after deductions	546,736

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 31 March 2016	Required Capital (KD'000s)
1. Claims on sovereigns	392
2. Claims on public sector entities (PSEs)	6,006
3. Claims on banks	35,952
4. Claims on corporate	202,080
5. Regulatory retail exposures	65,531
6. Past due exposures	3,651
7. Other exposures	86,368
Total	399,981
Less: General provision in excess of 1.25% risk weighted assets	(20,625)
Net credit risk weighted exposure	379,356
Market risk exposure	1,110
Operational risk exposure	33,353
Grand Total	413,819
Capital Adequacy Ratios:	
Tier I	15.97%
CET 1	15.97%
Total	17.18%

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

Common Disclosure as at 31st March 2016	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of the 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	108,274	f
Accumulated other comprehensive income (and other reserves)	165,488	g
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)	-	
Common Equity Tier 1 capital before regulatory adjustments	544,576	
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)	(31,352)	
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	(90)	
Proposed Dividend	-	
Investments in own shares(if not already netted off paid-in capital on reported balance sheet)	(4,858)	e

Common Disclosure as at 31st March 2016

	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of the Balance Sheet under the Regulatory Scope of Consolidation
Reciprocal cross- holdings in common equity of banks, FIs, and insurance entities	-	
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	(36,300)	
Common Equity Tier 1 capital (CET 1) after regulatory adjustments	508,276	
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	-	

Common Disclosure as at 31st March 2016	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of the Balance Sheet under the Regulatory Scope of Consolidation
Additional Tier 1 instruments issued by subsidiaries and held by third parties	-	
of which : instruments issued by subsidiaries subject to phase-out	-	
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)	508,276	
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	38,460	
Tier 2 capital before regulatory adjustments	38,460	
Tier 2 Capital : Regulatory Adjustments		

Common Disclosure as at 31st March 2016	Component of Regulatory Capital reported by bank (KD'000s)	Reference of the Balance Sheet under the Regulatory Scope of Consolidation
Investments in own Tier 2 instruments	-	
Reciprocal cross-holdings in Tier 2 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 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)	38,460	
Total capital (TC = T1 + T2)	546,736	
Total risk weighted assets	3,183,223	
Capital Ratios and Buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	15.97%	
Tier 1 (as a percentage of risk weighted assets)	15.97%	
Total capital (as a percentage of risk weighted assets)	17.18%	
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)	12.5%	
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 Disclosure as at 31st March 2016	Component of Regulatory Capital reported by bank (KD'000s)	Reference of the Balance Sheet under the Regulatory Scope of Consolidation
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%)	302,406	
Notional Tier 1 minimum ratio (i.e. 11%)	350,155	
Notional total capital minimum ratio (i.e. 13% excluding CCY and D-SIB buffers)	413,820	
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)	197,110	a + b
Cap on inclusion of provisions in Tier 2 under standardized approach	158,650	
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 2016 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 2016			
Item	Balance Sheet as in Published Financial As at period end	Under Regulatory Scope of As at period end	Reference to common
Assets	(KD'000s)	(KD'000s)	
Cash and balances with banks	617,053	617,053	
Kuwait Government treasury bonds	164,993	164,993	
Central Bank of Kuwait bonds	171,188	171,188	
Loans and advances (net of specific provisions)	3,278,520	3,278,520	
General provisions on Loans and advances	(185,370)	(185,370)	a
Investment securities	314,336	314,336	
Investment in an associate	17,089	17,089	
Other assets	48,503	48,503	
Intangible Assets	40,455	40,455	
Premises and equipment	52,901	52,901	
Total assets	4,519,668	4,519,668	
Liabilities			
Due to banks and other financial institutions	1,111,951	1,111,951	
Customers' deposits	2,744,158	2,744,158	
Other liabilities	97,083	97,083	
Specific provisions on contingent liabilities	6,488	6,488	
General provisions on contingent liabilities	11,740	11,740	b
Total liabilities	3,971,420	3,971,420	
Shareholders' Equity			
Share capital	161,917	161,917	c
Share premium	108,897	108,897	d
Treasury shares	(4,858)	(4,858)	e
Retained Earnings	108,274	108,274	f
Reserves	173,158	173,158	g
Non-controlling interests	860	860	
Total shareholders' equity	548,248	548,248	