



# PILLAR III DISCLOSURE

30 SEPTEMBER 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.

<b>Capital Structure as at 30 September 2016</b>	<b>(KD'000s)</b>
Paid-up share capital/common stock	161,917
Reserves	379,566
Less:	
Treasury Shares	(4,930)
Other Intangibles (except Mortgage Servicing Rights)	(27,751)
Defined benefit pension fund liabilities	(90)
<b>Common Equity Tier I</b>	<b>508,712</b>
<b>Additional Tier I</b>	<b>-</b>
General provisions (subject to maximum of 1.25% of total credit risk weighted assets)	39,886
Threshold Deductions arising from Investments in FIs where ownership is <= 10%	-
<b>Tier II</b>	<b>39,886</b>
<b>Total eligible capital after deductions</b>	<b>548,598</b>

## 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.

<b>Capital adequacy as at 30 September 2016</b>	<b>Required Capital (KD'000s)</b>
1. Claims on sovereigns	1,567
2. Claims on public sector entities (PSEs)	4,728
3. Claims on banks	38,126
4. Claims on corporate	207,573
5. Regulatory retail exposures	68,411
6. Past due exposures	3,952
7. Other exposures	90,460
<b>Total</b>	<b>414,817</b>
Less: General provision in excess of 1.25% risk weighted assets	<b>(23,361)</b>
Net credit risk weighted exposure	391,457
Market risk exposure	775
Operational risk exposure	31,734
<b>Grand Total</b>	<b>423,966</b>
<b>Capital Adequacy Ratios:</b>	
<b>Tier I</b>	<b>15.60%</b>
<b>CET 1</b>	<b>15.60%</b>
<b>Total</b>	<b>16.82%</b>

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

<b>Common Disclosure as at 30 September 2016</b>	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	Reference of the Balance Sheet under the Regulatory Scope of Consolidation
<b>Common Equity Tier 1 capital: Instruments and Reserves</b>		
Directly issued common share capital plus related stock surplus	270,814	c + d
Retained earnings	108,276	f
Accumulated other comprehensive income (and other reserves)	162,393	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)	-	
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>541,483</b>	
<b>Common Equity Tier 1 Capital: Regulatory Adjustments</b>		
Prudential valuation adjustments	-	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage- servicing rights (net of related tax liability)	<b>(27,751)</b>	
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	<b>(90)</b>	
Proposed Dividend	-	
Investments in own shares(if not already netted off paid-in capital on reported balance sheet)	<b>(4,930)</b>	e

## Common Disclosure as at 30 September 2016

	Component of Regulatory Capital reported by bank (KD'000s)	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	-	
<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>(32,771)</b>	
<b>Common Equity Tier 1 capital (CET 1) after regulatory adjustments</b>	<b>508,712</b>	
<b>Additional Tier 1 capital : Instruments</b>		
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	-	

<b>Common Disclosure as at 30 September 2016</b>	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	-	
<b>Additional Tier 1 capital before regulatory adjustments</b>	-	
<b>Additional Tier 1 Capital : Regulatory Adjustments</b>		
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	-	
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	-	
<b>Additional Tier 1 capital (AT1)</b>	-	
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	508,712	
<b>Tier 2 Capital: Instruments and Provisions</b>		
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	39,886	
<b>Tier 2 capital before regulatory adjustments</b>	39,886	
<b>Tier 2 Capital : Regulatory Adjustments</b>		

## Common Disclosure as at 30 September 2016

	Component of Regulatory Capital reported by bank <i>(KD'000s)</i>	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	-	
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	
<b>Tier 2 capital (T2)</b>	<b>39,886</b>	
<b>Total capital (TC = T1 + T2)</b>	<b>548,598</b>	
<b>Total risk weighted assets</b>	<b>3,261,274</b>	
<b>Capital Ratios and Buffers</b>		
Common Equity Tier 1 (as a percentage of risk weighted assets)	15.60%	
Tier 1 (as a percentage of risk weighted assets)	15.60%	
Total capital (as a percentage of risk weighted assets)	16.82%	
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 30 September 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%	
<b>Notional Minima</b>		
Notional Common Equity Tier 1 minimum ratio (i.e. 9.5%)	309,821	
Notional Tier 1 minimum ratio (i.e. 11%)	358,740	
Notional total capital minimum ratio (i.e. 13% excluding CCY and D-SIB buffers)	423,967	
<b>Amounts below the Threshold for Deductions (before Risk Weighting)</b>		
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)	-	
<b>Applicable Caps on the Inclusion of Provisions in Tier 2</b>		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	219,585	a + b
Cap on inclusion of provisions in Tier 2 under standardized approach	179,699	
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 30<sup>th</sup> September 2016 is shown below. The bank follows IFRS standards for consolidations purposes which is applied for Basel III reporting as well.

<b>Reconciliation as at 30th September 2016</b>			
<b>Item</b>	<b>Balance Sheet as in Published Financial As at period end</b>	<b>Under Regulatory Scope of As at period end</b>	<b>Reference to common</b>
<b>Assets</b>	<b>(KD'000s)</b>	<b>(KD'000s)</b>	
Cash and balances with banks	307,194	307,194	
Kuwait Government treasury bonds	219,398	219,398	
Central Bank of Kuwait bonds	241,109	214,109	
Loans and advances (net of specific provisions)	3,390,297	3,390,297	
General provisions on Loans and advances	(207,118)	(207,118)	a
Investment securities	321,191	321,191	
Investment in an associate	17,694	17,694	
Other assets	46,550	46,550	
Intangible Assets	35,893	35,893	
Premises and equipment	53,462	53,462	
<b>Total assets</b>	<b>4,425,670</b>	<b>4,425,670</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	788,926	788,926	
Customers' deposits	2,970,902	2,970,902	
Other liabilities	90,338	90,338	
Specific provisions on contingent liabilities	5,971	5,971	
General provisions on contingent liabilities	12,467	12,467	b
<b>Total liabilities</b>	<b>3,868,604</b>	<b>3,868,604</b>	
<b>Shareholders' Equity</b>			
Share capital	161,917	161,917	c
Share premium	108,897	108,897	d
Treasury shares	(4,930)	(4,930)	e
Retained Earnings	108,276	108,276	f
Reserves	182,106	182,106	g
Non-controlling interests	800	800	
<b>Total shareholders' equity</b>	<b>557,066</b>	<b>557,066</b>	