

Kuwait International Bank K.S.C.P. and Its Subsidiary

Basel III Pillar III disclosures
For the year ended 31 December 2015

Objective:

The main aim of this section is:

1. To allow market participants, investors (especially investment account holders) to assess key pieces of information about an Islamic Bank's exposure to risks as per Basel III general disclosure requirements.
2. To comply with Central Bank of Kuwait (CBK) instructions and regulations issued as per CBK circular 2/RB, RBA/336/2014 dated 24 June 2014 for Islamic Banks General disclosures related to Capital Adequacy Standard under Basel III.

The major highlights of these regulations are:

- Banks must maintain a capital adequacy ratio at a minimum of 12.5% for the year ended 31st December 2015.
- Banks have to adopt the Standardized Approach for implementing Basel III, using national discretion for:
 - ✓ Adopting Option II for Bank exposures,
 - ✓ Adopting the top three rating agencies as External Credit Assessment Institutions, and
 - ✓ Defining SME as the maximum aggregate retail exposure limit to one SME or to any group of SMEs not exceeding KD 250,000.
- Banks external auditors must audit capital adequacy returns.
- Banks must conduct Internal Capital assessment for all material risks (Pillar II risks) under Internal Capital Adequacy Assessment Process (ICAAP). These risks include credit concentration risk, CRM risks, remained operation risk, profit rate risk, liquidity risk, strategic risk, reputation risk, Legal Risk, Compliance Risks etc.
- Banks must conduct Stress Testing (ST) of the Banks' one year forward looking (business projections) under different scenarios & assumptions and assess the impact on capital adequacy and profitability.
- Banks have to adopt sound governance framework, improve its internal control systems, sufficient modern risk management to be able to control the risks embedded in the business environment, and practice good governance.

Bank Disclosure Approach:

- Consolidated basis (Kuwait International Bank (KIB) and Subsidiary), on a semi-annual basis and it is reviewed by external auditors of the Bank. The annual disclosures are audited by external auditors of the Bank.
- The disclosures are made relying on calculating the Minimum Capital required to cover:
 - ✓ Credit and Market risks using the Standardized Approach.
 - ✓ Operational risk using the Basic Indicator Approach.

Under the Framework of Capital Adequacy, Banks must provide timely, accurate, relevant and adequate disclosures of qualitative and quantitative information that enables users to assess its activities and risk profile. The following public disclosures are made in line with the requirements of the Central Bank of Kuwait.

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First: Group Structure

The KIB (the Bank) is engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a. Ritaj Takaful Insurance Company K.S.C.C. (the "Subsidiary") is fully consolidated into the Bank's financial statements.

The subsidiary is a 73.60% (2014: 73.60%) owned Islamic insurance company registered in Kuwait. Its main activities include Takaful Insurance (Co-operative insurance).

Second: Capital Structure

The Group's regulatory capital comprises of Common Equity Tier (1) "CET 1" capital which demonstrates the Group's strength and includes share capital, reserves, non-controlling interest minus the treasury shares and dividends declared. Additional tier (1) capital includes additional paid in capital and non-controlling interest. Tier (2) consists of non-controlling interest and general provision up to 1.25% of the total credit risk weighted assets according to rules and regulations.

The Group does not have structured or complex equity instruments which are prohibited by Islamic Shari'a principles.

As at 31st December 2015, Common Equity Tier (1) amounted to KD 236,250 thousand (31st December 2014: KD 229,291 thousand) and Additional Tier (1) "AT1" amounted KD 371 thousand (31st December 2014: KD 356 thousand) collectively known as "Core Capital", Tier (2) "Supplementary Capital" amounted KD 13,235 thousand (31st December 2014: KD 11,588 thousand), the total eligible capital of the Group as of 31 December 2015 is KD 249,856 thousand (31st December 2014: KD 241,235 thousand).

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Third: Additional Capital Disclosure requirements

1. Common Disclosure Template:

The Group's regulatory capital which consists of the Common Equity Tier (1), AT (1) and Tier (2) is as follows:

Particular	(KD' 000)	(KD' 000)
	Amounts 2015	Amounts 2014
<u>Common Equity (CET 1)</u>		
Share capital	103,732	103,732
Share premium	49,480	49,480
Revaluation reserve	16,914	16,588
Fair Value reserve	16,093	17,739
Statutory Reserve	30,800	29,081
Voluntary Reserve	24,717	22,998
Treasury share reserve	4,846	4,846
Retained earnings	43,305	38,464
<u>Less:</u>		
Treasury shares	45,234	45,234
Dividends declared	8,403	8,403
Goodwill	-	-
Other intangibles	-	-
Investments in Financial Institutions 's with an ownership of less than 10% and above the threshold	-	-
Investments in Financial Institution's with an ownership of more than 10% and above the threshold	-	-
Total Common Equity Tier (1)	236,250	229,291
<u>AT (1)</u>		
Eligible non-controlling interest in consolidated subsidiaries	371	356
Total Tier (1)	236,621	229,647
<u>Tier (2)</u>		
General provision (up to 1.25% of the total credit risk weighted assets)	13,164	11,517
Eligible non-controlling interest in consolidated subsidiaries	71	71
Total Tier (2)	13,235	11,588
Total available capital	249,856	241,235

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2. Reconciliation Requirement

The Group has applied the three step approach for the reconciliation between the Consolidated Statement of Financial Position items and the regulatory capital elements as outlined in the regulations as follows:

Step (1) and (2):

Particular	2015 (KD' 000)		Ref.
	Consolidated Statement of Financial Position as per published financial statements	Under regulatory scope of consolidation	
<u>Asset</u>			
Cash	8,871	8,871	
Cash and bank balances at central banks	257,954	257,954	
Items in the course of collection from other banks and FI	170,546	170,546	
Trading portfolio assets	-	-	
Financial assets at fair value through statement of income	68	68	
Shari'a Complaint hedging contracts	-	-	
Financing and advances to banks	36,574	36,574	
Financing and advances to customers	1,172,935	1,172,935	
Financial assets available for sale	64,663	64,663	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	8,151	8,151	
Investment properties	40,353	40,353	
Investments in associates and joint ventures	3,935	3,935	
Goodwill and other intangible assets (a) + (b)	-	-	
- Goodwill	-	-	(a)
- Intangible assets	-	-	(b)
Property, plant and equipment	25,997	25,997	
<u>Total assets</u>	1,790,047	1,790,047	
<u>Liabilities</u>			
Deposits from banks and financial institution	483,958	483,958	
Items in the course of collection due to other banks	-	-	
Customer accounts	1,018,050	1,018,050	
Trading portfolio liabilities	-	-	
Financial liabilities at fair value through statement of income	-	-	
Shari'a Complaint hedging contracts	-	-	
Financing securities (Sukuk)	-	-	
Accruals, deferred income and other liabilities	33,533	33,533	
Current and deferred tax liabilities (c) + (d)	-	-	
- Deferred tax liabilities related to goodwill	-	-	(c)
- Deferred tax liabilities related to intangible assets	-	-	(d)
Provisions (non-cash)	6,702	6,702	
Retirement benefit liabilities	-	-	
<u>Total liabilities</u>	1,542,243	1,542,243	

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Step (1) and (2) (continued):

Particular	2015 (KD' 000)		Ref.
	Consolidated Statement of Financial Position as per published financial statements	Under regulatory scope of consolidation	
<i>Equity</i>			
Share capital (h) + (i)	103,732	103,732	
- Common Equity Tier (1)	103,732	103,732	(h)
- Additional Tier (1)	-	-	(i)
Share premium	49,480	49,480	
Treasury shares	(45,234)	(45,234)	
Other reserves	136,675	136,675	
<i>Attributable to Bank's equity shareholders</i>	244,653	244,653	
Non-controlling interests	3,151	442	(j)
- Common Equity Tier (1)	-	-	
- Additional Tier (1)	-	371	
- Tier (2)	-	71	
<i>Total equity</i>	247,804	245,095	
<i>Total liabilities and equity</i>	1,790,047	1,787,338	

Particular	2014 (KD' 000)		Ref.
	Consolidated Statement of Financial Position as per published financial statements	Under regulatory scope of consolidation	
<i>Asset</i>			
Cash	8,808	8,808	
Cash and bank balances at central banks	340,408	340,408	
Items in the course of collection from other banks and FI	64,101	64,101	
Trading portfolio assets	-	-	
Financial assets at fair value through statement of income	100	100	
Shari'a Complaint hedging contracts	-	-	
Financing and advances to banks	28,217	28,217	
Financing and advances to customers	1,071,597	1,071,597	
Financial assets available for sale	60,978	60,978	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	9,339	9,339	
Investment properties	50,139	50,139	
Investments in associates and joint ventures	3,875	3,875	
Goodwill and other intangible assets (a) + (b)	-	-	
- Goodwill	-	-	(a)
- Intangible assets	-	-	(b)
Property, plant and equipment	25,017	25,017	
<i>Total assets</i>	1,662,579	1,662,579	

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Step (1) and (2) (continued):

Particular	2014 (KD' 000)		Ref.
	Consolidated Statement of Financial Position as per published financial statements	Under regulatory scope of consolidation	
<u>Liabilities</u>			
Deposits from banks and financial institution	397,370	397,370	
Items in the course of collection due to other banks	-	-	
Customer accounts	986,793	986,793	
Trading portfolio liabilities	-	-	
Financial liabilities at fair value through statement of income	-	-	
Shari'a Complaint hedging contracts	-	-	
Financing securities (Sukuk)	-	-	
Accruals, deferred income and other liabilities	34,425	34,425	
Current and deferred tax liabilities (c) + (d)	-	-	
- Deferred tax liabilities related to goodwill	-	-	(c)
- Deferred tax liabilities related to intangible assets	-	-	(d)
Provisions (non-cash)	3,175	3,175	
Retirement benefit liabilities	-	-	
<u>Total liabilities</u>	1,421,763	1,421,763	
<u>Equity</u>			
Share capital (h) + (i)	103,732	103,732	
- Common Equity Tier (1)	103,732	103,732	(h)
- Additional Tier (1)	-	-	(i)
Share premium	49,480	49,480	
Treasury shares	(45,234)	(45,234)	
Other reserves	129,716	129,716	
<u>Attributable to Bank's equity shareholders</u>	237,694	237,694	
Non-controlling interests	3,122	427	(j)
- Common Equity Tier (1)	-	-	
- Additional Tier (1)	-	356	
- Tier (2)	-	71	
<u>Total equity</u>	240,816	238,121	
<u>Total liabilities and equity</u>	1,662,579	1,659,884	

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Step 3:

		2015 (KD' 000)	
Serial No.	Common Equity (CET 1)	Component of regulatory capital reported by the Group	Source based on reference of the Statement of Financial Position under the regulatory scope of consolidation from Step 1&2
1	Share capital	103,732	(h)
2	Share premium	49,480	
3	Eligible non-controlling interest in consolidated subsidiaries	371	(j)
4	Revaluation reserve	16,914	
5	Fair Value reserve	16,093	
6	Statutory Reserve	30,800	
7	Voluntary Reserve	24,717	
8	Treasury share reserve	4,846	
9	Retained earnings	43,305	
10	<i>Common Equity Tier (1) capital before regulatory adjustments</i>	290,258	
11	Prudential valuation adjustments	-	
12	Goodwill (net of related tax liability)	-	(a) - (c)
13	Intangible (net of related tax liability)	-	(b) - (d)
14	Other exposures	-	
	Total	290,258	

		2014 (KD' 000)	
Serial No.	Common Equity (CET 1)	Component of regulatory capital reported by the Group	Source based on reference of the Statement of Financial Position under the regulatory scope of consolidation from Step 1&2
1	Share capital	103,732	(h)
2	Share premium	49,480	
3	Eligible non-controlling interest in consolidated subsidiaries	356	(j)
4	Revaluation reserve	16,588	
5	Fair Value reserve	17,739	
6	Statutory Reserve	29,081	
7	Voluntary Reserve	22,998	
8	Treasury share reserve	4,846	
9	Retained earnings	38,464	
10	<i>Common Equity Tier (1) capital before regulatory adjustments</i>	283,284	
11	Prudential valuation adjustments	-	
12	Goodwill (net of related tax liability)	-	(a) - (c)
13	Intangible (net of related tax liability)	-	(b) - (d)
14	Other exposures	-	
	Total	283,284	

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3. Main features disclosure

Disclosures for main features of regulatory capital instruments

1.	Issuer	Kuwait International Bank K.S.C.P.
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	KIB
3.	Governing laws of the instrument	Law No. 32/1968 and Com Law No. 25/2012
4.	Type of Capital (CET1, AT1 , T2)	CET1 + AT1 + T2
5.	Eligible at solo/group/group and solo	Group
6.	Instrument type	Equity
7.	Amount recognised in regulatory capital	103,732
8.	Par value of instrument	100 fils
9.	Accounting classification	Equity
10.	Original date of issuance	13 May 1973
11.	Perpetual or dated	Perpetual
12.	Original maturity date	N/A
13.	Issuer call subject to prior supervisory approval	N/A
14.	Optional call date, contingent call dates and redemption amount	N/A
15.	Subsequent call dates, if applicable	N/A
16.	Fixed or floating dividend/coupon	N/A
17.	Coupon rate and any related index	N/A
18.	Existence of a dividend stopper	N/A
19.	Fully discretionary, partially discretionary or mandatory	N/A
20.	Existence of step up or other incentive to redeem	N/A
21.	Noncumulative or cumulative	N/A
22.	Convertible or non-convertible	N/A
23.	If convertible, conversion trigger	N/A
24.	If convertible, fully or partially	N/A
25.	If convertible, conversion rate	N/A
26.	If convertible, mandatory or optional conversion	N/A
27.	If convertible, specify instrument type convertible into	N/A
28.	If convertible, specify issuer of instrument it converts into	N/A
29.	Write-down feature	N/A
30.	If write-down, write-down trigger	N/A
31.	If write-down, full or partial	N/A
32.	If write-down, permanent or temporary	N/A
33.	If temporary write-down, description of write-up mechanism	N/A
34.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
35.	Non-compliant transitioned features	N/A
36.	If yes, specify non-compliant features	N/A

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Fourth: Capital Adequacy Ratio

At 31st of December 2015 the total Capital Adequacy Ratio is 21.68% (31st December 2014: 24.38%) compared to the ratio required by regulatory authorities of 12.5% (31st December 2014: 12%), Tier (1) Capital of 20.54% (31st December 2014: 23.21%) and Tier (2) Capital of 1.15% (31st December 2014: 1.17%).

- The percentage of the total Capital Adequacy Ratio is derived from dividing the Eligible Capital (CET (1) + AT (1) + Tier (2)) by the total risk weighted exposure.
- The percentage of the Tier (1) Capital is derived from dividing the core capital (CET (1) + AT 1) by the total risk weighted exposure.
- The percentage of the Tier (2) Capital is derived from dividing the supplemental capital (Tier 2) by the total risk weighted exposure.

At 31st December 2015, the minimum capital requirement for the credit risk weighted exposure is KD 128,324 thousand (31st December 2014: KD 107,827 thousand), market risk weighted exposure is KD 400 thousand (31st December 2014: KD 304 thousand) and the operational risk weighted exposure is KD 15,309 thousand (31st December 2014: KD 10,585 thousand).

The Group ensures compliance with Central Bank of Kuwait requirements in relation to capital adequacy through monitoring the internal limits.