

GULF BANK K.S.C.P

Basel III - Capital and Leverage disclosures

30 September 2021

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I.COMPOSITION OF CAPITAL**Introduction**

The public disclosure relating to Gulf Bank's (the "Bank") Capital structure, information on Capital Adequacy and Additional capital disclosure has been prepared in accordance with the circular (2/BS/IBS/336/2014) dated 24 June 2014 issued by Central Bank of Kuwait ("CBK") as part of Basel III reforms. As per this circular, the Kuwaiti Banks must maintain a minimum capital adequacy ratio of 13% and minimum Tier 1 ratio of 11%.

1. Capital structure as at 30 September 2021

Tier 1 capital comprises of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital. The Bank CET1 comprises of paid up share capital, share premium and reserves including property revaluation reserve and fair valuation reserve less treasury shares. The Bank's Tier 2 comprises of allowed portion of general provisions (1.25% of the credit risk weighted assets) and subordinated Tier 2 bonds. The Bank has been identified as a Domestic Systemically Important bank (D-SIB) and is required to hold additional Common Equity Tier 1 capital (CET1) of 1% . Further to support COVID -19 measures, the Bank is required to maintain a minimum capital adequacy ratio of 11.5% and a minimum Tier 1 ratio of 9.5% .

Support measures on Covid-19

CBK issued the Circular No. 2/BS/IBS/454/2020 (the Circular) on April 2,2020 and circular No 2/BS/IBS/484/2021 on 22 June 2021 to provide support measures on Covid-19. The CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers.

Capital Conservation Buffer

As per the Circular above, the Capital Conservation Buffer requirement of 2.5% in the form of CET1 has been released. Accordingly the minimum capital requirement has been reduced from 14% to 11.5% (including 1% D-SIB); minimum Tier1 capital requirements from 12% to 9.5% (including 1% D-SIB) and minimum CET1 requirements from 10.5% to 8% (including 1% D-SIB). These amendments are valid until 31 December 2021.

Further the CBK Circular No 2/BS/IBS/488/2021 dated 11 October 2021 details the phased plan to withdraw the relaxed capital ratios from 1 January 2022 and 1 January 2023. Accordingly the minimum capital requirement will increase from 11.5% to 12.5% (including 1% DSIB), minimum Tier 1 capital requirements from 9.5% to 10.5% (including 1% DSIB) and minimum CET1 requirements from 8% to 9% (including 1% DSIB) from 1 January 2022 onwards. The following year from 1 January 2023 onwards, the minimum capital requirement will increase from 12.5% to 14% (including 1% DSIB), minimum Tier 1 capital requirements from 10.5% to 12% (including 1% DSIB) and minimum CET1 requirements 9% to 10.5% (including DSIB).

SME definition and risk weights

As per the Circular, the definition of SMEs has been standardized in accordance with the definition contained under Law No. (98) of 2013 on the Establishment of the National Fund for Small and Medium Enterprises Development, amended under Law No. (14) of 2018, its executive bylaw and amendments. Risk weight applied on exposure to SME portfolio has been reduced from 75% to 25%. These amendments are valid until 31 December 2021. The CBK Circular No 2/BS/IBS/488/2021 dated 11 October 2021 maintains the relaxed risk weight of 25% for SMEs.

2020-Consumer and instalment loans deferral

In response to Kuwait Banking Association's Board Resolution, the Bank announced postponement of payment of consumer and instalment loans as well as payment due on credit cards for a period of six months effective from 1 April 2020, waiving also the interest and any other fees resulting from such postponement. The instalment deferrals were considered as short-term liquidity support to address individual borrower's potential cash-flow issues. The loan deferral scheme resulted in a modification day 1 loss of KD 42,212 thousand arising from the modification of contractual cash-flows. The modification loss is charged to retained earnings instead of income statement as required by IFRS 9 Financial Instruments in accordance with the CBK Circular No. 2/BS/IBS/461/2020.

As per the Circular, for the purpose of Capital Base, the Bank has excluded the modification day 1 loss of KD 42,212 thousand arising from loan deferral scheme from retained earnings. This loss will be included in retained earnings over the period of four years starting from the year 2021 until 2024. No impact has been considered for the period ended 30 September 2021.

The below table summarizes the composition of capital:

<i>KD'000s</i>	
Common Equity Tier 1 Capital : instruments and reserves	
Directly issued qualifying common share capital plus stock surplus	457,837
Retained earnings	164,216
Accumulated other comprehensive income (and other reserves)	64,465
Common Equity Tier 1 capital before regulatory adjustments	686,518
Common Equity Tier 1 Capital : regulatory adjustments	-
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(18,157)
Total regulatory adjustments to Common equity Tier 1	(18,157)
Common Equity Tier 1 capital (CET1)	668,361
Additional Tier 1 capital : instruments	-
Additional Tier 1 capital : regulatory adjustments	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1=CET1+AT1)	668,361
Tier 2 capital : instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	50,000
General provisions included in Tier 2 capital	58,349
Tier 2 capital before regulatory adjustments	108,349
Tier 2 capital : regulatory adjustments	-
Tier 2 capital	108,349
Total capital (TC= T1+T2)	776,710
Total risk weighted assets	4,803,195

<i>KD'000s</i>	
Regulatory capital requirement at 10.5%	
	Capital required
1. Claims on Sovereigns	3,022
2. Claims on Public Sector Entities(PSEs)	5,132
3. Claims on Multi Development Banks	280
4. Claims on Banks	41,039
5. Claims on Corporates	242,367
6. Regulatory retail exposures	161,156
7. Past due exposures	4,836
8. Other exposures	32,300
Capital requirement for credit risk	490,131
Less : General provision in excess of 1.25% of risk weighted assets	(21,295)
Capital requirement for net credit risk	468,836
Capital requirement for market risk	379
Capital requirement for operational risk	35,120
Additional capital requirement (DSIB at 1%)	48,032
Total Capital requirements	552,367

2. Capital Adequacy Ratios :-	
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.91%
Tier 1 (as a percentage of risk weighted assets)	13.91%
Total capital (as a percentage of risk weighted assets)	16.17%

3. Common disclosure template required by Basel III regulations as at 30 September 2021

KD'000s

Row number	Common Disclosure Template - Composition of Regulatory Capital	Component of Regulatory Capital	Reference of the balance sheet
	Common Equity Tier 1 Capital : instruments and reserves		
1	Directly issued qualifying common share capital plus stock surplus	457,837	c+d
2	Retained earnings	164,216	f
3	Accumulated other comprehensive income (and other reserves)	64,465	g
4	Directly issued capital subject to phase out from CET1(only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties(minority interest)	-	
6	Common Equity Tier 1 capital before regulatory adjustments	686,518	
	Common Equity Tier 1 Capital : regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	-	
13	Securitization gain on sale (as set out in para 71 of these guidelines)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined-benefit pension fund net assets (para 67)	-	
16	Investment in own shares (if not already netted off paid-in capital on reported balance sheet)	(18,157)	e
17	Reciprocal cross holdings in common equity of banks, Fis and Insurance entities.	-	
18	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 CET1 capital)	-	
19	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 CET1 capital)	-	
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common Equity Tier 1	(18,157)	
29	Common Equity Tier 1 capital (CET1)	668,361	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	-	

	Additional Tier 1 capital : regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	
39	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(amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation(net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	-	
	Tier 1 capital (T1 = CET1 + AT1)	668,361	
	Tier 2 Capital : Instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	50,000	b
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	General Provisions included in Tier 2 Capital	58,349	a
51	Tier 2 capital before regulatory adjustments	108,349	
	Tier 2 Capital : Regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross holdings in Tier 2 instruments	-	
54	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(amount above 10% threshold)	-	
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-	
56	National specific regulatory adjustments	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	108,349	
59	Total capital (TC = T1 + T2)	776,710	
60	Total risk-weighted assets	4,803,195	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.91%	
62	Tier 1 (as percentage of risk-weighted assets)	13.91%	
63	Total capital (as percentage of risk-weighted assets)	16.17%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus DSIB buffer requirement expressed as a percentage of risk-weighted assets)	8.00%	
65	of which: capital conservation buffer requirement	0.00%	
66	of which: bank specific countercyclical buffer requirement	-	
67	of which: DSIB buffer requirement	1.00%	
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	6.91%	
	National minima		
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	8.00%	
70	Tier 1 minimum ratio	9.50%	
71	Total capital minimum ratio excluding CCY and D-SIB buffers	10.50%	
	Amounts below the thresholds for deduction(before risk weighting)		
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financial entities	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	261,157	
77	Cap on inclusion of allowances in Tier 2 under standardized approach	58,349	a
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	-	

4. RECONCILIATION REQUIREMENTS

Reconciliation of the balance sheet as per published financial information to the regulatory scope of consolidation as at 30 September 2021 is shown below :

KD'000s

Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
Assets			
Cash and cash equivalents	876,497	876,497	
Treasury bills and bonds	91,000	91,000	
Central Bank of Kuwait bonds	281,371	281,371	
Deposits with banks and other financial institutions	112,588	112,588	
Loans and advances to banks	246,766	246,766	
Loans and advances to customers	4,422,071	4,422,071	
of which Cap on inclusion of General provision in Tier 2	58,349	58,349	a
Investment securities	150,120	150,120	
Other assets	115,715	115,715	
Premises and equipment	33,471	33,471	
Total assets	6,329,599	6,329,599	
Liabilities			
Due to banks	563,568	563,568	
Medium term loans from banks	100,000	100,000	
Deposits from financial institutions	718,531	718,531	
Customer deposits	4,154,199	4,154,199	
Subordinated bonds recognized in Tier 2 Capital	50,000	50,000	b
Other liabilities	89,659	89,659	
Total liabilities	5,675,957	5,675,957	
Shareholder's Equity			
Share capital	304,813	304,813	c
Share premium	153,024	153,024	d
Treasury shares	(18,157)	(18,157)	e
Retained earnings	149,497	149,497	
of which eligible as CET1 capital	164,216	164,216	f
of which interim profit	27,493	27,493	
Statutory Reserve	42,135	42,135	g
Property revaluation reserve	18,169	18,169	
Treasury share reserve	-	-	
Fair valuation reserve	4,161	4,161	
Total equity	653,642	653,642	
Total liabilities and equity	6,329,599	6,329,599	

II. LEVERAGE RATIO

In accordance with the CBK regulations issued on October 2014 (CBK circular No.2/BS/342/2014), Kuwait banks must maintain minimum leverage ratio of 3% effective from 31 December 2014. Leverage ratio is calculated as a ratio of Tier 1 capital as per Basel III to the total exposure. Total exposure is the sum of on balance sheet exposures and off balance sheet exposures after applying the credit conversion factor.

1. Leverage ratio common disclosure template as at 30 September 2021		
Sr	Items	KD('000)
	<u>On-balance sheet exposures</u>	
1	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	6,329,599
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	6,329,599
	<u>Derivative exposures</u>	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
	<u>Securities financing transaction exposures</u>	
12	Gross SFT assets (with no recognition of netting)	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	<u>Other off-balance sheet exposures</u>	
17	Off-balance sheet exposure (before implementation of CCF)	2,450,556
18	(Adjustments for conversion to credit equivalent amounts)	(1,687,527)
19	Off-balance sheet items (sum of lines 17 and 18)	763,029
	<u>Capital and total exposures</u>	
20	Tier 1 capital	668,361
21	Total exposures (sum of lines 3, 11, 16 and 19)	7,092,628
	<u>Leverage ratio</u>	
22	Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))	9.42%

2.Reconciliation requirement

Following is the reconciliation of the balance sheet assets as per the published financial information along with the total exposure amount in the leverage ratio measure as at 30 September 2021

	Summary comparison of accounting assets vs leverage ratio exposure measure	KD'000s
	Item	Amount
1	Total consolidated assets as per published financial statements	6,329,599
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repo and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	763,029
7	Other adjustments	
8	Leverage ratio exposure	7,092,628

III. Appendices

I. Disclosure template for main features of regulatory capital instruments

1	Issuer	Gulf Bank.K.S.C.P
2	Unique identifier	Fixed -Rate Bond : KW0DI0190424 ; Floating- rate Bond : KW0DI0190432
3	Governing law(s) of the instrument	Laws of the State of Kuwait
Regulatory treatment		
4	Type of Capital	Tier 2
5	Eligible at solo/ group / group & solo	Solo
6	Instrument type	Subordinated Debt
7	Amount recognized in regulatory capital	KD 50,000,000
8	Par value of instrument	KD 50,000 per Bond
9	Accounting classification	Liability -Amortized cost
10	Original date of issuance	10th June 2021
11	Perpetual or dated	Dated
12	Original maturity date	10th June 2031
13	Issuer call subject to prior supervisory approval	Yes
14	Optional call date, contingent call dates and redemption amount	call dates :Capital event or taxation reasons; Redemption amount: Principal plus accrued interest.
15	Subsequent call dates, if applicable	On any date falling on or after five years from the Issue Date
Coupons / dividends		
16	Fixed or floating dividend /coupon	Fixed Tranche : Fixed for first 5 years and reset thereafter to a new fixed rate for subsequent period. Floating Tranche : Floating rate determined quarterly subject to a cap.
17	Coupon rate and any related index	Fixed Rate Bonds: For the period preceding the Reset Date, the Interest Rate will be fixed at 4% per annum payable Quarterly in arrears. For the period following the Reset Date, the Interest Rate will be the sum of: (i) the Discount Rate of the Financial Regulator, calculated in accordance with the Conditions on the Reset Determination Date; and (ii) 2.50%, and payable quarterly. Floating Rate Bonds: The Interest Rate applicable to the relevant Interest Period shall be determined quarterly by the Fiscal Agent on the relevant Interest Determination Date. The Interest Rate shall be the sum of the Discount Rate of the Financial Regulator in effect at 12 noon Kuwait time on the Interest Determination Date and 2.25% per annum (provided however that such sum shall never exceed the prevailing Interest Rate attributable to the Fixed Rate Bonds at that time plus 1.00%), payable quarterly in arrears.
18	Existence of a dividend stopper	No
19	Fully discretionary, partially discretionary or mandatory	Payment of interest is mandatory.
20	Existence of step-up or other incentive to redeem	No
21	Non-cumulative or cumulative	Not applicable
22	Convertible or nonconvertible	Non-convertible
23	If convertible, conversion trigger (s)	Not applicable
24	If convertible, fully or partially	Not applicable
25	If convertible, conversion rate	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable
27	If convertible, specify instrument type convertible into	Not applicable
28	If convertible, specify issuer of instrument it converts into	Not applicable
29	Write-down feature	Yes
30	If write-down, write-down trigger(s)	Determination by regulator
31	If write-down, full or partial	Can be partial or full
32	If write-down, permanent or temporary	Permanent
33	If temporary write-down, description of write-up mechanism	Not applicable
34	Position in subordination hierarchy in liquidation(specify instrument type immediately senior to instrument)	a. junior to all Bank Senior Obligations; b. pari passu with all Bank Parity Obligations; and c. senior to all Bank Junior Obligations.
35	Non-compliant transitioned features	No
36	If yes, specify noncompliant features	Not applicable