Recommended All-share Combination of Kuwait Finance House and Ahli United Bank

Creating The World’s Leading Islamic Bank
January 2020
1. Key Transaction Highlights
### KEY TRANSACTION HIGHLIGHTS

<table>
<thead>
<tr>
<th><strong>All Share Merger</strong></th>
<th><strong>Pro Forma Ownership</strong></th>
<th><strong>Implied Price and Premium</strong></th>
<th><strong>Conditions</strong></th>
</tr>
</thead>
</table>
| Agree average exchange ratio of 2.325581 shares of AUB for each share of KFH (or 0.430 shares of KFH for each share of AUB) | Prior to the merger:  
- KFH had c. 6,893m shares outstanding; and  
- AUB had c. 8,774m AUB shares outstanding | Implied price per share of $1.00 based on KFH’s share price of $2.32 as at 11-Sep-2019  
Implied total value of $8.8bn in issued KFH shares for AUB shareholders as at 11-Sep-2019 | KFH and AUB shareholders to approve the transaction |
| **Conditional approvals granted by Central Bank of Kuwait and Central Bank of Bahrain** | Following merger, KFH Group will have c. 10,655 shares outstanding and the combined bank will be owned¹:  
- c. 65% by KFH’s shareholders  
- c. 35% by AUB’s shareholders | 7.2% premium to AUB share price of as at 11-Sep-2019, which was the last trading day prior to the parties’ confirmation of the exchange ratio |  
- AUB shareholder acceptance of at least 85% of total issued capital  
- Following receipt of requisite acceptances, approval & acceptance of AUB shareholders for 100% acquisition by way of an extra ordinary general assembly resolution  
- Approval of AUB shareholders to convert AUB business in Bahrain to Sharia’a compliant  
- Receipt of all regulatory and statutory approvals |

¹ Pro Forma Ownership based on KFH’s existing share count plus the shares issued to AUB shareholders at the agreed exchange ratio as at 11-Sep-2019.
THIS TRANSACTION COMBINES COMPLEMENTARY BUSINESSES AND DELIVERS SCALE TO BECOME A REGIONAL POWERHOUSE

Leading Retail Bank in Kuwait

✓ Currently 2nd largest bank and largest Islamic bank in Kuwait
✓ Offers retail banking, corporate banking, financing, investment, private banking, real estate services
✓ Internationally integrated operations in Kuwait, Bahrain, Turkey, Malaysia, Germany and KSA

Leading Corporate Bank in Bahrain

✓ Bahrain’s largest bank
✓ Focus on corporate banking with private banking & wealth management, retail banking services
✓ Strong foothold in Bahrain, Kuwait, Egypt, UK, Oman, Iraq, Libya and UAE

Bank in Kuwait and Bahrain by Total Assets #1

Global Islamic Bank by Total Assets #1

Bank in the Middle East by Total Assets #6

Combined Entity Total Assets $101bn

Pro-forma CET1 Capital $10bn

Countries of Operations 10

1 As of 30-Sep-2019.
SHAREHOLDER VALUE CREATION

Creating a Stronger, More Diversified Banking Franchise

- Broader customer base and stronger market position in Kuwait and Bahrain
- Diverse geographic footprint and product offering accessible to customers
- Complementary businesses positioned to capture opportunities arising from existing relationships
- Larger balance sheet and capital base that is better able to pursue growth and pursue bigger scale lending opportunities

Significant Synergy Potential

- Expected annual run-rate cost synergies in the range of 10-15% of combined cost base expected from:
  - Optimisation of systems, distribution, infrastructure and real estate
  - Improved supplier negotiating positions
  - Rationalisation of operations and branches over time
- Synergies are expected to be realised over 3 years post completion
- Revenue synergy from cross-selling, deeper customer penetration, and an improved cost of funding

Compelling Shareholder Value Creation Potential

- EPS accretive to KFH shareholders with and without synergies
- Value creation potential driven by significant synergy potential
- Larger, more diversified bank better able to pursue significant growth opportunities
BEST POSITIONED TO SUPPORT THE NEW KUWAIT VISION 2035

The Most Globally Connected Bank in Kuwait

- Expanded regional and international banking footprint to support trade and investment

Robust Capital Base

- Enlarged balance sheet capacity to support transformational infrastructure projects

Best able to Support the Growth of the Economy

- Better able to enable the growth of public and private sector players investing in economic diversification initiatives

Vision 2035 Relevant Themes

- Enhance foreign direct investment across all sectors
- Develop and modernize national infrastructure
- Diversification of production base away from oil and into financial, commercial and transport services
2. **Strategic Rationale**
## COMPELLING STRATEGIC RATIONALE

A transformational transaction that brings significant benefits to all stakeholders

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strengthens our position as the leader in our home markets</td>
<td>✔ #1 bank in terms of total assets and deposits in Kuwait and Bahrain with over 27% of total market share in Kuwait by assets&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>2</td>
<td>We will become the world’s leading Islamic bank</td>
<td>✔ World’s largest Islamic bank by total assets and the #2 Islamic bank in terms of customer deposits</td>
</tr>
<tr>
<td>3</td>
<td>This transaction makes KFH one of the dominant banks in the Middle East, with significant footprint diversification and expansion</td>
<td>✔ Strengthened position in Kuwait and Bahrain ✔ Entry into 5 new markets</td>
</tr>
<tr>
<td>4</td>
<td>Enhanced scale and deep relationships across corporate and retail customers</td>
<td>✔ Corporate Banking contribution increasing to 36% of pro forma segment assets</td>
</tr>
<tr>
<td>5</td>
<td>We will achieve significant operational efficiencies as a result of this transaction</td>
<td>✔ Cost synergies expected to be 10-15% of the combined cost base</td>
</tr>
<tr>
<td>6</td>
<td>Extremely well capitalised and funded, ideally positioning us to better pursue growth</td>
<td>✔ $3.9bn increase in CET1 capital ✔ Strong and diverse funding base</td>
</tr>
<tr>
<td>7</td>
<td>This transaction is EPS and value accretive to KFH shareholders</td>
<td>✔ EPS and DPS accretive including and excluding impact of synergies</td>
</tr>
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</table>

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<sup>1</sup> Market share calculated as KFH+AUB combined total assets over the sum of total assets of all publically traded banks in Kuwait.

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1. STRENGTHENS OUR POSITION AS THE LEADER IN OUR HOME MARKETS

- Following the completion of the merger, KFH will become the undisputed leading banking institution in Kuwait and Bahrain
- #1 bank in terms of Total Assets and Deposits (with over 27% of total market share in Kuwait)

### Top 5 Kuwait Banks by Total Assets ($bn)\(^2\)

<table>
<thead>
<tr>
<th>#1</th>
<th>#2</th>
</tr>
</thead>
<tbody>
<tr>
<td>101.1</td>
<td>95.0</td>
</tr>
<tr>
<td>38.6</td>
<td>62.4</td>
</tr>
<tr>
<td>62.4</td>
<td>22.2</td>
</tr>
<tr>
<td>20.2</td>
<td>16.5</td>
</tr>
<tr>
<td>15.9</td>
<td></td>
</tr>
</tbody>
</table>

### Top 5 Bahrain Banks by Total Assets ($bn)\(^3\)

<table>
<thead>
<tr>
<th>#1</th>
<th>#1</th>
</tr>
</thead>
<tbody>
<tr>
<td>43.0</td>
<td>38.6</td>
</tr>
<tr>
<td>4.3</td>
<td>9.9</td>
</tr>
<tr>
<td>8.4</td>
<td>7.8</td>
</tr>
<tr>
<td>5.0</td>
<td></td>
</tr>
</tbody>
</table>

### MENA National Champions (Ranking by Total Assets)

<table>
<thead>
<tr>
<th>Country</th>
<th>National Champions</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ahli + KFH</td>
<td>$101bn</td>
</tr>
<tr>
<td></td>
<td>NBK</td>
<td>$95bn</td>
</tr>
<tr>
<td></td>
<td>$43bn</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FAB</td>
<td>$215bn</td>
</tr>
<tr>
<td></td>
<td>NCB</td>
<td>$133bn</td>
</tr>
<tr>
<td></td>
<td>QNB</td>
<td>$250bn</td>
</tr>
<tr>
<td></td>
<td>Bank Muscat</td>
<td>$32bn</td>
</tr>
</tbody>
</table>

Source: Q3-2019 company financials. Note: KWD/BHD converted to USD as per FX rate as at 30-Sep-2019. Pro Forma total assets exclude goodwill on acquisition.

\(^1\) Market share calculated as KFH+AUB combined total assets over the sum of total assets of all publically traded banks in Kuwait.

\(^2\) Includes 5 largest publically listed banks in Boursa Kuwait.

\(^3\) Includes 5 largest publically listed banks in Bahrain Stock Exchange.
WE WILL BECOME THE WORLD’S LEADING ISLAMIC BANK

- KFH will become the world’s largest Islamic bank by total assets and the second largest Islamic bank in terms of customer deposits
- As the leading Islamic bank in the world, KFH will drive the growth of Islamic Banking across the world

Islamic Finance is a $2.1 Trillion Industry

- Islamic finance industry’s assets reached $2.1 trillion at year-end 2018
- It expanded by c.2% in 2018 vs. 10% in 2017, with strong support from the sukuk market
  - It is expected to grow by 5% in 2019-20
- Islamic finance remains concentrated primarily in oil exporting countries in Middle East and Malaysia accounting for over 80% of industry assets
- While overall lending growth slowed down in 2013-2017, GCC Islamic banks\(^2\) saw more rapid growth (6.9%) than conventional banks (3.7%)

Source: Q3-2019 company financials (except Masraf Al Rayan which is as of Q2-2019 as Q3-2019 are unavailable), S&P Global Ratings Islamic Finance Outlook 2019 and 2020

Note: KWD, SAR, AED, QAR, BHD, MYR converted to USD per FX rate of 3.297, 0.267, 0.272, 0.275, 2.652, 0.244 respectively as of 5-Jan-2020.

\(^1\) Only considers publically listed, 100% Islamic banks (i.e. excludes any conventional banks with Islamic portfolios/operations) and also excludes Iran-based banks given limited and outdated disclosure.

\(^2\) In S&P’s sample composed of 17 Islamic banks and 27 conventional banks with total assets in excess of $2.0 trillion

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3 MAKES US ONE OF THE LEADING BANKS IN THE MIDDLE EAST, OFFERING FOOTPRINT DIVERSIFICATION AND EXPANSION

International Presence (As At 31-Dec-2018)

- **UK**
  - Entry Into New Market
  - Net Loans: $1.5bn

- **Turkey**
  - KFH Existing Presence
  - Net Loans: $8.2bn

- **Germany**
  - KFH Existing Presence

- **Iraq**
  - Entry Into New Market
  - Total Assets: $0.4bn

- **Kuwait**
  - Strengthens Position in Existing Market
  - Net Loans: $28.7bn

- **Bahrain**
  - Strengthens Position in Existing Market
  - Net Loans: $10.2bn

- **Malaysia**
  - KFH Existing Presence
  - Net Loans: $1.3bn

- **UAE**
  - Entry Into New Market
  - Net Loans: $1.3bn

- **Egypt**
  - Entry Into New Market
  - Net Loans: $1.3bn

- **Libya**
  - Entry Into New Market
  - Total Assets: $0.6bn

- **Oman**
  - Entry Into New Market
  - Net Loans: $4.9bn

- **Saudi Arabia**
  - KFH Existing Presence

Net Financing Receivables by Geography (As At 31-Dec-2018)

- **Malaysia**
  - 4%

- **Bahrain**
  - 26%

- **Turkey**
  - 62%

- **Kuwait**
  - 8%

- **Total: $31.0bn**

- **Bahrain**
  - 38%

- **Kuwait**
  - 47%

- **Egypt**
  - 6%

- **UK**
  - 8%

- **Other**
  - 1%

- **Total: $19.5bn**

- **Malaysia**
  - 3%

- **Bahrain**
  - 19%

- **Turkey**
  - 16%

- **UK**
  - 3%

- **Malaysia**
  - 3%

- **Egypt**
  - 2%

- **Other**
  - 1%

- **Total: $50.5bn**

Source: Company filings
Enhanced scale and deep relationships across corporate and retail customers

AUB’s mainly corporate business mix complements KFH’s orientation towards retail

Source: Company financials as at 31-Dec-2018
WE WILL ACHIEVE SIGNIFICANT OPERATIONAL EFFICIENCIES AS A RESULT OF THIS TRANSACTION

Substantial Cost Saving Opportunities

- Branch footprint and ATM optimisation based on geographic overlap
- IT systems integration
- Branch, HQ and central functions consolidation
- Cost benefits to be realised over 3 years
- Focused on overlapping geographies in Kuwait and Bahrain

Revenue Synergies Potential by Closing Performance Gap

- Customer churn offset by:
  - Product penetration gap closure
  - Branch productivity gap closure
  - Lower cost of funding
  - Digital Bank in Kuwait

Cost Benefits Represents 10-15% of Combined Cost Base

Opportunity For Revenue Synergies

Source: Company filings, McKinsey analysis
EXTREMELY WELL CAPITALISED AND FUNDED, IDEALLY POSITIONING US TO BETTER PURSUE GROWTH

Significant Pro Forma Capital Position
(As At 31-Dec-2018)

- CAR Ratio 16.9%
  - $4.9bn

- 17.5%
  - $7.0bn

- 17.3%
  - $11.9bn

Strong And Diverse Funding Base
(As At 30-Sep-2019)

- Deposits 67%
- Interbank 16%
- Equity 13%
- Other Liabilities 4%

Total Liabilities & Equity: $101bn

Strategic Opportunities

- Drive growth in core regions and products
- Better serve Kuwaiti corporates with international ambitions
- Support international companies operating in Kuwait
- Leverage technology to enhance customer experience
- Invest in distribution capabilities
- Drive wealth management cross-sell
- Additional cross-sell delivered through better consumer client segmentation

Source: Company financials
Note: KFH’s liability mix is based on banking subsidiaries only (excluding non-banking subsidiaries). KWD:USD FX rate of 3.287 as at 30-Sep-2019.

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# Earnings Accretive to KFH Shareholders

**Illustrative EPS & DPS Accretion Based on 2018 Pro Forma Financials**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Pre-Merger</th>
<th>Post-Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 Net Income (m)</td>
<td>751</td>
<td>227</td>
</tr>
<tr>
<td>Number of Shares Outstanding (m)(^1)</td>
<td>6,893</td>
<td>6,893</td>
</tr>
<tr>
<td>Shareholding %</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>2018 EPS (cents / fils)</td>
<td>10.89</td>
<td>32.99</td>
</tr>
<tr>
<td>2018 Pro Forma Net Income (m)(^2)</td>
<td>1,413</td>
<td>428</td>
</tr>
<tr>
<td>Combined cost Base (m)</td>
<td>1,293</td>
<td>392</td>
</tr>
<tr>
<td>Illustrative Pre-Tax Cost Synergies % of Combined Cost Base(^3)</td>
<td>12.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>2018 Pro Forma Net Income Incl. Implied Cost Synergies (m)(^4)</td>
<td>1,529</td>
<td>463</td>
</tr>
<tr>
<td>Pro Forma Combined Number of Shares Outstanding</td>
<td>10,655</td>
<td>10,655</td>
</tr>
<tr>
<td>Pro Forma Shareholding %</td>
<td>64.7%</td>
<td>64.7%</td>
</tr>
<tr>
<td>2018 Pro Forma EPS (cents / fils)</td>
<td>14.35</td>
<td>43.47</td>
</tr>
<tr>
<td>2018 Pro Forma EPS (cents / fils) – Excl. Synergies</td>
<td>13.26</td>
<td>40.18</td>
</tr>
</tbody>
</table>

**Illustrative EPS and DPS Accretion Based on 2018 Pro Forma Calculations**

**Including Run-rate Synergies**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Pre-Merger</th>
<th>Post-Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>$10.89</td>
<td>$14.35</td>
</tr>
<tr>
<td>DPS</td>
<td>$5.99</td>
<td>$7.89</td>
</tr>
</tbody>
</table>

**Excluding Run-rate Synergies**

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<tr>
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<th>Post-Merger</th>
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<tbody>
<tr>
<td>EPS</td>
<td>$10.89</td>
<td>$13.26</td>
</tr>
<tr>
<td>DPS</td>
<td>$5.99</td>
<td>$7.30</td>
</tr>
</tbody>
</table>

**Transaction accretive to earnings per share for KFH’s shareholders including and excluding the impact of synergies**

\(^1\) As at 30-Sep-2019. \(^2\) Net of distribution to Tier 1 securities and Sukuk. \(^3\) Mid-point of 10-15% estimated cost synergies \(^4\) Including indicative incremental annual tax cost in Kuwait (Zakat / NLST / KFAS) from the acquisition. \(^5\) Pro forma cash dividends calculated assuming a pay-out ratio of 55.0% based on KFH’s 2018 cash pay-out ratio.
3. Integration
KFH STRATEGIC PLAN POST ACQUISITION

▪ Change AUB’s name to KFH Bahrain, following the successful implementation of the Acquisition

▪ Maintain current structure, save for any Bahrainization requirements or any personnel changes that may be required for the purposes of achieving the anticipated synergies, converting AUB’s business Sharia’a compliant or as part of AUB’s existing strategy

▪ Conversion of AUB Bahrain and its subsidiaries into Sharia’a compliant businesses that offer a full range of Sharia’a compliant banking products

▪ Conduct the statutory merger of the Group’s two subsidiaries in Bahrain (AUB and KFH Bahrain) following the successful completion of the conversion of AUB’s business into a Sharia’a compliant bank

▪ Submit a mandatory tender offer with respect to the shares in AUB Kuwait

▪ Conversion of AUB Kuwait into a digital bank

▪ Maintain KFH Group’s existing dividend policy
### HIGH-LEVEL INTEGRATION PLAN AND TIMELINE

<table>
<thead>
<tr>
<th>Pre-Closing Phase</th>
<th>Post-Closing Phase 1: Customer readiness</th>
<th>Post-Closing Phase 2: Operational readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3 - 6 Months</strong></td>
<td><strong>12 - 18 Months</strong></td>
<td><strong>12 – 24 Months</strong></td>
</tr>
<tr>
<td>- Publish Offer Document and Shareholder Circular</td>
<td>- Develop combined business strategy</td>
<td>- Roll out revenue generation initiatives for the combined customer portfolio</td>
</tr>
<tr>
<td>- Appoint broader leadership and management team</td>
<td>- Convert all non-Islamic operations to Islamic¹</td>
<td>- Scale up acquisition campaign for new customers of Digital Bank</td>
</tr>
<tr>
<td>- Develop integration roadmap and governance, including integration planning committee</td>
<td>- Integrate the organization</td>
<td>- Rationalize technology systems</td>
</tr>
<tr>
<td>- Launch regulatory approvals process</td>
<td>- Back office, support and control functions integration (e.g. HR, finance, credit systems)</td>
<td></td>
</tr>
<tr>
<td>- Conduct shareholders meetings</td>
<td>- Business functions integration and customer migration</td>
<td></td>
</tr>
<tr>
<td>- Complete transaction</td>
<td>- Distribution network optimization</td>
<td></td>
</tr>
<tr>
<td>- Prepare the detailed integration plans for all workstreams</td>
<td>- Technology conversion and migration</td>
<td></td>
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<tr>
<td></td>
<td>- Implement branding strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Launch Minimum Viable Product of Digital Bank</td>
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</tbody>
</table>

**Note:** Conversion timeline will vary country to country; all conversion expected to be complete within 18 – 36 months
4. Vision and Mission
MATCHING VISIONS, STRATEGIES AND MISSIONS

Vision and Strategy
- To lead the international development of Islamic financial services and become the most trusted and most consistently profitable Sharia’a-compliant bank in the world.

Mission
- To deliver superior innovation and customer service excellence whilst protecting and enhancing the interests of all stakeholders.
5. Transaction Structure
ENVISAGED TRANSACTION STRUCTURE

Key Steps for Phase 1
1. Acquisition of AUB by KFH via share swap

Key Steps for Phase 2
1. Conversion of AUB Bahrain and its subsidiaries into Sharia’a compliant businesses

Key Steps for Phase 3
1. Statutory merger between KFHB and AUB
2. KFHB dissolved and its assets and liabilities assumed by AUB
Names of these entities will be changed to KFH subject to required approvals.

Subject to successful completion of Mandatory Tender Offer by KFH.

AUB B.S.C owns 74.9% of AUB K.S.C.P or 75% if rounded up, as in the diagram above.
Note: Pro forma shareholding is based on current shares outstanding and is subject to change due to movement in Treasury shares.
6. Financial Highlights
EVIDENT FINANCIAL RATIONALE

A transformational transaction that brings significant benefits to all stakeholders

1. Scale position where assets >$100bn
   - ✔ Combined assets of $101.1bn

2. Diversified funding base
   - ✔ 75.1% Net Financing Receivables / Deposits
   - ✔ Funding comprises 67% deposits

3. Prudently risk-managed portfolio
   - ✔ NPF Ratio of 2.1%

4. Improving efficiency profile
   - ✔ Cost / Income Ratio of 34.5%

5. Strong return profile
   - ✔ Return on Average Equity of 15.2%

6. Robust capital position
   - ✔ CET1 Ratio of 14.5%
   - ✔ CAR of 17.3%

Source: Company financials as at Q319

1 As at 31-Dec-2018. 2 Q318 – Q319. 3 The pro forma capital position is calculated as the sum of KFH and AUB’s standalone capital as at 31 Dec 2018.

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## FINANCIAL AND OPERATIONAL METRICS

<table>
<thead>
<tr>
<th>Metrics (USD and Q319 unless otherwise stated)</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income (Q318 - Q319)</td>
<td>1,546</td>
</tr>
<tr>
<td>Total Assets</td>
<td>101,088</td>
</tr>
<tr>
<td>Net Financing</td>
<td>51,141</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>68,093</td>
</tr>
<tr>
<td>Net Income / Total Assets</td>
<td>1.5 %</td>
</tr>
<tr>
<td>Net Financing / Deposits</td>
<td>75.1 %</td>
</tr>
<tr>
<td>CET1 Ratio – Dec 2018</td>
<td>14.5 %</td>
</tr>
<tr>
<td>CAR Ratio - Dec 2018</td>
<td>17.3 %</td>
</tr>
<tr>
<td>Cost / Income Ratio (Q318 – Q319)</td>
<td>34.5 %</td>
</tr>
<tr>
<td>Return on Average Equity (Q318 - Q319)</td>
<td>15.2 %</td>
</tr>
<tr>
<td>Branches</td>
<td>651</td>
</tr>
<tr>
<td>Staff</td>
<td>18,901</td>
</tr>
<tr>
<td>Liquidity Banking Assets(^1) / Tangible Banking Assets(^2)</td>
<td>24.9 %</td>
</tr>
</tbody>
</table>

**Note:** Financial and Operational Metrics as per Q3/Q2-2019 company financials; KWD-USD FX rate of 3.287 as at 30-Sep-2019. AUB reported financials grouped as per KFH’s presentation: Deposits with banks and T-Bills are included in Short Term Murabaha; non-trading investments are included in Sukuk & Bonds; and subordinated liabilities are included in “inter-bank borrowings”.

\(^1\) Liquid Banking Assets are Cash and Cash Equivalents and Short Term Murabaha.  
\(^2\) Total Assets less Goodwill and Intangibles.  
\(^3\) The pro forma capital position is calculated as the sum of KFH and AUB’s standalone capital.