

# **Kuwait Finance House Group**



**بيت التمويل الكويتي**  
**Kuwait Finance House**

**Basel III and Leverage Public Disclosures**

**September 2020**

## Basel III and leverage Disclosures

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## Capital Adequacy Disclosures – Basel III

### First: Composition of Regulatory Capital and its Balance Sheet Reconciliation

#### A. Composition of Regulatory Capital

1. The bank's regulatory capital is composed from:

A. Tier 1 (T1) capital, which is composed from:

- Common Equity Tier 1 (CET1) – comprises of shareholder's equity, retained earnings, reserves, and eligible portion of non-controlling interests.
- Additional Tier 1 (AT1) – related to eligible portion of non-controlling interests.

B. Tier 2 (T2) capital – comprises of eligible portion of non-controlling interests and eligible portion of general provisions (1.25% of credit risk-weighted assets).

KD '000s

Regulatory Capital Components	Sep-20	Sep-19
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,071,612	2,021,600
Regulatory Adjustments for CET1	58,788	71,330
<b>Total Common Equity Tier 1 (CET1)</b>	<b>2,012,824</b>	<b>1,950,270</b>
Additional Tier 1 Capital (AT1)	33,833	59,211
<b>Total Tier 1 (T1=CET1+AT1)</b>	<b>2,046,657</b>	<b>2,009,481</b>
Tier 2 Capital (T2)	214,201	208,159
<b>Total Capital (TC=T1+T2)</b>	<b>2,260,858</b>	<b>2,217,640</b>
<b>Total Risk Weighted Assets</b>	<b>13,914,736</b>	<b>13,199,211</b>
Capital Adequacy Ratios and Buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	14.47%	14.78%
Tier 1 (as percentage of risk-weighted assets)	14.71%	15.22%
Total capital (as percentage of risk-weighted assets)	16.25%	16.80%
National minima		
Common Equity Tier 1 minimum ratio	9.0%	11.5%
Tier 1 minimum ratio	10.5%	13.0%
Total capital minimum ratio	12.5%	15.0%

## 2. Common Disclosure Template:

- The below table serves as a detailed breakdown of the bank's regulatory capital in a clear and consistent format thus enhancing the assessment of capital requirements for all risk exposures.

KD '000s

	<b>Common Equity Tier 1 capital: instruments and reserves</b>	<b>Sep-20</b>	<b>Sep-19</b>
1	Directly issued qualifying common share capital plus related stock surplus	1,487,747	1,417,982
2	Retained earnings	56,494	49,958
3	Accumulated other comprehensive income (and other reserves)	424,187	448,437
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0	0
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	103,184	105,223
6	Net income	0	0
7	Common Equity Tier 1 capital before regulatory adjustments	<b>2,071,612</b>	<b>2,021,600</b>
	<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
8	Prudential valuation adjustments		
9	Goodwill (net of related tax liability)	150	292
10	Other intangibles (net of related tax liability)	30,835	31,988
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
12	Cash-flow hedge reserve		
13	Shortfall of provisions to expected losses		
14	Taskeek gain on sale (as set out in para 72 of these guidelines)		
15	Gains and losses due to changes in own credit risk on fair valued liabilities		
16	Defined-benefit pension fund net assets (para 68)		
17	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	27,803	39,050
18	Reciprocal cross-holdings in common equity		
19	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)		
20	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)		
21	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)		
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
23	Amount exceeding the 15% threshold		

24	of which: significant investments in the common stock of financials		
25	of which: mortgage servicing rights		
26	of which: deferred tax assets arising from temporary differences		
27	National specific regulatory adjustments		
28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
29	Total regulatory adjustments to Common equity Tier 1	58,788	71,330
30	Common Equity Tier 1 capital (CET1)	<b>2,012,824</b>	<b>1,950,270</b>
	<b>Additional Tier 1 capital: instruments</b>		
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
32	of which: classified as equity under applicable accounting standards		
33	of which: classified as liabilities under applicable accounting standards		
34	Directly issued capital instruments subject to phase out from Additional Tier 1		
35	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)	33,833	59,211
36	of which: instruments issued by subsidiaries subject to phase-out		
37	Additional Tier 1 capital before regulatory adjustments	<b>33,833</b>	<b>59,211</b>
	<b>Additional Tier 1 capital: regulatory adjustments</b>		
38	Investments in own Additional Tier 1 instruments		
39	Reciprocal cross-holdings in Additional Tier 1 instruments		
40	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)		
41	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
42	National specific regulatory adjustments		
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
44	Total regulatory adjustments to Additional Tier 1 capital		
45	Additional Tier 1 capital (AT1)	<b>33,833</b>	<b>59,211</b>
46	Tier 1 capital (T1 = CET1 + AT1)	<b>2,046,657</b>	<b>2,009,481</b>
	<b>Tier 2 capital: instruments and provisions</b>		
47	Directly issued qualifying Tier 2 instruments plus related stock surplus		
48	Directly issued capital instruments subject to phase-out from Tier 2		

49	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)	55,782	57,770
50	of which: instruments issued by subsidiaries subject to phase-out		
51	General provisions included in Tier 2 capital	158,419	150,389
52	Tier 2 capital before regulatory adjustments	214,201	208,159
	<b>Tier 2 capital: regulatory adjustments</b>		
53	Investments in own Tier 2 instruments		
54	Reciprocal cross-holdings in Tier 2 instruments		
55	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 the 10% threshold)		
56	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
57	National specific regulatory adjustments		
58	Total regulatory adjustments to Tier 2 capital		
59	Tier 2 capital (T2)	<b>214,201</b>	<b>208,159</b>
60	Total capital (TC = T1 + T2)	<b>2,260,858</b>	<b>2,217,640</b>
61	Total risk weighted assets (after applying 50% additional weighting)	<b>13,914,736</b>	<b>13,199,211</b>
	<b>Capital ratios and buffers</b>		
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.47%	14.78%
63	Tier 1 (as a percentage of risk weighted assets)	14.71%	15.22%
64	Total capital (as a percentage of risk weighted assets)	16.25%	16.80%
65	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)	9.0%	11.5%
66	of which: capital conservation buffer requirement		2.5%
67	of which: bank specific countercyclical buffer requirement		
68	of which: D-SIB buffer requirement	2.0%	2.0%
69	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	7.47%	7.78%
	<b>National minima</b>		
70	National Common Equity Tier 1 minimum ratio	9.0%	11.5%
71	National Tier 1 minimum ratio	10.5%	13.0%
72	National total capital minimum ratio	12.5%	15.0%
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>		

73	Non-significant investments in the capital of other financials		
74	Significant investments in the common stock of financials		
75	Mortgage servicing rights (net of related tax liability)		
76	Deferred tax assets arising from temporary differences (net of related tax liability)	24,459	29,662
	Applicable caps on the inclusion of provisions in Tier 2		
77	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	394,695	357,507
78	Cap on inclusion of provisions in Tier 2 under standardized approach	158,419	150,389
79	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
80	Cap for inclusion of provisions in Tier 2 under internal ratings-based		

**B. Reconciliation requirements:**

- The purpose of the full reconciliation of all regulatory capital elements to the balance sheet in the audited financial statements is to address any cases where calculated regulatory capital doesn't reconcile with published financial statements.
- The full reconciliation process can be broken down into two main steps.
  - o Full and detailed breakdown of the balance sheet as disclosed in the published financial statements.
  - o Mapping between components of the regulatory capital with the published financial statements.

### Step 1 and 2 of Reconciliation requirements

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Sep-20	Sep-20	
<b>Assets</b>			
Cash and balances with banks and financial institutions	2,453,071	2,453,071	
Short-term Murabaha	3,283,054	3,283,054	
Financing receivables	10,130,244	10,130,244	
of which General Provisions (netted above) capped for Tier 2 inclusion	158,419	158,419	A
Investment in Sukuk	3,219,754	3,219,754	
Trading properties	103,246	103,246	
Investments	180,013	180,013	
Investment in associates and joint ventures	526,674	526,674	
Investment properties	372,211	372,211	
Other Assets	437,170	437,170	
Intangible assets and goodwill	30,985	30,985	
of which goodwill	150	150	B
of which other intangibles	30,835	30,835	C
Property and equipment	224,887	224,887	
<b>Total Assets</b>	<b>20,961,309</b>	<b>20,961,309</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	2,940,479	2,940,479	
Sukuk Payable	289,187	289,187	
Depositors account	14,914,013	14,914,013	
Other liabilities	777,678	777,678	
<b>Total Liabilities</b>	<b>18,921,357</b>	<b>18,921,357</b>	
<b>Equity Attributable to the shareholders of the bank</b>			
Share Capital	767,414	767,414	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	0	0	
Treasury shares	-27,803	-27,803	F
Reserves	412,677	412,677	
of which: statutory reserve	324,875	324,875	G
of which: voluntary reserve	290,184	290,184	H
of which: treasury share reserve	14,990	14,990	I
<b>of which: fair value reserve</b>	57,264	57,264	
of which: eligible as CET1 Capital	54,305	54,305	K
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	-312,935	-312,935	
of which: eligible as CET1 Capital	-249,667	-249,667	L
of which: eligible as depositors accounts	-63,268	-63,268	
<b>of which: other reserves</b>	-23,771	-23,771	
of which: eligible as CET1 Capital	-10,500	-10,500	M
of which: eligible as depositors accounts	-13,271	-13,271	
<b>of which: retained earnings</b>	62,070	62,070	
of which: current year income	101,207	101,207	
of which: Modification Loss on Financing Receivable	-95,631	-95,631	
of which: retained earnings from previous years	56,494	56,494	N
Dividends (Declared but not incurred)	0	0	
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>1,872,621</b>	<b>1,872,621</b>	
Non-controlling interests	167,331	167,331	
Non-controlling interests eligible as CET1 capital	103,184	103,184	O
Non-controlling interests eligible as AT1 capital	33,833	33,833	P
Non-controlling interests eligible as Tier 2 capital	55,782	55,782	Q
<b>Total Equity</b>	<b>2,039,952</b>	<b>2,039,952</b>	
<b>Total Liabilities and Equity</b>	<b>20,961,309</b>	<b>20,961,309</b>	



Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Sep-19	Sep-19	
<b>Assets</b>			
Cash and balances with banks and financial institutions	1,678,356	1,678,356	
Short-term Murabaha	3,718,114	3,718,114	
Financing receivables	9,356,418	9,356,418	
of which General Provisions (netted above) capped for Tier 2 inclusion	150,389	150,389	A
Investment in Sukuk	2,131,927	2,131,927	
Trading properties	146,755	146,755	
Investments	244,986	244,986	
Investment in associates and joint ventures	503,402	503,402	
Investment properties	465,246	465,246	
Other Assets	509,435	509,435	
Intangible assets and goodwill	32,280	32,280	
of which goodwill	292	292	B
of which other intangibles	31,988	31,988	C
Property and equipment	211,761	211,761	
<b>Total Assets</b>	<b>18,998,680</b>	<b>18,998,680</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	2,403,659	2,403,659	
Sukuk Payable	368,876	368,876	
Depositors account	13,247,509	13,247,509	
Other liabilities	793,982	793,982	
<b>Total Liabilities</b>	<b>16,814,026</b>	<b>16,814,026</b>	
<b>Equity Attributable to the shareholders of the bank</b>			
Share Capital	697,649	697,649	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	0	0	
Treasury shares	-39,050	-39,050	F
Reserves	615,311	615,311	
of which: statutory reserve	298,527	298,527	G
of which: voluntary reserve	298,527	298,527	H
of which: treasury share reserve	10,295	10,295	I
<b>of which: fair value reserve</b>	39,541	39,541	
of which: eligible as CET1 Capital	36,582	36,582	K
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	-252,141	-252,141	
of which: eligible as CET1 Capital	-188,873	-188,873	L
of which: eligible as depositors accounts	-63,268	-63,268	
<b>of which: other reserves</b>	-19,892	-19,892	
of which: eligible as CET1 Capital	-6,621	-6,621	M
of which: eligible as depositors accounts	-13,271	-13,271	
<b>of which: retained earnings</b>	240,454	240,454	
of which: current year income	190,496	190,496	
of which: Modification Loss on Financing Receivable	0	0	
of which: retained earnings from previous years	49,958	49,958	N
Dividends (Declared but not incurred)	0	0	
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>1,994,243</b>	<b>1,994,243</b>	
Non-controlling interests	190,411	190,411	
Non-controlling interests eligible as CET1 capital	105,223	105,223	O
Non-controlling interests eligible as AT1 capital	59,211	59,211	P
Non-controlling interests eligible as Tier 2 capital	57,770	57,770	Q
<b>Total Equity</b>	<b>2,184,654</b>	<b>2,184,654</b>	
<b>Total Liabilities and Equity</b>	<b>18,998,680</b>	<b>18,998,680</b>	

### Step 3 of Reconciliation requirements

KD '000s

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital Sep-20	Component of regulatory capital Sep-19	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	1,487,747	1,417,982	D+E
2	Retained earnings	56,494	49,958	N
3	Accumulated other comprehensive income (and other reserves)	424,187	448,437	G+H+I+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	103,184	105,223	O
5	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>2,071,612</b>	<b>2,021,600</b>	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
6	Goodwill	(150)	(292)	B
7	Other intangible assets	(30,835)	(31,988)	C
8	Treasury shares	(27,803)	(39,050)	F
9	<b>Total regulatory adjustments to Common Equity Tier1</b>	<b>(58,788)</b>	<b>(71,330)</b>	
10	<b>Common Equity Tier 1 capital (CET1)</b>	<b>2,012,824</b>	<b>1,950,270</b>	
<b>Additional Tier 1 capital: instruments</b>				
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	33,833	59,211	P
12	<b>Total Tier 1 capital</b>	<b>2,046,657</b>	<b>2,009,481</b>	
<b>Tier 2 capital: instruments and provisions</b>				
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	55,782	57,770	Q
14	General Provisions included in Tier 2 Capital	158,419	150,389	A
15	<b>Total Tier 2 capital</b>	<b>214,201</b>	<b>208,159</b>	
<b>Total capital</b>		<b>2,260,858</b>	<b>2,217,640</b>	

### Second: Financial Leverage Ratio

- In October 2014, CBK issued regulations on the Financial Leverage ratio for Islamic banks which has been implemented as of December 31, 2014.
- The purpose of this ratio is to enhance the capital adequacy requirements as the calculation of the financial leverage ratio under Basel III is limited to risk weighted assets where this ratio considers total assets on and off the balance sheet.
- Note that the minimum Financial Leverage Ratio is 3%.

KD '000s

	Leverage Ratio Components	Sep-20	Sep-19
1	Tier 1 capital	2,046,657	2,009,481
2	Total exposures	23,909,212	21,573,293
<b>Leverage ratio</b>			
3	Financial leverage ratio	8.56%	9.31%