# Kuwait Finance House Group



Kuwait Finance House

## **Basel III and Leverage Public Disclosures**

June 2018

## **Basel III and leverage Disclosures**

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### ✓ Capital Composition

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## ✓ Financial Leverage Ratio

1.	Leverage Ratio.
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#### 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	Total	
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	1,885,219	
Regulatory Adjustments for CET1	83,371	
Total Common Equity Tier 1 (CET1)	1,801,848	
Additional Tier 1 Capital (AT1)	39,330	
Total Tier 1 (T1=CET1+AT1)	1,841,178	
Tier 2 Capital (T2)	209,606	
Total Capital (TC=T1+T2)	2,050,784	
Total Risk Weighted Assets	11,991,080	
Capital Adequacy Ratios and Buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.03%	
Tier 1 (as percentage of risk-weighted assets)	15.35%	
Total capital (as percentage of risk-weighted assets)	17.10%	
National minima		
Common Equity Tier 1 minimum ratio	11.5%	
Tier 1 minimum ratio	13.0%	
Total capital minimum ratio	15.0%	

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#### 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.

	Common Equity Tier 1 capital: instruments and reserves	Amount (Thousands)
1	Directly issued qualifying common share capital plus related stock surplus	1,354,559
2	Retained earnings	74,471
3	Accumulated other comprehensive income (and other reserves)	402,308
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0
5	Common share capital issued by subsidiaries and held by third parties minority interest)	53,881
6	Net income	0
7	Common Equity Tier 1 capital before regulatory adjustments	1,885,219
	Common Equity Tier 1 capital: regulatory adjustments	
8	Prudential valuation adjustments	
9	Goodwill (net of related tax liability)	5,751
10	Other intangibles (net of related tax liability)	32,564
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)	45,056
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	83,371
30	Common Equity Tier 1 capital (CET1)	1,801,848
	Additional Tier 1 capital: instruments	
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)	39,330
36	of which: instruments issued by subsidiaries subject to phase-out	
37	Additional Tier 1 capital before regulatory adjustments	39,330
	Additional Tier 1 capital: regulatory adjustments	
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)	39,330
46	Tier 1 capital (T1 = CET1 + AT1)	1,841,178
	Tier 2 capital: instruments and provisions	
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)	75,566
50	of which: instruments issued by subsidiaries subject to phase-out	
51	General provisions included in Tier 2 capital	134,040
52	Tier 2 capital before regulatory adjustments	209,606
	Tier 2 capital: regulatory adjustments	
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)	209,606
60	Total capital (TC = T1 + T2)	2,050,784
61	Total risk weighted assets (after applying 50% additional weighting)	11,991,080
	Capital ratios and buffers	
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.03%
63	Tier 1 (as a percentage of risk weighted assets)	15.35%
64	Total capital (as a percentage of risk weighted assets)	17.10%
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	4.5%
	assets)	
66	assets) of which: capital conservation buffer requirement	2.5%
66 67		2.5%
	of which: capital conservation buffer requirement	2.5%
67	of which: capital conservation buffer requirement of which: bank specific countercyclical buffer requirement	
67 68	of which: capital conservation buffer requirement of which: bank specific countercyclical buffer requirement of which: D-SIB buffer requirement Common Equity Tier 1 available to meet buffers (as a percentage of risk	2.0%
67 68	of which: capital conservation buffer requirement of which: bank specific countercyclical buffer requirement of which: D-SIB buffer requirement Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.0%
67 68 69	of which: capital conservation buffer requirement of which: bank specific countercyclical buffer requirement of which: D-SIB buffer requirement Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) National minima	2.0% 6.03%

	Amounts below the thresholds for deduction (before risk weighting)	
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)	25,669
	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)	293,275
78	Cap on inclusion of provisions in Tier 2 under standardized approach	134,040
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

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illities directly associated with assets classified and held for sale       ity Attributable to the shareholders of the bank         re Capital       re capital         re premium       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         asury shares       posed issue of bonus shares         erves       f which: statutory reserve         f which: statutory reserve       f         f which: stock option reserve       f         f which: fair value reserve       f         of which: eligible as CET1 Capital       p         of which: eligible as depositors accounts       f         f which: revaluation reserve       f	11,946,720	11,946,720	
al Liabilities       ity Attributable to the shareholders of the bank         ire Capital       re capital         re premium       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         posed issue of bonus shares       posed issue of bonus shares         proves       posed issue of bonus shares         f which: statutory reserve       posed issue of bonus share reserve         of which: eligible as CET1 Capital       posed issue of bonus shares         of which: eligible as depositors accounts       posed issue of bonus shares         f which: revaluation reserve       posed issue of bonus shares	769,464	769,464	<b> </b>
ity Attributable to the shareholders of the bankre Capitalre capitalre premiumposed issue of bonus sharesasury shareservesf which: statutory reservef which: statutory reservef which: treasury share reservef which: stock option reservef which: fair value reserveof which: eligible as CET1 Capitalof which: revaluation reservef which: revaluation reserve	2,507	2,507	<b> </b>
re Capital re premium posed issue of bonus shares asury shares reves f which: statutory reserve f which: voluntary reserve f which: treasury share reserve f which: stock option reserve f which: eligible as CET1 Capital of which: eligible as depositors accounts f which: revaluation reserve	15,650,502	15,650,502	
re premium posed issue of bonus shares asury shares erves f which: statutory reserve f which: statutory reserve f which: treasury share reserve f which: stock option reserve f which: fair value reserve f which: eligible as CET1 Capital of which: eligible as depositors accounts f which: revaluation reserve	624.226	624.226	
posed issue of bonus shares       asury shares         asury shares       f         erves       f         f which: statutory reserve       f         f which: voluntary reserve       f         f which: stock option reserve       f         f which: fair value reserve       f         of which: eligible as CET1 Capital       o         of which: revaluation reserve       f	634,226	634,226	D E
asury shares       asury shares         erves       f         f which: statutory reserve       f         f which: voluntary reserve       f         f which: treasury share reserve       f         f which: stock option reserve       f         f which: fair value reserve       f         of which: eligible as CET1 Capital       o         of which: revaluation reserve       f	720,333	720,333	E
erves	-	Ţ.	F
f which: statutory reserve       f         f which: voluntary reserve       f         f which: treasury share reserve       f         f which: stock option reserve       f         f which: fair value reserve       f         of which: eligible as CET1 Capital       f         of which: eligible as depositors accounts       f         f which: revaluation reserve       f	(45,056)	(45,056)	F
f which: voluntary reserve       f         f which: treasury share reserve       f         f which: stock option reserve       f <b>f which: fair value reserve</b> f         of which: eligible as CET1 Capital       f         of which: revaluation reserve       f <b>f which: revaluation reserve</b> f	472,028	472,028	G
f which: treasury share reserve       f         f which: stock option reserve       f         f which: fair value reserve       f         of which: eligible as CET1 Capital       f         of which: eligible as depositors accounts       f         f which: revaluation reserve       f	274,841	274,841	-
f which: stock option reserve       f         f which: fair value reserve       of which: eligible as CET1 Capital         of which: eligible as depositors accounts       f         f which: revaluation reserve       f	274,841	274,841 6,747	H
f which: fair value reserve       of which: eligible as CET1 Capital         of which: eligible as depositors accounts       of which: revaluation reserve	<u> </u>	0,747	J
of which: eligible as CET1 Capital         of which: eligible as depositors accounts         f which: revaluation reserve	(26,907)	(26,907)	1
of which: eligible as depositors accounts f which: revaluation reserve	(16,321)		K
f which: revaluation reserve	(10,586)	(16,321) (10,586)	К
	(206,295)	(206,295)	
of which: eligible as CET1 Capital	(125,131)	(125,131)	L
of which: eligible as depositors accounts	(81,164)	(123,131) (81,164)	
f which: engine as depositors accounts	(20,887)	(20,887)	
of which: eligible as CET1 Capital	(12,669)	(12,669)	М
- -	(8,218)	(8,218)	IVI
of which: eligible as depositors accounts f which: retained earnings	169,688	169,688	┝───
of which: current year income	95,217	95,217	┝───
of which: retained earnings from previous years	74,471	74,471	N
dends (Declared but not incurred)	0	0	
al Equity Attributable to the shareholders of the bank		1,781,531	┝───
-controlling interests		1,781,531	┝───
f which limited recognition eligible as CET1 capital	1,781,531	53,881	0
f which limited recognition eligible as AT1 capital	1,781,531 191,582	39,330	P
f which limited recognition eligible as Tier 2 capital	1,781,531 191,582 53,881	75,566	P Q
al Equity	1,781,531 191,582 53,881 39,330	13,300	L L
al Equity	1,781,531 191,582 53,881	1,973,113	t

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	1,354,559	D+E
2	Retained earnings	74,471	Ν
3	Accumulated other comprehensive income (and other reserves)	402,308	G+H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	53,881	0
5	Common Equity Tier 1 capital before regulatory adjustments	1,885,219	
	Common Equity Tier 1 capital : regulatory adjustments		
6	Goodwill	(5,751)	В
7	Other intangible assets	(32,564)	С
8	Treasury shares	(45,056)	F
9	Total regulatory adjustments to Common Equity Tier1	(83,371)	
10	Common Equity Tier 1 capital (CET1)	1,801,848	
	Additional Tier 1 capital : instruments		
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	39,330	Р
12	Total Tier 1 capital	1,841,178	
	Tier 2 capital : instruments and provisions		
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	75,566	Q
14	General Provisions included in Tier 2 Capital	134,040	А
15	Total Tier 2 capital	209,606	
	Total capital	2,050,784	

#### 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.

<ul> <li>Note that the minimum Financial Leverage Ratio is 3%</li> </ul>	•	Note that the minimum Financial Leverage Ratio is 3%.
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	On-balance sheet exposures	KD '000s
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,878,550
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(38,315)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	17,840,235
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	749,062
5	Add-on amounts for PFE associated with all derivatives transactions	5,064
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	Total derivative exposures (sum of lines 4 to 10)	754,126
	Other off-balance sheet exposures	
10	Off-balance sheet exposure at gross notional amount	2,498,600
11	(Adjustments for conversion to credit equivalent amounts)	(1,426,380)
12	Off-balance sheet items (sum of lines 17 and 18)	1,072,220
	Capital and total exposures	
13	Tier 1 capital	1,841,178
14	Total exposures (sum of lines 3, 11, 16 and 19)	19,666,581
	Leverage ratio	
15	Basel III leverage ratio	9.36%