

# **Kuwait Finance House Group**



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

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

**June 2021**

## 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) – comprises of perpetual sukuk tier 1, and 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	Jun-21	Jun-20
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,031,128	2,102,171
Regulatory Adjustments for CET1	60,637	59,288
<b>Total Common Equity Tier 1 (CET1)</b>	<b>1,970,491</b>	<b>2,042,883</b>
Additional Tier 1 Capital (AT1)	261,001	46,032
<b>Total Tier 1 (T1=CET1+AT1)</b>	<b>2,231,492</b>	<b>2,088,915</b>
Tier 2 Capital (T2)	167,520	220,122
<b>Total Capital (TC=T1+T2)</b>	<b>2,399,013</b>	<b>2,309,037</b>
<b>Total Risk Weighted Assets</b>	<b>12,912,888</b>	<b>13,968,174</b>
<b>Capital Adequacy Ratios and Buffers</b>		
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.26%	14.63%
Tier 1 (as percentage of risk-weighted assets)	17.28%	14.95%
Total capital (as percentage of risk-weighted assets)	18.58%	16.53%
<b>National minima</b>		
Common Equity Tier 1 minimum ratio	9.0%	9.0%
Tier 1 minimum ratio	10.5%	10.5%
Total capital minimum ratio	12.5%	12.5%

## 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>Jun-21</b>	<b>Jun-20</b>
1	Directly issued qualifying common share capital plus related stock surplus	1,564,488	1,487,747
2	Retained earnings	71,497	56,494
3	Accumulated other comprehensive income (and other reserves)	306,257	458,955
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)	88,886	98,975
6	Proposed issue of bonus shares	0	0
7	Common Equity Tier 1 capital before regulatory adjustments	<b>2,031,128</b>	<b>2,102,171</b>
	<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
8	Prudential valuation adjustments		
9	Goodwill (net of related tax liability)	150	150
10	Other intangibles (net of related tax liability)	32,748	31,335
11	Proposed cash dividends		
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)	27,739	27,803
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	60,637	59,288
30	Common Equity Tier 1 capital (CET1)	<b>1,970,491</b>	<b>2,042,883</b>
	Additional Tier 1 capital: instruments		
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	225,788	0
32	of which: classified as equity under applicable accounting standards	225,788	0
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)	35,213	46,032
36	of which: instruments issued by subsidiaries subject to phase-out		
37	Additional Tier 1 capital before regulatory adjustments	<b>261,001</b>	<b>46,032</b>
	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)	<b>261,001</b>	<b>46,032</b>
46	Tier 1 capital (T1 = CET1 + AT1)	<b>2,231,492</b>	<b>2,088,915</b>
	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)	21,847	61,017
50	of which: instruments issued by subsidiaries subject to phase-out		
51	General provisions included in Tier 2 capital	145,673	159,105
52	Tier 2 capital before regulatory adjustments	167,520	220,122
	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)	<b>167,520</b>	<b>220,122</b>
60	Total capital (TC = T1 + T2)	<b>2,399,013</b>	<b>2,309,037</b>
61	Total risk weighted assets (after applying 50% additional weighting)	<b>12,912,888</b>	<b>13,968,174</b>
	Capital ratios and buffers		
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.26%	14.63%
63	Tier 1 (as a percentage of risk weighted assets)	17.28%	14.95%
64	Total capital (as a percentage of risk weighted assets)	18.58%	16.53%
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%	9.0%
66	of which: capital conservation buffer requirement		
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)	8.26%	7.63%
	National minima		
70	National Common Equity Tier 1 minimum ratio	9.0%	9.0%
71	National Tier 1 minimum ratio	10.5%	10.5%
72	National total capital minimum ratio	12.5%	12.5%
	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)	43,207	24,459
	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)	476,615	391,893
78	Cap on inclusion of provisions in Tier 2 under standardized approach	145,673	159,105
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.
	Jun-21	Jun-21	
<b>Assets</b>			
Cash and balances with banks and financial institutions	2,958,131	2,958,131	
Short-term Murabaha	2,832,247	2,832,247	
Financing receivables	11,086,356	11,086,356	
of which General Provisions (netted above) capped for Tier 2 inclusion	145,673	145,673	A
Investment in Sukuk	2,746,637	2,746,637	
Trading properties	100,089	100,089	
Investments	226,249	226,249	
Investment in associates and joint ventures	495,517	495,517	
Investment properties	345,574	345,574	
Other Assets	507,112	507,112	
Intangible assets and goodwill	32,898	32,898	
of which goodwill	150	150	B
of which other intangibles	32,748	32,748	C
Property and equipment	215,978	215,978	
<b>Total Assets</b>	<b>21,546,788</b>	<b>21,546,788</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	2,434,873	2,434,873	
Sukuk Payable	267,871	267,871	
Depositors account	15,776,400	15,776,400	
Other liabilities	805,587	805,587	
<b>Total Liabilities</b>	<b>19,284,731</b>	<b>19,284,731</b>	
<b>Equity Attributable to the shareholders of the bank</b>			
Share Capital	844,155	844,155	D
Share premium	720,333	720,333	E
Treasury shares	-27,739	-27,739	F
Reserves	334,644	334,644	
of which: statutory reserve	340,325	340,325	G
of which: voluntary reserve	208,385	208,385	H
of which: treasury share reserve	15,028	15,028	I
<b>of which: fair value reserve</b>	61,651	61,651	
of which: eligible as CET1 Capital	58,692	58,692	J
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	-368,941	-368,941	
of which: eligible as CET1 Capital	-305,673	-305,673	K
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	L
of which: eligible as depositors accounts	-13,271	-13,271	
<b>of which: retained earnings</b>	101,967	101,967	
of which: current year income	102,193	102,193	
of which: Modification Loss on Financing Receivable	-71,723	-71,723	
of which: retained earnings from previous years	71,497	71,497	M
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>1,871,393</b>	<b>1,871,393</b>	
Perpetual Sukuk – Tier 1	225,788	225,788	N
Non-controlling interests	164,876	164,876	
Non-controlling interests eligible as CET1 capital	88,886	88,886	O
Non-controlling interests eligible as AT1 capital	35,213	35,213	P
Non-controlling interests eligible as Tier 2 capital	21,847	21,847	Q
<b>Total Equity</b>	<b>2,262,057</b>	<b>2,262,057</b>	
<b>Total Liabilities and Equity</b>	<b>21,546,788</b>	<b>21,546,788</b>	



Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Jun-20	Jun-20	
<b>Assets</b>			
Cash and balances with banks and financial institutions	1,762,690	1,762,690	
Short-term Murabaha	3,575,943	3,575,943	
Financing receivables	9,864,147	9,864,147	
of which General Provisions (netted above) capped for Tier 2 inclusion	159,105	159,105	A
Investment in Sukuk	3,422,020	3,422,020	
Trading properties	105,694	105,694	
Investments	171,318	171,318	
Investment in associates and joint ventures	550,637	550,637	
Investment properties	397,491	397,491	
Other Assets	472,087	472,087	
Intangible assets and goodwill	31,485	31,485	
of which goodwill	150	150	B
of which other intangibles	31,335	31,335	C
Property and equipment	228,967	228,967	
<b>Total Assets</b>	<b>20,582,479</b>	<b>20,582,479</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	2,856,179	2,856,179	
Sukuk Payable	309,564	309,564	
Depositors account	14,586,791	14,586,791	
Other liabilities	790,817	790,817	
<b>Total Liabilities</b>	<b>18,543,351</b>	<b>18,543,351</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
Treasury shares	-27,803	-27,803	F
Reserves	412,705	412,705	
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>	61,830	61,830	
of which: eligible as CET1 Capital	58,871	58,871	J
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	-283,249	-283,249	
of which: eligible as CET1 Capital	-219,981	-219,981	K
of which: eligible as depositors accounts	-63,268	-63,268	
<b>of which: other reserves</b>	-23,255	-23,255	
of which: eligible as CET1 Capital	-9,984	-9,984	L
of which: eligible as depositors accounts	-13,271	-13,271	
<b>of which: retained earnings</b>	17,780	17,780	
of which: current year income	56,917	56,917	
of which: Modification Loss on Financing Receivable	-95,631	-95,631	
of which: retained earnings from previous years	56,494	56,494	M
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>1,863,099</b>	<b>1,863,099</b>	
Perpetual Sukuk – Tier 1	0	0	N
Non-controlling interests	176,029	176,029	
Non-controlling interests eligible as CET1 capital	98,975	98,975	O
Non-controlling interests eligible as AT1 capital	46,032	46,032	P
Non-controlling interests eligible as Tier 2 capital	61,017	61,017	Q
<b>Total Equity</b>	<b>2,039,128</b>	<b>2,039,128</b>	
<b>Total Liabilities and Equity</b>	<b>20,582,479</b>	<b>20,582,479</b>	

### Step 3 of Reconciliation requirements

KD '000s

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital Jun-21	Component of regulatory capital Jun-20	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	1,564,488	1,487,747	D + E
2	Retained earnings	71,497	56,494	M
3	Accumulated other comprehensive income (and other reserves)	306,257	458,955	G+H+I+J+K+L
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	88,886	98,975	O
	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>2,031,128</b>	<b>2,102,171</b>	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
6	Goodwill	(150)	(150)	B
7	Other intangible assets	(32,748)	(31,335)	C
8	Treasury shares	(27,739)	(27,803)	F
	<b>Total regulatory adjustments to Common Equity Tier1</b>	<b>(60,637)</b>	<b>(59,288)</b>	
	<b>Common Equity Tier 1 capital (CET1)</b>	<b>1,970,491</b>	<b>2,042,883</b>	
<b>Additional Tier 1 capital: instruments</b>				
10	Common share capital issued by subsidiaries and held by third parties (minority interest)	35,213	46,032	P
	Perpetual Sukuk – Tier 1	225,788	0	N
	<b>Total Tier 1 capital</b>	<b>2,231,492</b>	<b>2,088,915</b>	
<b>Tier 2 capital: instruments and provisions</b>				
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	21,847	61,017	Q
12	General Provisions included in Tier 2 Capital	145,673	159,105	A
	<b>Total Tier 2 capital</b>	<b>167,520</b>	<b>220,122</b>	
	<b>Total capital</b>	<b>2,399,013</b>	<b>2,309,037</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	Jun-21	Jun-20
1	Tier 1 capital	2,231,492	2,088,915
2	Total exposures	23,569,923	23,246,565
	<b>Leverage ratio</b>		
3	Financial leverage ratio	9.47%	8.99%