

# **Kuwait Finance House Group**



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

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

**March 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) – 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	Mar-21	Mar-20
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,081,667	2,174,034
Regulatory Adjustments for CET1	60,693	204,679
<b>Total Common Equity Tier 1 (CET1)</b>	<b>2,020,974</b>	<b>1,969,355</b>
Additional Tier 1 Capital (AT1)	33,830	58,525
<b>Total Tier 1 (T1=CET1+AT1)</b>	<b>2,054,804</b>	<b>2,027,880</b>
Tier 2 Capital (T2)	162,091	218,481
<b>Total Capital (TC=T1+T2)</b>	<b>2,216,895</b>	<b>2,246,361</b>
<b>Total Risk Weighted Assets</b>	<b>13,057,543</b>	<b>13,604,856</b>
<b>Capital Adequacy Ratios and Buffers</b>		
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.48%	14.48%
Tier 1 (as percentage of risk-weighted assets)	15.74%	14.91%
Total capital (as percentage of risk-weighted assets)	16.98%	16.51%
<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.

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	<b>Common Equity Tier 1 capital: instruments and reserves</b>	<b>Mar-21</b>	<b>Mar-20</b>
1	Directly issued qualifying common share capital plus related stock surplus	1,564,488	1,417,982
2	Retained earnings	72,032	195,176
3	Accumulated other comprehensive income (and other reserves)	352,327	374,236
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)	92,820	116,875
6	Proposed issue of bonus shares	0	69,765
7	Common Equity Tier 1 capital before regulatory adjustments	<b>2,081,667</b>	<b>2,174,034</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)	32,804	31,623
11	Proposed cash dividends	0	137,980
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	34,784
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	60,693	204,679
30	Common Equity Tier 1 capital (CET1)	<b>2,020,974</b>	<b>1,969,355</b>
	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)	33,830	58,525
36	of which: instruments issued by subsidiaries subject to phase-out		
37	Additional Tier 1 capital before regulatory adjustments	<b>33,830</b>	<b>58,525</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>33,830</b>	<b>58,525</b>
46	Tier 1 capital (T1 = CET1 + AT1)	<b>2,054,804</b>	<b>2,027,880</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)	15,077	64,959
50	of which: instruments issued by subsidiaries subject to phase-out		
51	General provisions included in Tier 2 capital	147,014	153,522
52	Tier 2 capital before regulatory adjustments	162,091	218,481
	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>162,091</b>	<b>218,481</b>
60	Total capital (TC = T1 + T2)	<b>2,216,895</b>	<b>2,246,361</b>
61	Total risk weighted assets (after applying 50% additional weighting)	<b>13,057,543</b>	<b>13,604,856</b>
	Capital ratios and buffers		
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.48%	14.48%
63	Tier 1 (as a percentage of risk weighted assets)	15.74%	14.91%
64	Total capital (as a percentage of risk weighted assets)	16.98%	16.51%
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)	8.48%	7.48%
	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)	44,693	22,963
	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)	449,977	382,745
78	Cap on inclusion of provisions in Tier 2 under standardized approach	147,013	153,522
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.
	Mar-21	Mar-21	
<b>Assets</b>			
Cash and balances with banks and financial institutions	3,014,176	3,014,176	
Short-term Murabaha	2,693,824	2,693,824	
Financing receivables	10,869,633	10,869,633	
of which General Provisions (netted above) capped for Tier 2 inclusion	147,014	147,014	A
Investment in Sukuk	2,716,959	2,716,959	
Trading properties	102,087	102,087	
Investments	207,023	207,023	
Investment in associates and joint ventures	497,860	497,860	
Investment properties	352,324	352,324	
Other Assets	510,361	510,361	
Intangible assets and goodwill	32,954	32,954	
of which goodwill	150	150	B
of which other intangibles	32,804	32,804	C
Property and equipment	221,202	221,202	
<b>Total Assets</b>	<b>21,218,403</b>	<b>21,218,403</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	2,771,471	2,771,471	
Sukuk Payable	241,139	241,139	
Depositors account	15,309,217	15,309,217	
Other liabilities	871,217	871,217	
<b>Total Liabilities</b>	<b>19,193,044</b>	<b>19,193,044</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
Proposed issue of bonus shares	0	0	F
Treasury shares	-27,739	-27,739	G
Reserves	329,060	329,060	
of which: statutory reserve	340,325	340,325	H
of which: voluntary reserve	228,893	228,893	I
of which: treasury share reserve	15,028	15,028	J
<b>of which: fair value reserve</b>	55,704	55,704	
of which: eligible as CET1 Capital	52,745	52,745	K
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	-337,432	-337,432	
of which: eligible as CET1 Capital	-274,164	-274,164	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>	50,313	50,313	
of which: current year income	50,004	50,004	
of which: Modification Loss on Financing Receivable	-71,723	-71,723	
of which: retained earnings from previous years	72,032	72,032	N
Dividends (Declared but not incurred)	0	0	O
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>1,865,809</b>	<b>1,865,809</b>	
Non-controlling interests	159,550	159,550	
Non-controlling interests eligible as CET1 capital	92,820	92,820	P
Non-controlling interests eligible as AT1 capital	33,830	33,830	Q
Non-controlling interests eligible as Tier 2 capital	15,077	15,077	R
<b>Total Equity</b>	<b>2,025,359</b>	<b>2,025,359</b>	
<b>Total Liabilities and Equity</b>	<b>21,218,403</b>	<b>21,218,403</b>	



Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Mar-20	Mar-20	
<b>Assets</b>			
Cash and balances with banks and financial institutions	1,711,895	1,711,895	
Short-term Murabaha	3,744,550	3,744,550	
Financing receivables	9,795,465	9,795,465	
of which General Provisions (netted above) capped for Tier 2 inclusion	153,522	153,522	A
Investment in Sukuk	2,555,254	2,555,254	
Trading properties	106,820	106,820	
Investments	207,328	207,328	
Investment in associates and joint ventures	490,610	490,610	
Investment properties	457,383	457,383	
Other Assets	674,994	674,994	
Intangible assets and goodwill	31,915	31,915	
of which goodwill	292	292	B
of which other intangibles	31,623	31,623	C
Property and equipment	234,364	234,364	
<b>Total Assets</b>	<b>20,010,578</b>	<b>20,010,578</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	2,387,897	2,387,897	
Sukuk Payable	326,104	326,104	
Depositors account	14,277,351	14,277,351	
Other liabilities	846,317	846,317	
<b>Total Liabilities</b>	<b>17,837,669</b>	<b>17,837,669</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	69,765	69,765	F
Treasury shares	-34,784	-34,784	G
Reserves	540,107	540,107	
of which: statutory reserve	324,875	324,875	H
of which: voluntary reserve	310,127	310,127	I
of which: treasury share reserve	12,708	12,708	J
<b>of which: fair value reserve</b>	<b>-58,404</b>	<b>-58,404</b>	
of which: eligible as CET1 Capital	-61,363	-61,363	K
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	<b>-269,748</b>	<b>-269,748</b>	
of which: eligible as CET1 Capital	-206,480	-206,480	L
of which: eligible as depositors accounts	-63,268	-63,268	
<b>of which: other reserves</b>	<b>-18,902</b>	<b>-18,902</b>	
of which: eligible as CET1 Capital	-5,631	-5,631	M
of which: eligible as depositors accounts	-13,271	-13,271	
<b>of which: retained earnings</b>	<b>239,451</b>	<b>239,451</b>	
of which: current year income	44,275	44,275	
of which: Modification Loss on Financing Receivable	0	0	
of which: retained earnings from previous years	195,176	195,176	N
Dividends (Declared but not incurred)	-137,980	-137,980	O
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>1,993,070</b>	<b>1,993,070</b>	
Non-controlling interests	179,839	179,839	
Non-controlling interests eligible as CET1 capital	116,875	116,875	P
Non-controlling interests eligible as AT1 capital	58,525	58,525	Q
Non-controlling interests eligible as Tier 2 capital	64,959	64,959	R
<b>Total Equity</b>	<b>2,172,909</b>	<b>2,172,909</b>	
<b>Total Liabilities and Equity</b>	<b>20,010,578</b>	<b>20,010,578</b>	

### Step 3 of Reconciliation requirements

KD '000s

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital Mar-21	Component of regulatory capital Mar-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	1,417,982	D + E
2	Retained earnings	72,032	195,176	N
3	Accumulated other comprehensive income (and other reserves)	352,327	374,236	H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	92,820	116,875	P
5	Proposed issue of bonus shares	0	69,765	F
	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>2,081,667</b>	<b>2,174,034</b>	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
6	Goodwill	(150)	(292)	B
7	Other intangible assets	(32,804)	(31,623)	C
8	Treasury shares	(27,739)	(34,784)	G
9	Proposed cash dividends	0	(137,980)	O
	<b>Total regulatory adjustments to Common Equity Tier1</b>	<b>(60,693)</b>	<b>(204,679)</b>	
	<b>Common Equity Tier 1 capital (CET1)</b>	<b>2,020,974</b>	<b>1,969,355</b>	
<b>Additional Tier 1 capital: instruments</b>				
10	Common share capital issued by subsidiaries and held by third parties (minority interest)	33,830	58,525	Q
	<b>Total Tier 1 capital</b>	<b>2,054,804</b>	<b>2,027,880</b>	
<b>Tier 2 capital: instruments and provisions</b>				
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	15,077	64,959	R
12	General Provisions included in Tier 2 Capital	147,014	153,522	A
	<b>Total Tier 2 capital</b>	<b>162,091</b>	<b>218,481</b>	
	<b>Total capital</b>	<b>2,216,895</b>	<b>2,246,361</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	Mar-21	Mar-20
1	Tier 1 capital	2,054,804	2,027,880
2	Total exposures	24,123,362	22,934,812
	<b>Leverage ratio</b>		
3	Financial leverage ratio	8.52%	8.84%