

Kuwait Finance House Group



بيت التمويل الكويتي
Kuwait Finance House

Basel III and Leverage Public Disclosures

March 2022

Basel III and leverage Disclosures

	Page
✓ Capital Composition	
1. Composition of Regulatory Capital.	2
2. Common Disclosure Template.	3
3. Reconciliation requirements.	6
✓ Financial Leverage Ratio	
1. Leverage Ratio.	9

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	Mar-22	Mar-21
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,027,305	2,081,667
Regulatory Adjustments for CET1	61,561	60,693
Total Common Equity Tier 1 (CET1)	1,965,744	2,020,974
Additional Tier 1 Capital (AT1)	264,309	33,830
Total Tier 1 (T1=CET1+AT1)	2,230,053	2,054,804
Tier 2 Capital (T2)	208,993	162,091
Total Capital (TC=T1+T2)	2,439,046	2,216,895
Total Risk Weighted Assets	13,727,420	13,057,543
Capital Adequacy Ratios and Buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	14.32%	15.48%
Tier 1 (as percentage of risk-weighted assets)	16.25%	15.74%
Total capital (as percentage of risk-weighted assets)	17.77%	16.98%
National minima		
Common Equity Tier 1 minimum ratio	10.0%	9.0%
Tier 1 minimum ratio	11.5%	10.5%
Total capital minimum ratio	13.5%	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

	Common Equity Tier 1 capital: instruments and reserves	Mar-22	Mar-21
1	Directly issued qualifying common share capital plus related stock surplus	1,648,904	1,564,488
2	Retained earnings	47,054	72,032
3	Reserves	236,403	352,327
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)	94,945	92,820
6	Proposed issue of bonus shares	0	0
7	Common Equity Tier 1 capital before regulatory adjustments	2,027,305	2,081,667
	Common Equity Tier 1 capital: regulatory adjustments		
8	Prudential valuation adjustments		
9	Goodwill (net of related tax liability)	0	150
10	Other intangibles (net of related tax liability)	31,575	32,804
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)	27,828	27,739
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)	2,158	0
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	61,561	60,693
30	Common Equity Tier 1 capital (CET1)	1,965,744	2,020,974
	Additional Tier 1 capital: instruments		
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	227,925	0
32	of which: classified as equity under applicable accounting standards	227,925	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)	36,384	33,830
36	of which: instruments issued by subsidiaries subject to phase-out		
37	Additional Tier 1 capital before regulatory adjustments	264,309	33,830
	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)	264,309	33,830
46	Tier 1 capital (T1 = CET1 + AT1)	2,230,053	2,054,804
	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)	53,708	15,077
50	of which: instruments issued by subsidiaries subject to phase-out		
51	General provisions included in Tier 2 capital	155,285	147,014
52	Tier 2 capital before regulatory adjustments	208,993	162,091
	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)	208,993	162,091
60	Total capital (TC = T1 + T2)	2,439,046	2,216,895
61	Total risk weighted assets (after applying 50% additional weighting)	13,727,420	13,057,543
	Capital ratios and buffers		
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.32%	15.48%
63	Tier 1 (as a percentage of risk weighted assets)	16.25%	15.74%
64	Total capital (as a percentage of risk weighted assets)	17.77%	16.98%
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)	6.32%	8.48%
	National minima		
70	National Common Equity Tier 1 minimum ratio	10.0%	9.0%
71	National Tier 1 minimum ratio	11.5%	10.5%
72	National total capital minimum ratio	13.5%	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)	50,885	44,693
	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)	516,919	449,977
78	Cap on inclusion of provisions in Tier 2 under standardized approach	155,285	147,013
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-22	Mar-22	
Assets			
Cash and balances with banks and financial institutions	1,989,899	1,989,899	
Due from banks	3,393,844	3,393,844	
Financing receivables	11,851,885	11,851,885	
of which General Provisions (netted above) capped for Tier 2 inclusion	155,285	155,285	A
Investment in Sukuk	2,963,501	2,963,501	
Trading properties	96,337	96,337	
Investments	232,237	232,237	
of which Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	2,158	2,158	B
Investment in associates and joint ventures	481,473	481,473	
Investment properties	300,375	300,375	
Other Assets	626,536	626,536	
Intangible assets and goodwill	31,575	31,575	
of which goodwill	0	0	C
of which other intangibles	31,575	31,575	D
Property and equipment	195,847	195,847	
Total Assets	22,163,509	22,163,509	
Liabilities			
Due to banks and other financial institutions	3,047,943	3,047,943	
Sukuk Payable	179,602	179,602	
Depositors' accounts	15,789,177	15,789,177	
Other liabilities	916,537	916,537	
Total Liabilities	19,933,259	19,933,259	
Equity Attributable to the shareholders of the bank			
Share Capital	928,571	928,571	E
Share premium	720,333	720,333	F
Treasury shares	-27,828	-27,828	G
Reserves	231,561	231,561	
of which: statutory reserve	365,663	365,663	H
of which: voluntary reserve	233,723	233,723	I
of which: treasury share reserve	15,028	15,028	J
of which: fair value reserve	59,312	59,312	
of which: eligible as CET1 Capital	56,353	56,353	K
of which: eligible as depositors accounts	2,959	2,959	
of which: revaluation reserve	-487,725	-487,725	
of which: eligible as CET1 Capital	-424,457	-424,457	L
of which: eligible as depositors accounts	-63,268	-63,268	
of which: other reserves	-23,178	-23,178	
of which: eligible as CET1 Capital	-9,907	-9,907	M
of which: eligible as depositors accounts	-13,271	-13,271	
of which: retained earnings	68,738	68,738	
of which: current year income	69,500	69,500	
of which: Modification Loss on Financing Receivable	-47,815	-47,815	
of which: retained earnings from previous years	47,054	47,054	N
Total Equity Attributable to the shareholders of the bank	1,852,637	1,852,637	
Perpetual Sukuk – Tier 1	227,925	227,925	O
Non-controlling interests	149,688	149,688	
Non-controlling interests eligible as CET1 capital	94,945	94,945	P
Non-controlling interests eligible as AT1 capital	36,384	36,384	Q
Non-controlling interests eligible as Tier 2 capital	53,708	53,708	R
Total Equity	2,230,250	2,230,250	
Total Liabilities and Equity	22,163,509	22,163,509	

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Mar-21	Mar-21	
Assets			
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	
of which Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	2,158	2,158	B
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	C
of which other intangibles	32,804	32,804	D
Property and equipment	221,202	221,202	
Total Assets	21,218,403	21,218,403	
Liabilities			
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	
Total Liabilities	19,193,044	19,193,044	
Equity Attributable to the shareholders of the bank			
Share Capital	844,155	844,155	E
Share premium	720,333	720,333	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
of which: fair value reserve	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	
of which: revaluation reserve	-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	
of which: other reserves	-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	
of which: retained earnings	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
Total Equity Attributable to the shareholders of the bank	1,865,809	1,865,809	
Perpetual Sukuk – Tier 1	0	0	O
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
Total Equity	2,025,359	2,025,359	
Total Liabilities and Equity	21,218,403	21,218,403	

Step 2 of Reconciliation requirements

KD '000s

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital Mar-22	Component of regulatory capital Mar-21	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	1,648,904	1,564,488	E + F
2	Retained earnings	47,054	72,032	N
3	Accumulated other comprehensive income (and other reserves)	236,403	352,327	H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	94,945	92,820	P
	Common Equity Tier 1 capital before regulatory adjustments	2,027,305	2,081,667	
	Common Equity Tier 1 capital: regulatory adjustments			
6	Goodwill	-	(150)	C
7	Other intangible assets	(31,575)	(32,804)	D
8	Treasury shares	(27,828)	(27,739)	G
9	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	(2,158)	-	B
	Total regulatory adjustments to Common Equity Tier1	(61,561)	(60,693)	
	Common Equity Tier 1 capital (CET1)	1,965,744	2,020,974	
	Additional Tier 1 capital: instruments			
10	Common share capital issued by subsidiaries and held by third parties (minority interest)	36,384	33,830	Q
11	Perpetual Sukuk – Tier 1	227,925	0	O
	Total Tier 1 capital	2,230,053	2,054,804	
	Tier 2 capital: instruments and provisions			
12	Common share capital issued by subsidiaries and held by third parties (minority interest)	53,708	15,077	R
13	General Provisions included in Tier 2 Capital	155,285	147,014	A
	Total Tier 2 capital	208,993	162,091	
	Total capital	2,439,046	2,216,895	

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-22	Mar-21
1	Tier 1 capital	2,230,053	2,054,804
2	Total exposures	24,225,764	24,123,362
	Leverage ratio		
3	Financial leverage ratio	9.21%	8.52%