

# **Kuwait Finance House Group**



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

**Basel III and Leverage Public Disclosures**

**March 2023**

## 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-23	Mar-22
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	5,504,334	2,027,305
Regulatory Adjustments for CET1	2,486,631	61,561
<b>Total Common Equity Tier 1 (CET1)</b>	<b>3,017,703</b>	<b>1,965,744</b>
Additional Tier 1 Capital (AT1)	553,293	264,309
<b>Total Tier 1 (T1=CET1+AT1)</b>	<b>3,570,996</b>	<b>2,230,053</b>
Tier 2 Capital (T2)	389,921	208,993
<b>Total Capital (TC=T1+T2)</b>	<b>3,960,917</b>	<b>2,439,046</b>
<b>Total Risk Weighted Assets</b>	<b>22,640,089</b>	<b>13,727,420</b>
<b>Capital Adequacy Ratios and Buffers</b>		
Common Equity Tier 1 (as percentage of risk-weighted assets)	13.33%	14.32%
Tier 1 (as percentage of risk-weighted assets)	15.77%	16.25%
Total capital (as percentage of risk-weighted assets)	17.50%	17.77%
<b>National minima</b>		
Common Equity Tier 1 minimum ratio	11.50%	10.0%
Tier 1 minimum ratio	13.00%	11.5%
Total capital minimum ratio	15.00%	13.5%

## 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>Mar-23</b>	<b>Mar-22</b>
1	Directly issued qualifying common share capital plus related stock surplus	5,088,210	1,648,904
2	Retained earnings	85,698	47,054
3	Reserves	77,844	236,403
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)	252,582	94,945
6	Proposed issue of bonus shares	0	0
7	Common Equity Tier 1 capital before regulatory adjustments	<b>5,504,334</b>	<b>2,027,305</b>
	<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
8	Prudential valuation adjustments		
9	Goodwill (net of related tax liability)	2,109,119	0
10	Other intangibles (net of related tax liability)	318,352	31,575
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)	59,160	27,828
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
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	2,486,631	61,561
30	Common Equity Tier 1 capital (CET1)	<b>3,017,703</b>	<b>1,965,744</b>
	Additional Tier 1 capital: instruments		
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	502,054	227,925
32	of which: classified as equity under applicable accounting standards	502,054	227,925
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)	51,239	36,384
36	of which: instruments issued by subsidiaries subject to phase-out		
37	Additional Tier 1 capital before regulatory adjustments	<b>553,293</b>	<b>264,309</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>553,293</b>	<b>264,309</b>
46	Tier 1 capital (T1 = CET1 + AT1)	<b>3,570,996</b>	<b>2,230,053</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)	136,945	53,708
50	of which: instruments issued by subsidiaries subject to phase-out		
51	General provisions included in Tier 2 capital	252,976	155,285
52	Tier 2 capital before regulatory adjustments	389,921	208,993
	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>389,921</b>	<b>208,993</b>
60	Total capital (TC = T1 + T2)	<b>3,960,917</b>	<b>2,439,046</b>
61	Total risk weighted assets (after applying 50% additional weighting)	<b>22,640,089</b>	<b>13,727,420</b>
	Capital ratios and buffers		
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.33%	14.32%
63	Tier 1 (as a percentage of risk weighted assets)	15.77%	16.25%
64	Total capital (as a percentage of risk weighted assets)	17.50%	17.77%
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)	11.5%	10.0%
66	of which: capital conservation buffer requirement	2.0%	
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)	5.83%	6.32%
	National minima		
70	National Common Equity Tier 1 minimum ratio	11.50%	10.0%
71	National Tier 1 minimum ratio	13.0%	11.5%
72	National total capital minimum ratio	15.0%	13.5%
	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)	34,764	50,885
	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)	775,268	516,919
78	Cap on inclusion of provisions in Tier 2 under standardized approach	252,976	155,285
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-23	Mar-23	
<b>Assets</b>			
Cash and balances with banks and financial institutions	2,782,416	2,782,416	
Due from banks	3,855,106	3,855,106	
Financing receivables	19,158,449	19,158,449	
of which General Provisions (netted above) capped for Tier 2 inclusion	252,976	252,976	A
Investment in debt securities	6,150,400	6,150,400	
Trading properties	95,124	95,124	
Investments	283,038	283,038	
Investment in associates and joint ventures	513,188	513,188	
Investment properties	398,799	398,799	
Other Assets	847,179	847,179	
Goodwill and intangible assets	2,427,471	2,427,471	
of which goodwill	2,109,119	2,109,119	B
of which other intangibles	318,352	318,352	C
Property and equipment	343,636	343,636	
<b>Total Assets</b>	<b>36,854,806</b>	<b>36,854,806</b>	
<b>Liabilities</b>			
Due to banks and financial institutions	5,013,903	5,013,903	
Sukuk payables and term financing	656,696	656,696	
Depositors' accounts	23,445,237	23,445,237	
Other liabilities	1,530,787	1,530,787	
<b>Total Liabilities</b>	<b>30,646,623</b>	<b>30,646,623</b>	
<b>Equity Attributable to the shareholders of the bank</b>			
Share Capital	1,476,445	1,476,445	D
Share premium	3,611,765	3,611,765	E
Treasury shares	-59,160	-59,160	F
Reserves	228,151	228,151	
of which: statutory reserve	403,348	403,348	G
of which: voluntary reserve	251,206	251,206	H
of which: treasury share reserve	15,028	15,028	I
<b>of which: fair value reserve</b>	28,059	28,059	
of which: eligible as CET1 Capital	25,100	25,100	J
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	-663,295	-663,295	
of which: eligible as CET1 Capital	-600,027	-600,027	K
of which: eligible as depositors accounts	-63,268	-63,268	
<b>of which: other reserves</b>	-30,082	-30,082	
of which: eligible as CET1 Capital	-16,811	-16,811	L
of which: eligible as depositors accounts	-13,271	-13,271	
<b>of which: retained earnings</b>	223,887	223,887	
of which: current year income	162,097	162,097	
of which: Modification Loss on Financing Receivable	-23,908	-23,908	
of which: retained earnings from previous years	85,698	85,698	M
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>5,257,201</b>	<b>5,257,201</b>	
Perpetual Sukuk – Tier 1	502,054	502,054	N
Non-controlling interests	448,928	448,928	
Non-controlling interests eligible as CET1 capital	252,582	252,582	O
Non-controlling interests eligible as AT1 capital	51,239	51,239	P
Non-controlling interests eligible as Tier 2 capital	136,945	136,945	Q
<b>Total Equity</b>	<b>6,208,183</b>	<b>6,208,183</b>	
<b>Total Liabilities and Equity</b>	<b>36,854,806</b>	<b>36,854,806</b>	



Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Mar-22	Mar-22	
<b>Assets</b>			
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 debt securities	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 Fls where ownership is > 10%	2,158	2,158	R
Investment in associates and joint ventures	481,473	481,473	
Investment properties	300,375	300,375	
Other Assets	626,536	626,536	
Goodwill and intangible assets	31,575	31,575	
of which goodwill	0	0	B
of which other intangibles	31,575	31,575	C
Property and equipment	195,847	195,847	
<b>Total Assets</b>	<b>22,163,509</b>	<b>22,163,509</b>	
<b>Liabilities</b>			
Due to banks and financial institutions	3,047,943	3,047,943	
Sukuk payables and term financing	179,602	179,602	
Depositors' accounts	15,789,177	15,789,177	
Other liabilities	916,537	916,537	
<b>Total Liabilities</b>	<b>19,933,259</b>	<b>19,933,259</b>	
<b>Equity Attributable to the shareholders of the bank</b>			
Share Capital	928,571	928,571	D
Share premium	720,333	720,333	E
Treasury shares	-27,828	-27,828	F
Reserves	231,561	231,561	
of which: statutory reserve	365,663	365,663	G
of which: voluntary reserve	233,723	233,723	H
of which: treasury share reserve	15,028	15,028	I
<b>of which: fair value reserve</b>	59,312	59,312	
of which: eligible as CET1 Capital	56,353	56,353	J
of which: eligible as depositors accounts	2,959	2,959	
<b>of which: revaluation reserve</b>	-487,725	-487,725	
of which: eligible as CET1 Capital	-424,457	-424,457	K
of which: eligible as depositors accounts	-63,268	-63,268	
<b>of which: other reserves</b>	-23,178	-23,178	
of which: eligible as CET1 Capital	-9,907	-9,907	L
of which: eligible as depositors accounts	-13,271	-13,271	
<b>of which: retained earnings</b>	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	M
<b>Total Equity Attributable to the shareholders of the bank</b>	<b>1,852,637</b>	<b>1,852,637</b>	
Perpetual Sukuk – Tier 1	227,925	227,925	N
Non-controlling interests	149,688	149,688	
Non-controlling interests eligible as CET1 capital	94,945	94,945	O
Non-controlling interests eligible as AT1 capital	36,384	36,384	P
Non-controlling interests eligible as Tier 2 capital	53,708	53,708	Q
<b>Total Equity</b>	<b>2,230,250</b>	<b>2,230,250</b>	
<b>Total Liabilities and Equity</b>	<b>22,163,509</b>	<b>22,163,509</b>	

## Step 2 of Reconciliation requirements

KD '000s

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital Mar-23	Component of regulatory capital Mar-22	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	5,088,210	1,648,904	D + E
2	Retained earnings	85,698	47,054	M
3	Reserves	77,844	236,403	G+H+I+J+K+L
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	252,582	94,945	O
	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>5,504,334</b>	<b>2,027,305</b>	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
5	Goodwill	-2,109,119	-	B
6	Other intangible assets	-318,352	-31,575	C
7	Treasury shares	-59,160	-27,828	F
8	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%		-2,158	R
	<b>Total regulatory adjustments to Common Equity Tier1</b>	<b>-2,486,631</b>	<b>-61,561</b>	
	<b>Common Equity Tier 1 capital (CET1)</b>	<b>3,017,703</b>	<b>1,965,744</b>	
<b>Additional Tier 1 capital: instruments</b>				
9	Common share capital issued by subsidiaries and held by third parties (minority interest)	51,239	36,384	P
10	Perpetual Sukuk – Tier 1	502,054	227,925	N
	<b>Total Tier 1 capital</b>	<b>3,570,996</b>	<b>2,230,053</b>	
<b>Tier 2 capital: instruments and provisions</b>				
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	136,945	53,708	Q
12	General Provisions included in Tier 2 Capital	252,976	155,285	A
	<b>Total Tier 2 capital</b>	<b>389,921</b>	<b>208,993</b>	
	<b>Total capital</b>	<b>3,960,917</b>	<b>2,439,046</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-23	Mar-22
1	Tier 1 capital	3,570,996	2,230,053
2	Total exposures	48,547,755	24,225,764
	<b>Leverage ratio</b>		
3	Financial leverage ratio	7.36%	9.21%