

Kuwait Finance House Group



بيت التمويل الكويتي
Kuwait Finance House

Basel III and Leverage Public Disclosures

June 2022

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).

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Regulatory Capital Components	Jun-22	Jun-21
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,035,416	2,031,128
Regulatory Adjustments for CET1	62,694	60,637
Total Common Equity Tier 1 (CET1)	1,972,722	1,970,491
Additional Tier 1 Capital (AT1)	281,187	261,001
Total Tier 1 (T1=CET1+AT1)	2,253,909	2,231,492
Tier 2 Capital (T2)	229,108	167,520
Total Capital (TC=T1+T2)	2,483,017	2,399,013
Total Risk Weighted Assets	13,993,441	12,912,888
Capital Adequacy Ratios and Buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	14.10%	15.26%
Tier 1 (as percentage of risk-weighted assets)	16.11%	17.28%
Total capital (as percentage of risk-weighted assets)	17.74%	18.58%
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.

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	Common Equity Tier 1 capital: instruments and reserves	Jun-22	Jun-21
1	Directly issued qualifying common share capital plus related stock surplus	1,648,904	1,564,488
2	Retained earnings	131,113	71,497
3	Reserves	151,412	306,257
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)	103,988	88,886
6	Proposed issue of bonus shares	0	0
7	Common Equity Tier 1 capital before regulatory adjustments	2,035,416	2,031,128
	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)	34,866	32,748
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)	0	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	62,694	60,637
30	Common Equity Tier 1 capital (CET1)	1,972,722	1,970,491
	Additional Tier 1 capital: instruments		
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	230,025	225,788
32	of which: classified as equity under applicable accounting standards	230,025	225,788
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)	51,162	35,213
36	of which: instruments issued by subsidiaries subject to phase-out		
37	Additional Tier 1 capital before regulatory adjustments	281,187	261,001
	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)	281,187	261,001
46	Tier 1 capital (T1 = CET1 + AT1)	2,253,909	2,231,492
	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)	69,336	21,847
50	of which: instruments issued by subsidiaries subject to phase-out		
51	General provisions included in Tier 2 capital	159,772	145,673
52	Tier 2 capital before regulatory adjustments	229,108	167,520
	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)	229,108	167,520
60	Total capital (TC = T1 + T2)	2,483,017	2,399,013
61	Total risk weighted assets (after applying 50% additional weighting)	13,993,441	12,912,888
	Capital ratios and buffers		
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.10%	15.26%
63	Tier 1 (as a percentage of risk weighted assets)	16.11%	17.28%
64	Total capital (as a percentage of risk weighted assets)	17.74%	18.58%
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)	10.0%	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)	6.10%	8.26%
	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)	25,320	43,207
	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)	519,478	476,615
78	Cap on inclusion of provisions in Tier 2 under standardized approach	159,772	145,673
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-22	Jun-22	
Assets			
Cash and balances with banks and financial institutions	2,292,843	2,292,843	
Due from banks	3,366,026	3,366,026	
Financing receivables	12,213,000	12,213,000	
of which General Provisions (netted above) capped for Tier 2 inclusion	159,772	159,772	A
Investment in Sukuk	2,939,000	2,939,000	
Trading properties	96,516	96,516	
Investments	219,567	219,567	
Investment in associates and joint ventures	477,449	477,449	
Investment properties	300,422	300,422	
Other Assets	622,540	622,540	
Intangible assets and goodwill	34,866	34,866	
of which goodwill	0	0	B
of which other intangibles	34,866	34,866	C
Property and equipment	227,623	227,623	
Total Assets	22,789,853	22,789,853	
Liabilities			
Due to banks and other financial institutions	3,318,850	3,318,850	
Sukuk Payable	160,140	160,140	
Depositors' accounts	16,000,574	16,000,574	
Other liabilities	952,684	952,684	
Total Liabilities	20,432,248	20,432,248	
Equity Attributable to the shareholders of the bank			
Share Capital	928,571	928,571	D
Share premium	720,333	720,333	E
Treasury shares	-27,828	-27,828	F
Reserves	299,212	299,212	
of which: statutory reserve	365,663	365,663	G
of which: voluntary reserve	213,521	213,521	H
of which: treasury share reserve	15,028	15,028	I
of which: fair value reserve	14,675	14,675	
of which: eligible as CET1 Capital	11,716	11,716	J
of which: eligible as depositors accounts	2,959	2,959	
of which: revaluation reserve	-507,877	-507,877	
of which: eligible as CET1 Capital	-444,609	-444,609	K
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	L
of which: eligible as depositors accounts	-13,271	-13,271	
of which: retained earnings	221,380	221,380	
of which: current year income	138,083	138,083	
of which: Modification Loss on Financing Receivable	-47,816	-47,816	
of which: retained earnings from previous years	131,113	131,113	M
Total Equity Attributable to the shareholders of the bank	1,920,288	1,920,288	
Perpetual Sukuk – Tier 1	230,025	230,025	N
Non-controlling interests	207,292	207,292	
Non-controlling interests eligible as CET1 capital	103,988	103,988	O
Non-controlling interests eligible as AT1 capital	51,162	51,162	P
Non-controlling interests eligible as Tier 2 capital	69,336	69,336	Q
Total Equity	2,357,605	2,357,605	
Total Liabilities and Equity	22,789,853	22,789,853	

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Jun-21	Jun-21	
Assets			
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	
Total Assets	21,546,788	21,546,788	
Liabilities			
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	
Total Liabilities	19,284,731	19,284,731	
Equity Attributable to the shareholders of the bank			
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
of which: fair value reserve	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	
of which: revaluation reserve	-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	
of which: other reserves	-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	
of which: retained earnings	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
Total Equity Attributable to the shareholders of the bank	1,871,393	1,871,393	
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
Total Equity	2,262,057	2,262,057	
Total Liabilities and Equity	21,546,788	21,546,788	

Step 2 of Reconciliation requirements

KD '000s

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital Jun-22	Component of regulatory capital Jun-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	D + E
2	Retained earnings	131,113	71,497	M
3	Accumulated other comprehensive income (and other reserves)	151,412	306,257	G+H+I+J+K+L
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	103,988	88,886	O
	Common Equity Tier 1 capital before regulatory adjustments	2,035,416	2,031,128	
Common Equity Tier 1 capital: regulatory adjustments				
6	Goodwill	-	(150)	B
7	Other intangible assets	(34,866)	(32,748)	C
8	Treasury shares	(27,828)	(27,739)	F
	Total regulatory adjustments to Common Equity Tier1	(62,694)	(60,637)	
	Common Equity Tier 1 capital (CET1)	1,972,722	1,970,491	
Additional Tier 1 capital: instruments				
9	Common share capital issued by subsidiaries and held by third parties (minority interest)	51,162	35,213	P
10	Perpetual Sukuk – Tier 1	230,025	225,788	N
	Total Tier 1 capital	2,253,909	2,231,492	
Tier 2 capital: instruments and provisions				
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	69,336	21,847	Q
12	General Provisions included in Tier 2 Capital	159,772	145,673	A
	Total Tier 2 capital	229,108	167,520	
	Total capital	2,483,017	2,399,013	

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-22	Jun-21
1	Tier 1 capital	2,253,909	2,231,492
2	Total exposures	24,785,193	23,569,923
	Leverage ratio		
3	Financial leverage ratio	9.09%	9.47%