

Kuwait Finance House Group



بيت التمويل الكويتي
Kuwait Finance House

Basel III and Leverage Public Disclosures

September 2018

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	Total
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	1,848,235
Regulatory Adjustments for CET1	75,686
Total Common Equity Tier 1 (CET1)	1,772,549
Additional Tier 1 Capital (AT1)	36,745
Total Tier 1 (T1=CET1+AT1)	1,809,294
Tier 2 Capital (T2)	201,727
Total Capital (TC=T1+T2)	2,011,021
Total Risk Weighted Assets	11,745,074
Capital Adequacy Ratios and Buffers	
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.09%
Tier 1 (as percentage of risk-weighted assets)	15.40%
Total capital (as percentage of risk-weighted assets)	17.12%
National minima	
Common Equity Tier 1 minimum ratio	11.5%
Tier 1 minimum ratio	13.0%
Total capital minimum ratio	15.0%

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.

	Common Equity Tier 1 capital: instruments and reserves	Amount (Thousands)
1	Directly issued qualifying common share capital plus related stock surplus	1,354,559
2	Retained earnings	74,471
3	Accumulated other comprehensive income (and other reserves)	368,629
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	50,576
6	Net income	0
7	Common Equity Tier 1 capital before regulatory adjustments	1,848,235
	Common Equity Tier 1 capital: regulatory adjustments	
8	Prudential valuation adjustments	
9	Goodwill (net of related tax liability)	292
10	Other intangibles (net of related tax liability)	30,680
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
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)	44,714
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	75,686
30	Common Equity Tier 1 capital (CET1)	1,772,549
	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)	36,745
36	of which: instruments issued by subsidiaries subject to phase-out	
37	Additional Tier 1 capital before regulatory adjustments	36,745
	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)	36,745
46	Tier 1 capital (T1 = CET1 + AT1)	1,809,294
	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)	70,873
50	of which: instruments issued by subsidiaries subject to phase-out	
51	General provisions included in Tier 2 capital	130,854
52	Tier 2 capital before regulatory adjustments	201,727
	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)	201,727
60	Total capital (TC = T1 + T2)	2,011,021
61	Total risk weighted assets (after applying 50% additional weighting)	11,745,074
	Capital ratios and buffers	
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.09%
63	Tier 1 (as a percentage of risk weighted assets)	15.40%
64	Total capital (as a percentage of risk weighted assets)	17.12%
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)	4.5%
66	of which: capital conservation buffer requirement	2.5%
67	of which: bank specific countercyclical buffer requirement	
68	of which: D-SIB buffer requirement	2.0%
69	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.09%
	National minima	
70	National Common Equity Tier 1 minimum ratio	11.5%
71	National Tier 1 minimum ratio	13.0%
72	National total capital minimum ratio	15.0%

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)	21,708
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)	289,198
78	Cap on inclusion of provisions in Tier 2 under standardized approach	130,854
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.
	30-Sep-18	30-Sep-18	
Assets			
Cash and balances with banks and financial institutions	1,265,606	1,265,606	
Short-term Murabaha	3,140,283	3,140,283	
Financing receivables	9,166,101	9,166,101	
of which General Provisions (netted above) capped for Tier 2 inclusion	130,854	130,854	A
Investment in Sukuk	1,475,888	1,475,888	
Trading properties	155,022	155,022	
Investments	302,581	302,581	
Investment in associates and joint ventures	498,302	498,302	
Investment properties	511,616	511,616	
Other Assets	553,631	553,631	
Intangible assets and goodwill	30,972	30,972	
of which goodwill	292	292	B
of which other intangibles	30,680	30,680	C
Property and equipment	190,960	190,960	
Assets classified as held for sale	17,346	17,346	
Total Assets	17,308,308	17,308,308	
Liabilities			
Due to banks and other financial institutions	2,640,142	2,640,142	
Sukuk Payable	468,747	468,747	
Depositors account	11,502,963	11,502,963	
Other liabilities	717,188	717,188	
Liabilities directly associated with assets classified and held for sale	2,262	2,262	
Total Liabilities	15,331,302	15,331,302	
Equity Attributable to the shareholders of the bank			
Share Capital	634,226	634,226	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	0	0	
Treasury shares	(44,714)	(44,714)	F
Reserves	500,848	500,848	
of which: statutory reserve	274,841	274,841	G
of which: voluntary reserve	274,841	274,841	H
of which: treasury share reserve	6,833	6,833	I
of which: stock option reserve	0	0	J
of which: fair value reserve	(15,261)	(15,261)	
of which: eligible as CET1 Capital	(9,582)	(9,582)	K
of which: eligible as depositors accounts	(5,679)	(5,679)	
of which: revaluation reserve	(263,215)	(263,215)	
of which: eligible as CET1 Capital	(165,267)	(165,267)	L
of which: eligible as depositors accounts	(97,948)	(97,948)	
of which: other reserves	(20,764)	(20,764)	
of which: eligible as CET1 Capital	(13,037)	(13,037)	M
of which: eligible as depositors accounts	(7,727)	(7,727)	
of which: retained earnings	243,573	243,573	
of which: current year income	169,102	169,102	
of which: retained earnings from previous years	74,471	74,471	N
Dividends (Declared but not incurred)	0	0	
Total Equity Attributable to the shareholders of the bank	1,810,693	1,810,693	
Non-controlling interests	166,313	166,313	
of which limited recognition eligible as CET1 capital	50,576	50,576	O
of which limited recognition eligible as AT1 capital	36,745	36,745	P
of which limited recognition eligible as Tier 2 capital	70,873	70,873	Q
Total Equity	1,977,006	1,977,006	
Total Liabilities and Equity	17,308,308	17,308,308	

Step 3 of Reconciliation requirements

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	1,354,559	D+E
2	Retained earnings	74,471	N
3	Accumulated other comprehensive income (and other reserves)	368,629	G+H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	50,576	O
5	Common Equity Tier 1 capital before regulatory adjustments	1,848,235	
Common Equity Tier 1 capital : regulatory adjustments			
6	Goodwill	(292)	B
7	Other intangible assets	(30,680)	C
8	Treasury shares	(44,714)	F
9	Total regulatory adjustments to Common Equity Tier1	(75,686)	
10	Common Equity Tier 1 capital (CET1)	1,772,549	
Additional Tier 1 capital : instruments			
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	36,745	P
12	Total Tier 1 capital	1,809,294	
Tier 2 capital : instruments and provisions			
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	70,873	Q
14	General Provisions included in Tier 2 Capital	130,854	A
15	Total Tier 2 capital	201,727	
Total capital		2,011,021	

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%.

	Leverage Ratio Components	KD '000s
1	Tier 1 capital	1,809,294
2	Total exposures	19,371,828
	Leverage ratio	
3	Financial leverage ratio	9.34%