

Kuwait Finance House Group



بيت التمويل الكويتي
Kuwait Finance House

Basel III and Leverage Public Disclosures

June 2020

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) – 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	June-20	June-19
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,102,171	1,990,642
Regulatory Adjustments for CET1	59,288	73,163
Total Common Equity Tier 1 (CET1)	2,042,883	1,917,479
Additional Tier 1 Capital (AT1)	46,032	58,140
Total Tier 1 (T1=CET1+AT1)	2,088,915	1,975,619
Tier 2 Capital (T2)	220,122	200,931
Total Capital (TC=T1+T2)	2,309,037	2,176,550
Total Risk Weighted Assets	13,968,174	12,854,741
Capital Adequacy Ratios and Buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	14.63%	14.92%
Tier 1 (as percentage of risk-weighted assets)	14.95%	15.37%
Total capital (as percentage of risk-weighted assets)	16.53%	16.93%
National minima		
Common Equity Tier 1 minimum ratio	9.0%	11.5%
Tier 1 minimum ratio	10.5%	13.0%
Total capital minimum ratio	12.5%	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.

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	Common Equity Tier 1 capital: instruments and reserves	Jun-20	Jun-19
1	Directly issued qualifying common share capital plus related stock surplus	1,487,747	1,417,982
2	Retained earnings	56,494	49,958
3	Accumulated other comprehensive income (and other reserves)	458,955	422,015
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)	98,975	100,687
6	Net income	0	0
7	Common Equity Tier 1 capital before regulatory adjustments	2,102,171	1,990,642
	Common Equity Tier 1 capital: regulatory adjustments		
8	Prudential valuation adjustments		
9	Goodwill (net of related tax liability)	150	292
10	Other intangibles (net of related tax liability)	31,335	30,546
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)	27,803	42,325
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	59,288	73,163
30	Common Equity Tier 1 capital (CET1)	2,042,883	1,917,479
	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)	46,032	58,140
36	of which: instruments issued by subsidiaries subject to phase-out		
37	Additional Tier 1 capital before regulatory adjustments	46,032	58,140
	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)	46,032	58,140
46	Tier 1 capital (T1 = CET1 + AT1)	2,088,915	1,975,619
	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)	61,017	55,995
50	of which: instruments issued by subsidiaries subject to phase-out		
51	General provisions included in Tier 2 capital	159,105	144,936
52	Tier 2 capital before regulatory adjustments	220,122	200,931
	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)	220,122	200,931
60	Total capital (TC = T1 + T2)	2,309,037	2,176,550
61	Total risk weighted assets (after applying 50% additional weighting)	13,968,174	12,854,741
	Capital ratios and buffers		
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.63%	14.92%
63	Tier 1 (as a percentage of risk weighted assets)	14.95%	15.37%
64	Total capital (as a percentage of risk weighted assets)	16.53%	16.93%
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%	11.5%
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%	2.0%
69	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	7.63%	7.92%
	National minima		
70	National Common Equity Tier 1 minimum ratio	9.0%	11.5%
71	National Tier 1 minimum ratio	10.5%	13.0%
72	National total capital minimum ratio	12.5%	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)	24,459	35,707
	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)	391,893	338,213
78	Cap on inclusion of provisions in Tier 2 under standardized approach	159,105	144,936
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-20	Jun-20	
Assets			
Cash and balances with banks and financial institutions	1,762,690	1,762,690	
Short-term Murabaha	3,575,943	3,575,943	
Financing receivables	9,864,147	9,864,147	
of which General Provisions (netted above) capped for Tier 2 inclusion	159,105	159,105	A
Investment in Sukuk	3,422,020	3,422,020	
Trading properties	105,694	105,694	
Investments	171,318	171,318	
Investment in associates and joint ventures	550,637	550,637	
Investment properties	397,491	397,491	
Other Assets	472,087	472,087	
Intangible assets and goodwill	31,485	31,485	
of which goodwill	150	150	B
of which other intangibles	31,335	31,335	C
Property and equipment	228,967	228,967	
Total Assets	20,582,479	20,582,479	
Liabilities			
Due to banks and other financial institutions	2,856,179	2,856,179	
Sukuk Payable	309,564	309,564	
Depositors account	14,586,791	14,586,791	
Other liabilities	790,817	790,817	
Total Liabilities	18,543,351	18,543,351	
Equity Attributable to the shareholders of the bank			
Share Capital	767,414	767,414	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	0	0	
Treasury shares	-27,803	-27,803	F
Reserves	412,705	412,705	
of which: statutory reserve	324,875	324,875	G
of which: voluntary reserve	290,184	290,184	H
of which: treasury share reserve	14,990	14,990	I
of which: fair value reserve	61,830	61,830	
of which: eligible as CET1 Capital	58,871	58,871	K
of which: eligible as depositors accounts	2,959	2,959	
of which: revaluation reserve	-283,249	-283,249	
of which: eligible as CET1 Capital	-219,981	-219,981	L
of which: eligible as depositors accounts	-63,268	-63,268	
of which: other reserves	-23,255	-23,255	
of which: eligible as CET1 Capital	-9,984	-9,984	M
of which: eligible as depositors accounts	-13,271	-13,271	
of which: retained earnings	17,780	17,780	
of which: current year income	56,917	56,917	
of which: Modification Loss on Financing Receivable	-95,631	-95,631	
of which: retained earnings from previous years	56,494	56,494	N
Dividends (Declared but not incurred)	0	0	
Total Equity Attributable to the shareholders of the bank	1,863,099	1,863,099	
Non-controlling interests	176,029	176,029	
Non-controlling interests eligible as CET1 capital	98,975	98,975	O
Non-controlling interests eligible as AT1 capital	46,032	46,032	P
Non-controlling interests eligible as Tier 2 capital	61,017	61,017	Q
Total Equity	2,039,128	2,039,128	
Total Liabilities and Equity	20,582,479	20,582,479	

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	Jun-19	Jun-19	
Assets			
Cash and balances with banks and financial institutions	1,508,306	1,508,306	
Short-term Murabaha	3,669,021	3,669,021	
Financing receivables	9,237,275	9,237,275	
of which General Provisions (netted above) capped for Tier 2 inclusion	144,936	144,936	A
Investment in Sukuk	2,145,121	2,145,121	
Trading properties	144,562	144,562	
Investments	251,725	251,725	
Investment in associates and joint ventures	506,983	506,983	
Investment properties	477,160	477,160	
Other Assets	551,499	551,499	
Intangible assets and goodwill	30,838	30,838	
of which goodwill	292	292	B
of which other intangibles	30,546	30,546	C
Property and equipment	224,611	224,611	
Total Assets	18,747,101	18,747,101	
Liabilities			
Due to banks and other financial institutions	2,491,904	2,491,904	
Sukuk Payable	529,650	529,650	
Depositors account	12,837,144	12,837,144	
Other liabilities	828,457	828,457	
Total Liabilities	16,687,155	16,687,155	
Equity Attributable to the shareholders of the bank			
Share Capital	697,649	697,649	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	0	0	
Treasury shares	-42,325	-42,325	F
Reserves	507,982	507,982	
of which: statutory reserve	298,527	298,527	G
of which: voluntary reserve	298,527	298,527	H
of which: treasury share reserve	8,069	8,069	I
of which: fair value reserve	21,391	21,391	
of which: eligible as CET1 Capital	18,510	18,510	K
of which: eligible as depositors accounts	2,881	2,881	
of which: revaluation reserve	-256,013	-256,013	
of which: eligible as CET1 Capital	-194,400	-194,400	L
of which: eligible as depositors accounts	-61,613	-61,613	
of which: other reserves	-20,142	-20,142	
of which: eligible as CET1 Capital	-7,218	-7,218	M
of which: eligible as depositors accounts	-12,924	-12,924	
of which: retained earnings	157,623	157,623	
of which: current year income	107,665	107,665	
of which: Modification Loss on Financing Receivable	0	0	
of which: retained earnings from previous years	49,958	49,958	N
Dividends (Declared but not incurred)	0	0	
Total Equity Attributable to the shareholders of the bank	1,883,639	1,883,639	
Non-controlling interests	176,307	176,307	
Non-controlling interests eligible as CET1 capital	100,687	100,687	O
Non-controlling interests eligible as AT1 capital	58,140	58,140	P
Non-controlling interests eligible as Tier 2 capital	55,995	55,995	Q
Total Equity	2,059,946	2,059,946	
Total Liabilities and Equity	18,747,101	18,747,101	

Step 3 of Reconciliation requirements

KD '000s

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital Jun-20	Component of regulatory capital Jun-19	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	1,487,747	1,417,982	D+E
2	Retained earnings	56,494	49,958	N
3	Accumulated other comprehensive income (and other reserves)	458,955	422,015	G+H+I+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	98,975	100,687	O
5	Common Equity Tier 1 capital before regulatory adjustments	2,102,171	1,990,642	
Common Equity Tier 1 capital: regulatory adjustments				
6	Goodwill	(150)	(292)	B
7	Other intangible assets	(31,335)	(30,546)	C
8	Treasury shares	(27,803)	(42,325)	F
9	Total regulatory adjustments to Common Equity Tier1	(59,288)	(73,163)	
10	Common Equity Tier 1 capital (CET1)	2,042,883	1,917,479	
Additional Tier 1 capital: instruments				
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	46,032	58,140	P
12	Total Tier 1 capital	2,088,915	1,975,619	
Tier 2 capital: instruments and provisions				
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	61,017	55,995	Q
14	General Provisions included in Tier 2 Capital	159,105	144,936	A
15	Total Tier 2 capital	220,122	200,931	
Total capital		2,309,037	2,176,550	

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-20	Jun-19
1	Tier 1 capital	2,088,915	1,975,619
2	Total exposures	23,246,565	21,370,320
Leverage ratio			
3	Financial leverage ratio	8.99%	9.24%