

Kuwait Finance House Group



بيت التمويل الكويتي
Kuwait Finance House

Basel III and Leverage Public Disclosures

June 2017

Risk Management 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)	1,864,211
Regulatory Adjustments for CET1	87,133
Total Common Equity Tier 1 (CET1)	1,777,078
Additional Tier 1 Capital (AT1)	71,703
Total Tier 1 (T1=CET1+AT1)	1,848,781
Tier 2 Capital (T2)	196,890
Total Capital (TC=T1+T2)	2,045,671
Total Risk Weighted Assets	11,654,742
Capital Adequacy Ratios and Buffers	
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.25%
Tier 1 (as percentage of risk-weighted assets)	15.86%
Total capital (as percentage of risk-weighted assets)	17.55%
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	1,296,902
2	Retained earnings	97,417
3	Accumulated other comprehensive income (and other reserves)	425,785
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)	44,108
6	Net income	0
7	Common Equity Tier 1 capital before regulatory adjustments	1,864,211
	Common Equity Tier 1 capital: regulatory adjustments	
8	Prudential valuation adjustments	
9	Goodwill (net of related tax liability)	6,722
10	Other intangibles (net of related tax liability)	33,971
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)	46,440
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	87,133
30	Common Equity Tier 1 capital (CET1)	1,777,078
	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)	71,703
36	of which: instruments issued by subsidiaries subject to phase-out	
37	Additional Tier 1 capital before regulatory adjustments	71,703
	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)	71,703
46	Tier 1 capital (T1 = CET1 + AT1)	1,848,781
	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)	67,966
50	of which: instruments issued by subsidiaries subject to phase-out	
51	General provisions included in Tier 2 capital	128,923
52	Tier 2 capital before regulatory adjustments	196,890
	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)	196,890
60	Total capital (TC = T1 + T2)	2,045,671
61	Total risk weighted assets (after applying 50% additional weighting)	11,654,742
	Capital ratios and buffers	
62	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.25%
63	Tier 1 (as a percentage of risk weighted assets)	15.86%
64	Total capital (as a percentage of risk weighted assets)	17.55%
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)	6.25%
	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)	21,730
	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)	324,311
78	Cap on inclusion of provisions in Tier 2 under standardized approach	128,923
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-Jun-17	30-Jun-17	
Assets			
Cash and balances with banks and financial institutions	1,314,206	1,314,206	
Short-term Murabaha	2,945,391	2,945,391	
Financing receivables	8,914,306	8,914,306	
of which General Provisions (netted above) capped for Tier 2 inclusion	128,923	128,923	a
Trading properties	168,888	168,888	
Investments	1,670,961	1,670,961	
Investment in associates and joint ventures	464,001	464,001	
Investment properties	587,920	587,920	
Other Assets	525,820	525,820	
Intangible assets and goodwill	40,693	40,693	
of which goodwill	6,722	6,722	b
of which other intangibles	33,971	33,971	c
Property and equipment	215,162	215,162	
Assets classified as held for sale	318,059	318,059	
Total Assets	17,165,407	17,165,407	
Liabilities			
Due to banks and other financial institutions	2,833,834	2,833,834	
Depositors account	11,376,994	11,376,994	
Other liabilities	750,916	750,916	
Liabilities directly associated with assets classified and held for sale	171,724	171,724	
TOTAL LIABILITLES	15,133,468	15,133,468	
Equity Attributable to the shareholders of the bank			
Share Capital	576,569	576,569	d
Share premium	720,333	720,333	e
Proposed issue of bonus shares	0	0	
Treasury shares	-46,440	-46,440	f
Reserves	545,040	545,040	
of which: statutory reserve	255,564	255,564	g
of which: voluntary reserve	255,564	255,564	h
of which: treasury share reserve	6,685	6,685	i
of which: stock option reserve	0	0	j
of which: fair value reserve	26,300	26,300	
of which: eligible as CET1 Capital	15,941	15,941	k
of which: eligible as depositors accounts	10,359	10,359	
of which: revaluation reserve	-143,746	-143,746	
of which: eligible as CET1 Capital	-87,125	-87,125	l
of which: eligible as depositors accounts	-56,621	-56,621	
of which: other reserves	-34,389	-34,389	
of which: eligible as CET1 Capital	-20,843	-20,843	m
of which: eligible as depositors accounts	-13,546	-13,546	
of which: retained earnings	179,062	179,062	
of which: current year income	81,645	81,645	
of which: retained earnings from previous years	97,417	97,417	n
Dividends (Declared but not incurred)	0	0	
Total Equity Attributable to the shareholders of the bank	1,795,502	1,795,502	
Non-controlling interests	236,437	236,437	
of which limited recognition eligible as CET1 capital	44,108	44,108	o
of which limited recognition eligible as AT1 capital	71,703	71,703	p
of which limited recognition eligible as Tier 2 capital	67,966	67,966	q
Total Equity	2,031,939	2,031,939	
Total Liabilities and Equity	17,165,407	17,165,407	

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	1,296,902	d+e
2	Retained earnings	97,417	n
3	Accumulated other comprehensive income (and other reserves)	425,785	g+h+i+j+k+l+m
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	44,108	o
5	Common Equity Tier 1 capital before regulatory adjustments	1,864,211	
Common Equity Tier 1 capital : regulatory adjustments			
6	Goodwill	-6,722	b
7	Other intangible assets	-33,971	c
8	Treasury shares	-46,440	f
9	Total regulatory adjustments to Common Equity Tier1	-87,133	
10	Common Equity Tier 1 capital (CET1)	1,777,078	
Additional Tier 1 capital : instruments			
11	Common share capital issued by subsidiaries and held by third parties (minority interest)	71,703	p
12	Total Tier 1 capital	1,848,781	
Tier 2 capital : instruments and provisions			
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	67,966	q
14	General Provisions included in Tier 2 Capital	128,923	a
15	Total Tier 2 capital	196,889	
Total capital		2,045,671	

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%.

	On-balance sheet exposures	KD '000s
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,455,125
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(40,693)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	17,414,432
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	760,956
5	Add-on amounts for PFE associated with all derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Total derivative exposures (sum of lines 4 to 10)	760,956
	Other off-balance sheet exposures	
10	Off-balance sheet exposure at gross notional amount	2,509,031
11	(Adjustments for conversion to credit equivalent amounts)	(1,422,462)
12	Off-balance sheet items (sum of lines 17 and 18)	1,086,570
	Capital and total exposures	
13	Tier 1 capital	1,848,781
14	Total exposures (sum of lines 3, 11, 16 and 19)	19,261,958
	Leverage ratio	
15	Basel III leverage ratio	9.60%