

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES



**RISK MANAGEMENT
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2020**

For the period from 1 January 2020 to 30 June 2020

1. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

- Common Equity Tier 1 (CET1) Capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves and retained earnings net of regulatory adjustments,
- Additional Tier 1 (AT1) Capital which consists of perpetual Tier 1 Sukuk and eligible portion of non-controlling interests, and,
- Tier 2 (T2) capital which consists of the allowed portions of general provisions and eligible portion of non-controlling interests.

The regulatory capital for the Group is detailed below:

Table 1	30 June 2020
	KD '000s
Regulatory Capital	
Common Equity Tier 1 Capital	541,306
Additional Tier 1 Capital	78,133
Tier 1 Capital	619,439
Tier 2 Capital	52,043
Total Regulatory Capital	671,482

2. CAPITAL ADEQUACY RATIOS

The Capital Adequacy Ratios (CAR) for the Group under the various levels of regulatory capital expressed as a percentage of risk-weighted assets are detailed below:

Table 2	30 June 2020
Common Equity Tier 1 Capital ratio	13.54%
Tier 1 Capital ratio	15.49%
Total Regulatory Capital ratio	16.80%

The details of the Group's regulatory capital positions under the Common Disclosures template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Table 8 in the Appendices section.

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3. RECONCILIATION REQUIREMENTS

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all regulatory capital elements to the balance sheet in the financial statements, a three-step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework. Table 3 below provides the comparison (Step1) of the balance sheet published in the consolidated financial statement and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the regulatory capital.

Table 3: Step 1 and 2 of Reconciliation requirements

Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	KD '000s	KD '000s	
Assets			
Cash and balances with banks	200,760	200,760	
Deposits with Central Bank of Kuwait	346,360	346,360	
Deposits with other banks	296,338	296,338	
Islamic financing to customers	4,518,638	4,518,638	
of which general provisions(netted above) capped for Tier 2 inclusion	46,887	46,887	A
Financial assets at fair value through profit or loss	80,468	80,468	
Financial assets at fair value through other comprehensive income	507,321	507,321	
Investment in associates	4,611	4,611	
of which goodwill	-	-	B
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	-	-	C
Investment properties	46,352	46,352	
Other assets	41,891	41,891	
Property and equipment	88,530	88,530	
Total assets	6,131,269	6,131,269	
Liabilities			
Due to banks	470,435	470,435	
Depositors' accounts	4,719,507	4,719,507	
Sukuk Issued	233,064	233,064	
Other liabilities	106,070	106,070	
Total liabilities	5,529,076	5,529,076	
Equity			
Share capital	302,827	302,827	D
Share premium	156,942	156,942	E
Proposed bonus shares	-	-	F
Treasury shares	(54)	(54)	G
Statutory reserve	31,848	31,848	H
Voluntary reserve	30,467	30,467	I
Share based payment reserve	967	967	J
Fair value reserve	(19,420)	(19,420)	K
Foreign currency translation reserve	(10,100)	(10,100)	L
Retained earnings	2,120	2,120	
of which Retained Earnings eligible as CET1 Capital	33,210	33,210	M
of which Modification loss on deferral of financing instalments	(48,232)	(48,232)	
of which Interim Profits	17,142	17,142	
Proposed cash dividends	-	-	
Equity attributable to equity holders of the Bank	495,597	495,597	
Perpetual Tier 1 Sukuk	75,388	75,388	N
Non-controlling interests	31,208	31,208	
of which limited recognition eligible as CET1 Capital	17,205	17,205	O
of which limited recognition eligible as AT1 Capital	2,746	2,746	P
of which limited recognition eligible as Tier 2 Capital	5,156	5,156	Q
Total equity	602,193	602,193	
Total liabilities and equity	6,131,269	6,131,269	

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Table 4 below provides the relevant lines under 'Table 8: Composition of Regulatory Capital' with cross references to the letters in Table 3, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

Table 4: Step 3 of Reconciliation requirements

Relevant row number in common disclosure template	Item	Component of regulatory capital KD '000s	Source based on reference letters of the balance sheet from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	302,827	D
2	Retained earnings	33,210	M
3	Accumulated other comprehensive income (and other reserves)	190,706	E+H+I+J+K+L
5	Common share capital issued by subsidiaries and held by third parties	17,205	O
6	Common Equity Tier 1 Capital before regulatory adjustments	543,948	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)	-	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2,588	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	54	G
18	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	-	C
28	Total regulatory adjustments to Common Equity Tier 1	2,642	
29	Common Equity Tier 1 capital (CET1)	541,306	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	75,388	N
34	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)	2,746	P
36	Additional Tier 1 capital before regulatory adjustments	78,133	
	Additional Tier 1 capital : regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	78,133	
45	Tier 1 capital (T1 = CET1 + AT1)	619,439	
	Tier 2 capital : instruments and provisions		
48	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)	5,156	Q
50	General Provisions included in Tier 2 Capital	46,887	A
51	Tier 2 Capital before regulatory adjustments	52,043	
	Tier 2 Capital : regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 Capital (T2)	52,043	
59	Total capital (TC = T1 + T2)	671,482	

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4. LEVERAGE RATIO

In October 2014, CBK issued the regulations on the ‘Leverage ratio’ introduced by BCBS as part of the regulatory reforms package. This transparent and non-risk based metric supplements the Capital ratio to act as a backstop measure to limit excessive build-up of on and off-balance sheet exposures.

The Leverage ratio is a separate, additional requirement from the risk-based capital requirement. It is defined as the ‘capital’ measure divided by the ‘exposure’ measure. The capital measure is made up of Tier 1 Capital. The exposure measure is a sum of on-balance sheet assets, derivative exposures; securities finance transactions and off-balance sheet exposures.

The Group is in compliance with the requirements stipulated by CBK for the Leverage ratio set at a minimum of 3%.

The Leverage Ratio for the Group at consolidated level is:

	30 June 2020
Table 5	
Tier 1 Capital (KD ‘000s)	619,439
Total Exposures (KD ‘000s)	6,394,595
Leverage Ratio (%)	9.69%

The below Table provides the details of the Total Exposures for Leverage Ratio:

	30 June 2020
	KD ‘000s
Table 6	
On-balance sheet exposures	6,136,929
Off-balance sheet items	257,666
Total Exposures	6,394,595

The details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework has been provided in Table 9 of the Appendices Section.

Leverage Ratio Reconciliation

Table 7 below provides the reconciliation of the balance sheet assets from the published financial statement with total exposure amount in the calculation of leverage ratio.

Table 7

	Item	30 June 2020 KD ‘000s
1	Total consolidated assets as per published financial statements	6,131,269
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustment for Exposures to Sharia compliant hedging contracts	5,660
5	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	257,666
6	Other adjustments	-
7	Leverage ratio exposure	6,394,595

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APPENDICES

Table 8: Regulatory Capital Composition: Common Disclosure Template

Row Number	Item	30 June 2020 KD '000s
Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	459,769
2	Retained earnings	33,210
3	Accumulated other comprehensive income (and other reserves)	33,764
5	Common share capital issued by subsidiaries and held by third parties	17,205
6	Common Equity Tier 1 capital before regulatory adjustments	543,948
Common Equity Tier 1 Capital : regulatory adjustments		
8	Goodwill (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(2,588)
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(54)
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
28	Total regulatory adjustments to Common Equity Tier 1	(2,642)
29	Common Equity Tier 1 Capital after the regulatory adjustments (CET1)	541,306
Additional Tier 1 Capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	75,388
34	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)	2,746
36	Additional Tier 1 Capital before regulatory adjustments	78,133
Additional Tier 1 Capital : regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	78,133
45	Tier 1 Capital (T1 = CET1 + AT1)	619,439
Tier 2 Capital : instruments and provisions		
48	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)	5,156
50	General Provisions included in Tier 2 Capital	46,887
51	Tier 2 capital before regulatory adjustments	52,043
Tier 2 Capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 Capital	-
58	Tier 2 Capital (T2)	52,043
59	Total Capital (TC = T1 + T2)	671,482
60	Total risk-weighted assets	3,998,091
Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	15.49%
62	Tier 1 (as percentage of risk-weighted assets)	13.54%
63	Total capital (as percentage of risk-weighted assets)	16.80%
National minima		
69	Common Equity Tier 1 minimum ratio *	7.00%
70	Tier 1 minimum ratio	8.50%
71	Total capital minimum ratio excluding CCY and D-SIB buffers	10.50%

*Capital Conservation Buffer requirement of 2.5% has been relaxed from the minimum capital requirement by Central Bank of Kuwait until 31 December 2020.

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Table 9: Leverage ratio - Common Disclosure Template

Item		30 June 2020 KD '000s
On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	6,131,269
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	-
3	Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)	6,131,269
Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	5,660
6	Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Bank's accounting policy.	-
7	(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	-
8	(Bank's exposures to exempted Central counter parties "CCP")	-
9	Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)	5,660
Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	1,330,184
11	(Adjustments for conversion to credit equivalent amounts)	(1,072,518)
12	Off-balance sheet items (sum of lines 10 and 11)	257,666
Capital and total exposures		
13	Tier 1 Capital	619,439
14	Total exposures (sum of lines 3, 9,12)	6,394,595
Leverage ratio		
15	Leverage ratio (Tier 1 Capital (13)/total exposures (14))	9.69%