

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



**RISK MANAGEMENT  
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2023**

For the period from 1 January to 30 June 2023

## 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, retained earnings and eligible portion of non-controlling interests net of regulatory adjustments,
- Additional Tier 1 (AT1) Capital which consists of perpetual tier 1 Sukuk and eligible portion of non-controlling interests net of regulatory adjustments,
- 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:

	30 June 2023
	KD '000s
<b>Regulatory Capital</b>	
Common Equity Tier 1 Capital	759,145
Additional Tier 1 Capital	133,693
<b>Tier 1 Capital</b>	<b>892,838</b>
Tier 2 Capital	66,672
<b>Total Regulatory Capital</b>	<b>959,510</b>

## 2. CAPITAL ADEQUACY RATIOS

The Minimum Capital Requirements (MCR) and 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:

	30 June 2023	
	MCR*	CAR
Common Equity Tier 1 Capital ratio	10.50%	14.30%
Tier 1 Capital ratio	12.00%	16.82%
Total Capital ratio	14.00%	18.08%

\* includes 2.5% capital conservation buffer and 1% D-SIB buffer which are to be met through CET1 capital.

The countercyclical capital buffer has not been required for the period ended 30 June 2023 in the MCR

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 1 of the Appendices section.

For the period from 1 January to 30 June 2023

### 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 audited financial statements, a three-step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework.

Table 3 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.

30 June 2023

Table 3 - Step 1 and 2 of Reconciliation requirements	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	KD '000s	KD '000s	
<b>Assets</b>			
Cash and balances with banks	264,297	264,297	
Deposits with Central Bank of Kuwait	405,113	405,113	
Deposits with other banks	60,156	60,156	
Islamic financing to customers	6,093,961	6,093,961	
<i>of which general provisions (netted above) capped for Tier 2 inclusion</i>	63,561	63,561	A
Investment in Sukuk	709,297	709,297	
<i>of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation</i>	-	-	B
Other investment securities	162,102	162,102	
Investment properties	65,227	65,227	
Other assets	125,434	125,434	
<i>of which Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)</i>	(14,461)	(14,461)	C
Property and equipment	138,534	138,534	
<i>of which Other intangibles (net of related tax liability)</i>	(34,833)	(34,833)	D
<b>Total assets</b>	<b>8,024,121</b>	<b>8,024,121</b>	
<b>Liabilities</b>			
Due to banks	191,599	191,599	
Depositors' accounts	6,153,030	6,153,030	
Medium term financing	560,714	560,714	
Other liabilities	127,026	127,026	
<b>Total liabilities</b>	<b>7,032,369</b>	<b>7,032,369</b>	
<b>Equity</b>			
Share capital	396,300	396,300	E
Share premium	316,942	316,942	F
Treasury shares	(54)	(54)	H
Statutory reserve	46,761	46,761	I
Voluntary reserve	15,327	15,327	J
Other reserves	(2,949)	(2,949)	K
Retained earnings	42,963	42,963	
<i>of which Retained Earnings eligible as CET1 Capital</i>	19,777	19,777	L
<i>of which Modification loss on deferral of financing instalments</i>	(18,087)	(18,087)	
<i>of which interim profits</i>	41,273	41,273	
<b>Equity attributable to equity holders of the Bank</b>	<b>815,290</b>	<b>815,290</b>	
Perpetual Tier 1 Sukuk	150,385	150,385	M
Non-controlling interests	26,077	26,077	
<i>of which limited recognition eligible as CET1 Capital</i>	16,334	16,334	N
<i>of which limited recognition eligible as AT1 Capital</i>	2,333	2,333	O
<i>of which limited recognition eligible as Tier 2 Capital</i>	3,111	3,111	P
<b>Total equity</b>	<b>991,752</b>	<b>991,752</b>	
<b>Total liabilities and equity</b>	<b>8,024,121</b>	<b>8,024,121</b>	

For the period from 1 January to 30 June 2023

Table 4 below provides the relevant lines under ‘Appendices Table 1: Regulatory Capital Composition’ 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**

**30 June 2023**

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
	<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common share capital plus related stock surplus	396,300	E
2	Retained earnings	19,777	L
3	Accumulated other comprehensive income (and other reserves)	376,082	F+G+I+J+K
5	Common share capital issued by subsidiaries and held by third parties	16,334	N
6	Common Equity Tier 1 Capital before regulatory adjustments	<b>808,493</b>	
	<b>Common Equity Tier 1 capital : regulatory adjustments</b>		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(34,833)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(14,461)	C
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(54)	H
18	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	-	
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>(49,348)</b>	
<b>29</b>	<b>Common Equity Tier 1 capital (CET1)</b>	<b>759,145</b>	
	<b>Additional Tier 1 capital : instruments</b>		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	150,385	M
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)	2,333	O
<b>36</b>	<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>152,718</b>	
	<b>Additional Tier 1 capital : regulatory adjustments</b>		
38	Reciprocal cross-holding in Additional Tier 1 instruments	(19,025)	
39	Investments in the capital of banking, financial and Islamic 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)	-	B
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>(19,025)</b>	
<b>44</b>	<b>Additional Tier 1 capital (AT1)</b>	<b>133,693</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>892,838</b>	
	<b>Tier 2 capital : instruments and provisions</b>		
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)	3,111	P
50	General Provisions included in Tier 2 Capital	63,561	A
<b>51</b>	<b>Tier 2 Capital before regulatory adjustments</b>	<b>66,672</b>	
	<b>Tier 2 Capital : regulatory adjustments</b>		
54	Investments in the capital of banking, financial and Islamic 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)	-	B
<b>57</b>	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	
<b>58</b>	<b>Tier 2 Capital (T2)</b>	<b>66,672</b>	
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>959,510</b>	

For the period from 1 January to 30 June 2023

#### 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:

	<b>30 June 2023</b>
<b>Table 5</b>	
Tier 1 Capital (KD '000s)	892,838
Total Exposures (KD '000s)	8,401,983
<b>Leverage Ratio (%)</b>	<b>10.63%</b>

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

	<b>30 June 2023</b>
	<b>KD '000s</b>
<b>Table 6</b>	
On-balance sheet exposures	7,974,773
Exposures to Sharia compliant hedging contracts	31,955
Off-balance sheet items	395,255
<b>Total Exposures</b>	<b>8,401,983</b>

Appendices Table 2 provides details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework.

#### Leverage Ratio Reconciliation

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

Summary comparison of accounting assets vs leverage ratio exposure measure

**Table 7**

	Item	30 June 2023 KD '000s
1	Total consolidated assets as per published financial statements	8,024,121
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 recognized 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	31,955
5	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	395,255
6	Other adjustments	(49,348)
7	<b>Leverage ratio exposure</b>	<b>8,401,983</b>

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**APPENDICES**

**Table 1: Regulatory Capital Composition: Common Disclosure Template**

Row Number	Item	30 June 2023 KD '000s
<b>Common Equity Tier 1 Capital: instruments and reserves</b>		
1	Directly issued qualifying common share capital plus related stock surplus	396,300
2	Retained earnings	19,777
3	Accumulated other comprehensive income (and other reserves)	376,082
5	Common share capital issued by subsidiaries and held by third parties	16,334
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>808,493</b>
<b>Common Equity Tier 1 Capital : regulatory adjustments</b>		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(34,833)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(14,461)
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(54)
28	<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>(49,348)</b>
29	<b>Common Equity Tier 1 Capital after the regulatory adjustments (CET1)</b>	<b>759,145</b>
<b>Additional Tier 1 Capital : instruments</b>		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	150,385
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)	2,333
36	<b>Additional Tier 1 Capital before regulatory adjustments</b>	<b>152,718</b>
<b>Additional Tier 1 Capital : regulatory adjustments</b>		
38	Reciprocal cross holdings in Additional Tier 1 instruments	(19,025)
39	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)	-
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>(19,025)</b>
44	<b>Additional Tier 1 capital (AT1)</b>	<b>133,693</b>
45	<b>Tier 1 Capital (T1 = CET1 + AT1)</b>	<b>892,838</b>
<b>Tier 2 Capital : instruments and provisions</b>		
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)	3,111
50	General Provisions included in Tier 2 Capital	63,561
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>66,672</b>
<b>Tier 2 Capital: regulatory adjustments</b>		
54	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)	-
57	<b>Total regulatory adjustments to Tier 2 Capital</b>	<b>-</b>
58	<b>Tier 2 Capital (T2)</b>	<b>66,672</b>
59	<b>Total Capital (TC = T1 + T2)</b>	<b>959,510</b>
60	<b>Total risk-weighted assets</b>	<b>5,307,751</b>
<b>Capital ratios and buffers</b>		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	14.30%
62	Tier 1 (as percentage of risk-weighted assets)	16.82%
63	Total capital (as percentage of risk-weighted assets)	18.08%
<b>National minima</b>		
69	Common Equity Tier 1 minimum ratio (excluding Capital Conservation, Counter Cyclical and DSIB buffers)	7.00%
70	Tier 1 minimum ratio	8.50%
71	Total capital minimum ratio	10.50%

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**Table 2: Leverage ratio - Common Disclosure Template**

		30 June 2023
Item		KD '000s
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	8,024,121
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	(49,348)
<b>3</b>	<b>Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)</b>	<b>7,974,773</b>
<b>Exposures to Sharia compliant hedging contracts</b>		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	25,549
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	6,406
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" )	-
<b>9</b>	<b>Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)</b>	<b>31,955</b>
<b>Other off-balance sheet exposures</b>		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	1,695,237
11	(Adjustments for conversion to credit equivalent amounts)	(1,299,982)
<b>12</b>	<b>Off-balance sheet items (sum of lines 10 and 11)</b>	<b>395,255</b>
<b>Capital and total exposures</b>		
<b>13</b>	<b>Tier 1 Capital</b>	<b>892,838</b>
<b>14</b>	<b>Total exposures (sum of lines 3, 9,12)</b>	<b>8,401,983</b>
<b>Leverage ratio</b>		
<b>15</b>	<b>Leverage ratio (Tier 1 Capital (13)/total exposures (14))</b>	<b>10.63%</b>