

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



RISK MANAGEMENT

FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2024

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

For the period from 1 January to 30 June 2024

1. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

- a) 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,
- b) Additional Tier 1 (AT1) Capital which consists of perpetual tier 1 Sukuk and eligible portion of non-controlling interests, and,
- c) 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 2024
	KD '000s
Regulatory Capital	
Common Equity Tier 1 Capital	797,340
Additional Tier 1 Capital	138,124
Tier 1 Capital	935,464
Tier 2 Capital	70,678
Total Regulatory Capital	1,006,142

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 2024	
	MCR*	CAR
Table 2		
Common Equity Tier 1 Capital ratio	10.50%	14.09%
Tier 1 Capital ratio	12.00%	16.53%
Total Capital ratio	14.00%	17.78%

* 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 2024 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.

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

For the period from 1 January to 30 June 2024

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.

Table 3 - Step 1 and 2 of Reconciliation requirements

30 June 2024

Table 16 - Step 1 and 2 of Reconciliation requirements	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	KD '000s	KD '000s	
Assets			
Cash and balances with banks	495,619	495,619	
Deposits with Central Bank of Kuwait	186,672	186,672	
Deposits with other banks	9,150	9,150	
Islamic financing to customers	6,707,131	6,707,131	
<i>of which general provisions(netted above) capped for Tier 2 inclusion</i>	-	67,576	A
Investment in Sukuk	1,007,433	1,007,433	
<i>of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation</i>	-	-	B
<i>of which reciprocal cross-holding in Additional Tier 1 instruments</i>	-	14,588	C
Other investment securities	155,218	155,218	
Investment properties	71,275	71,275	
Other assets	100,683	100,683	
Property and equipment	158,140	158,140	
<i>of which Other intangibles</i>	-	43,410	D
Total assets	8,891,321	8,891,321	
Liabilities			
Due to banks	259,531	259,531	
Depositors' accounts	6,964,247	6,964,247	
Medium term financing	502,250	502,250	
Other liabilities	123,994	123,994	
Total liabilities	7,850,022	7,850,022	
Equity			
Share capital	420,078	420,078	E
Share premium	316,942	316,942	F
Treasury shares	(54)	(54)	G
Statutory reserve	55,233	55,233	H
Voluntary reserve	15,327	15,327	I
Other reserves	(912)	(912)	J
Retained earnings	61,430	61,430	
<i>of which Retained Earnings eligible as CET1 Capital</i>	-	17,849	K
<i>of which Modification loss on deferral of financing instalments</i>	-	(6,029)	
<i>of which interim profits</i>	-	49,610	
Equity attributable to equity holders of the Bank	868,044	868,044	
Perpetual Tier 1 Sukuk	150,385	150,385	L
Non-controlling interests	22,870	22,870	
<i>of which limited recognition eligible as CET1 Capital</i>	-	16,286	M
<i>of which limited recognition eligible as AT1 Capital</i>	-	2,327	N
<i>of which limited recognition eligible as Tier 2 Capital</i>	-	3,102	O
Total equity	1,041,299	1,041,299	
Total liabilities and equity	8,891,321	8,891,321	

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

For the period from 1 January to 30 June 2024

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 2024

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	420,078	E
2	Retained earnings	17,849	K
3	Accumulated other comprehensive income (and other reserves)	386,591	F+H+I+J
5	Common share capital issued by subsidiaries and held by third parties	16,286	M
6	Common Equity Tier 1 Capital before regulatory adjustments	840,804	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(43,410)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
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%	-	
28	Total regulatory adjustments to Common Equity Tier 1	(43,464)	
29	Common Equity Tier 1 capital (CET1)	797,340	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	150,385	L
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)	2,327	N
36	Additional Tier 1 capital before regulatory adjustments	152,712	
	Additional Tier 1 capital : regulatory adjustments		
38	Reciprocal cross-holding in Additional Tier 1 instruments	(14,588)	C
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
43	Total regulatory adjustments to Additional Tier 1 capital	(14,588)	
44	Additional Tier 1 capital (AT1)	138,124	
45	Tier 1 capital (T1 = CET1 + AT1)	935,464	
	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)	3,102	O
50	General Provisions included in Tier 2 Capital	67,576	A
51	Tier 2 Capital before regulatory adjustments	70,678	
	Tier 2 Capital : regulatory adjustments		
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
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 Capital (T2)	70,678	
59	Total capital (TC = T1 + T2)	1,006,142	

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

For the period from 1 January to 30 June 2024

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 2024
Table 5	
Tier 1 Capital (KD ‘000s)	935,464
Total Exposures (KD ‘000s)	9,293,386
Leverage Ratio (%)	10.07%

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

	30 June 2024
	KD ‘000s
Table 6	
On-balance sheet exposures	8,833,269
Exposures to Sharia compliant hedging contracts	34,284
Off-balance sheet items	425,833
Total Exposures	9,293,386

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 2024 KD ‘000s
1	Total consolidated assets as per published financial statements	8,891,321
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	34,284
5	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	425,833
6	Other adjustments	(58,052)
7	Leverage ratio exposure	9,293,386

For the period from 1 January to 30 June 2024

APPENDICES

Table 1: Regulatory Capital Composition: Common Disclosure Template

Relevant row number in common disclosure template	Item	30 June 2024 KD '000s
Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	420,078
2	Retained earnings	17,849
3	Accumulated other comprehensive income (and other reserves)	386,591
5	Common share capital issued by subsidiaries and held by third parties	16,286
6	Common Equity Tier 1 capital before regulatory adjustments	840,804
Common Equity Tier 1 Capital : regulatory adjustments		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(43,410)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(54)
28	Total regulatory adjustments to Common Equity Tier 1	(43,464)
29	Common Equity Tier 1 Capital after the regulatory adjustments (CET1)	797,340
Additional Tier 1 Capital : instruments		
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)	2,327
36	Additional Tier 1 Capital before regulatory adjustments	152,712
Additional Tier 1 Capital : regulatory adjustments		
38	Reciprocal cross holdings in Additional Tier 1 instruments	(14,588)
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	Total regulatory adjustments to Additional Tier 1 capital	(14,588)
44	Additional Tier 1 capital (AT1)	138,124
45	Tier 1 Capital (T1 = CET1 + AT1)	935,464
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)	3,102
50	General Provisions included in Tier 2 Capital	67,576
51	Tier 2 capital before regulatory adjustments	70,678
Tier 2 Capital: regulatory adjustments		
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	Total regulatory adjustments to Tier 2 Capital	-
58	Tier 2 Capital (T2)	70,678
59	Total Capital (TC = T1 + T2)	1,006,142
60	Total risk-weighted assets	5,657,600
Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	14.09%
62	Tier 1 (as percentage of risk-weighted assets)	16.53%
63	Total capital (as percentage of risk-weighted assets)	17.78%
National minima		
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%

For the period from 1 January to 30 June 2024

Table 2: Leverage ratio - Common Disclosure Template

	Item	30 June 2024 KD '000s
On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	8,891,321
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	(58,052)
3	Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)	8,833,269
Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	24,584
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	9,700
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)	34,284
Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	1,915,336
11	(Adjustments for conversion to credit equivalent amounts)	(1,489,503)
12	Off-balance sheet items (sum of lines 10 and 11)	425,833
Capital and total exposures		
13	Tier 1 Capital	935,464
14	Total exposures (sum of lines 3, 9,12)	9,293,386
Leverage ratio		
15	Leverage ratio (Tier 1 Capital (13)/total exposures (14))	10.07%