

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



**RISK MANAGEMENT
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2022**

For the period from 1 January to 30 June 2022

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 2022
	KD '000s
Regulatory Capital	
Common Equity Tier 1 Capital	756,325
Additional Tier 1 Capital	152,712
Tier 1 Capital	909,037
Tier 2 Capital	62,786
Total Regulatory Capital	971,823

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:

Table 2	30 June 2022	
	MCR*	CAR
Common Equity Tier 1 capital adequacy ratio	10.50%	15.18%
Tier 1 capital adequacy ratio	12.00%	18.24%
Total Regulatory capital adequacy ratio	14.00%	19.50%

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

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.

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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 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 2022

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	
Assets			
Cash and balances with banks	282,748	282,748	
Deposits with Central Bank of Kuwait	328,921	328,921	
Deposits with other banks	325,662	325,662	
Islamic financing to customers	5,749,210	5,749,210	
<i>of which general provisions(netted above) capped for Tier 2 inclusion</i>	59,683	59,683	A
Investment in Sukuk	541,463	541,463	
<i>of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation</i>	0	0	B
Other investment securities	156,301	156,301	
Investment properties	32,792	32,792	
Other assets	102,720	102,720	
<i>of which Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)</i>	7,006	7,006	C
Property and equipment	116,180	116,180	
<i>of which Other intangibles (net of related tax liability)</i>	26,021	26,021	D
Total assets	7,635,997	7,635,997	
Liabilities			
Due to banks	312,714	312,714	
Depositors' accounts	5,645,809	5,645,809	
Medium term financing	640,664	640,664	
Other liabilities	77,809	77,809	
Total liabilities	6,676,996	6,676,996	
Equity			
Share capital	373,868	373,868	E
Share premium	316,942	316,942	F
Proposed bonus shares	-	-	G
Treasury shares	(54)	(54)	H
Statutory reserve	40,651	40,651	I
Voluntary reserve	15,327	15,327	J
Other reserves	(4,494)	(4,494)	K
Retained earnings	34,055	34,055	
<i>of which Retained Earnings eligible as CET1 Capital</i>	31,117	31,117	L
<i>of which Modification loss on deferral of financing instalments</i>	(30,145)	(30,145)	
<i>of which interim profits</i>	33,083	33,083	
Proposed Cash Dividends	-	-	
Equity attributable to equity holders of the Bank	776,295	776,295	
Perpetual Tier 1 Sukuk	150,385	150,385	M
Non-controlling interests	32,321	32,321	
<i>of which limited recognition eligible as CET1 Capital</i>	15,995	15,995	N
<i>of which limited recognition eligible as AT1 Capital</i>	2,327	2,327	O
<i>of which limited recognition eligible as Tier 2 Capital</i>	3,103	3,103	P
Total equity	959,001	959,001	
Total liabilities and equity	7,635,997	7,635,997	

For the period from 1 January to 30 June 2022

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

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	373,868	E
2	Retained earnings	31,117	L
3	Accumulated other comprehensive income (and other reserves)	368,426	F+G+I+J+K
5	Common share capital issued by subsidiaries and held by third parties	15,995	N
6	Common Equity Tier 1 Capital before regulatory adjustments	789,406	
	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)	(26,021)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(7,006)	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%	-	
28	Total regulatory adjustments to Common Equity Tier 1	(33,081)	
29	Common Equity Tier 1 capital (CET1)	756,325	
	Additional Tier 1 capital : instruments		
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)	2,327	O
36	Additional Tier 1 capital before regulatory adjustments	152,712	
	Additional Tier 1 capital : regulatory adjustments		
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	-	
44	Additional Tier 1 capital (AT1)	152,712	
45	Tier 1 capital (T1 = CET1 + AT1)	909,037	
	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)	3,103	P
50	General Provisions included in Tier 2 Capital	59,683	A
51	Tier 2 Capital before regulatory adjustments	62,786	
	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)	62,786	
59	Total capital (TC = T1 + T2)	971,823	

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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 2022
Table 5	
Tier 1 Capital (KD '000s)	909,037
Total Exposures (KD '000s)	7,936,933
Leverage Ratio (%)	11.45%

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

	30 June 2022
	KD '000s
Table 6	
On-balance sheet exposures	7,602,916
Exposures to Sharia compliant hedging contracts	25,134
Off-balance sheet items	308,883
Total Exposures	7,936,933

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 2022 KD '000s
1	Total consolidated assets as per published financial statements	7,635,997
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	25,134
5	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	308,883
6	Other adjustments	(33,081)
7	Leverage ratio exposure	7,936,933

For the period from 1 January to 30 June 2022

APPENDICES

Table 1: Regulatory Capital Composition: Common Disclosure Template

Row Number	Item	30 June 2022 KD '000s
Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	373,868
2	Retained earnings	31,117
3	Accumulated other comprehensive income (and other reserves)	368,426
5	Common share capital issued by subsidiaries and held by third parties	15,995
6	Common Equity Tier 1 capital before regulatory adjustments	789,406
Common Equity Tier 1 Capital : regulatory adjustments		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(26,021)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(7,006)
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	(33,081)
29	Common Equity Tier 1 Capital after the regulatory adjustments (CET1)	756,325
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		
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	-
44	Additional Tier 1 capital (AT1)	152,712
45	Tier 1 Capital (T1 = CET1 + AT1)	909,037
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)	3,103
50	General Provisions included in Tier 2 Capital	59,683
51	Tier 2 capital before regulatory adjustments	62,786
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)	62,786
59	Total Capital (TC = T1 + T2)	971,823
60	Total risk-weighted assets	4,983,134
Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	15.18%
62	Tier 1 (as percentage of risk-weighted assets)	18.24%
63	Total capital (as percentage of risk-weighted assets)	19.50%
National minima		
69	Common Equity Tier 1 minimum ratio	7.00%
70	Tier 1 minimum ratio	8.50%
71	Total capital minimum ratio excluding Capital Conservation, Counter-Cyclical and D-SIB buffers	10.50%

For the period from 1 January to 30 June 2022

Table 2: Leverage ratio - Common Disclosure Template

		30 June 2022
Item		KD '000s
On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	7,635,997
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	(33,081)
3	Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)	7,602,916
Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	18,381
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	6,753
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)	25,134
Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	1,289,309
11	(Adjustments for conversion to credit equivalent amounts)	(980,426)
12	Off-balance sheet items (sum of lines 10 and 11)	308,883
Capital and total exposures		
13	Tier 1 Capital	909,037
14	Total exposures (sum of lines 3, 9,12)	7,936,933
Leverage ratio		
15	Leverage ratio (Tier 1 Capital (13)/total exposures (14))	11.45%