

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



**RISK MANAGEMENT  
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2021**

For the period from 1 January 2021 to 30 June 2021

## 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:

<b>Table 1</b>	<b>30 June 2021</b>
	<b>KD '000s</b>
<b>Regulatory Capital</b>	
Common Equity Tier 1 Capital	<b>554,635</b>
Additional Tier 1 Capital	<b>145,280</b>
<b>Tier 1 Capital</b>	<b>699,915</b>
Tier 2 Capital	<b>53,410</b>
<b>Total Regulatory Capital</b>	<b>753,325</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:

<b>Table 2</b>	<b>30 June 2021</b>	
	<b>MCR*</b>	<b>CAR</b>
Common Equity Tier 1 capital adequacy ratio	<b>10.00%</b>	<b>12.50%</b>
Tier 1 capital adequacy ratio	<b>11.50%</b>	<b>15.78%</b>
Total Regulatory capital adequacy ratio	<b>13.50%</b>	<b>16.98%</b>

\* includes 2.5% capital conservation buffer and 0.5% 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 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**

**30 June 2021**

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Refer ence
	KD '000s	KD '000s	
<b>Assets</b>			
Cash and balances with banks	214,741	214,741	
Deposits with Central Bank of Kuwait	308,958	308,958	
Deposits with other banks	395,097	395,097	
Islamic financing to customers	5,152,383	5,152,383	
<i>of which general provisions (netted above) capped for Tier 2 inclusion</i>	53,065	53,065	A
Investment in Sukuk	529,663	529,663	
<i>of which investments in the capital of banking entities that are outside the scope of regulatory consolidation, amount above the threshold deduction</i>	10,685	10,685	B
Other investment securities	103,057	103,057	
Investment in associates	3,134	3,134	
Investment properties	47,380	47,380	
Other assets	92,820	92,820	
<i>of which Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)</i>	6,703	6,703	C
Property and equipment	97,869	97,869	
<i>of which Other intangibles (net of related tax liability)</i>	15,618	15,618	D
<b>Total assets</b>	<b>6,945,102</b>	<b>6,945,102</b>	
<b>Liabilities</b>			
Due to banks	347,369	347,369	
Depositors' accounts	5,417,251	5,417,251	
Medium term financing	333,275	333,275	
Other liabilities	121,380	121,380	
<b>Total liabilities</b>	<b>6,219,275</b>	<b>6,219,275</b>	
<b>Equity</b>			
Share capital	317,970	317,970	E
Share premium	156,942	156,942	F
Treasury shares	(54)	(54)	G
Statutory reserve	35,512	35,512	H
Voluntary reserve	15,327	15,327	I
Other reserves	(955)	(955)	J
Retained earnings	16,975	16,975	
<i>of which Retained Earnings eligible as CET1 Capital</i>	38,046	38,046	K
<i>of which Modification loss on deferral of financing instalments</i>	(42,203)	(42,203)	
<i>of which interim profits</i>	21,132	21,132	
<b>Equity attributable to equity holders of the Bank</b>	<b>541,717</b>	<b>541,717</b>	
Perpetual Tier 1 Sukuk	150,385	150,385	L
Non-controlling interests	33,725	33,725	
<i>of which limited recognition eligible as CET1 Capital</i>	14,168	14,168	M
<i>of which limited recognition eligible as AT1 Capital</i>	2,539	2,539	N
<i>of which limited recognition eligible as Tier 2 Capital</i>	3,386	3,386	O
<b>Total equity</b>	<b>725,827</b>	<b>725,827</b>	
<b>Total liabilities and equity</b>	<b>6,945,102</b>	<b>6,945,102</b>	

For the period from 1 January 2021 to 30 June 2021

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
	<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common share capital plus related stock surplus	317,970	E
2	Retained earnings	38,046	K
3	Accumulated other comprehensive income (and other reserves)	206,826	F+H+I+J
5	Common share capital issued by subsidiaries and held by third parties	14,168	M
6	Common Equity Tier 1 Capital before regulatory adjustments	577,010	
	<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)	(15,618)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(6,703)	C
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	(22,375)	
<b>29</b>	<b>Common Equity Tier 1 capital (CET1)</b>	<b>554,635</b>	
	<b>Additional Tier 1 capital : instruments</b>		
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)	2,539	N
36	Additional Tier 1 capital before regulatory adjustments	152,924	
	<b>Additional Tier 1 capital : regulatory adjustments</b>		
39	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	(7,644)	B
43	Total regulatory adjustments to Additional Tier 1 capital	(7,644)	
<b>44</b>	<b>Additional Tier 1 capital (AT1)</b>	<b>145,280</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>699,915</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)	3,386	O
50	General Provisions included in Tier 2 Capital	53,065	A
51	Tier 2 Capital before regulatory adjustments	56,451	
	<b>Tier 2 Capital : regulatory adjustments</b>		
54	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	(3,041)	B
57	Total regulatory adjustments to Tier 2 capital	(3,041)	
<b>58</b>	<b>Tier 2 Capital (T2)</b>	<b>53,410</b>	
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>753,325</b>	

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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:**

	<u>30 June 2021</u>
<b>Table 5</b>	
Tier 1 Capital (KD '000s)	699,915
Total Exposures (KD '000s)	<u>7,211,153</u>
<b>Leverage Ratio (%)</b>	<u>9.71%</u>

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

	<u>30 June 2021</u>
	<u>KD '000s</u>
<b>Table 6</b>	
On-balance sheet exposures	6,915,083
Derivative exposures	9,551
Off-balance sheet items	<u>286,519</u>
<b>Total Exposures</b>	<u>7,211,153</u>

The details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework has been provided in Table 2 of the Appendices Section.

#### 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.

**Table 7**

	Item	30 June 2021 KD '000s
1	Total consolidated assets as per published financial statements	6,945,102
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	9,551
5	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	286,519
6	Other adjustments	(30,019)
7	<b>Leverage ratio exposure</b>	<b>7,211,153</b>

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**APPENDICES**

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

Row Number	Description	30 June 2021 KD '000s
<b>Common Equity Tier 1 Capital: instruments and reserves</b>		
1	Directly issued qualifying common share capital plus related stock surplus	317,970
2	Retained earnings	38,046
3	Accumulated other comprehensive income (and other reserves)	206,826
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	14,168
6	Common Equity Tier 1 capital before regulatory adjustments	577,010
<b>Common Equity Tier 1 Capital : regulatory adjustments</b>		
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles (net of related tax liability)	(15,618)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(6,703)
11	Cash flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Taskeek gain on sale	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(54)
17	Reciprocal cross holdings in common equity	-
18	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)	-
19	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)	-
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common Equity Tier 1	(22,375)
29	<b>Common Equity Tier 1 Capital (CET1)</b>	<b>554,635</b>
<b>Additional Tier 1 Capital : instruments</b>		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	150,385
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
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)	2,539
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 Capital before regulatory adjustments	152,924
<b>Additional Tier 1 Capital : regulatory adjustments</b>		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross holdings in Additional Tier 1 instruments	-
39	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)	(7,644)

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40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation ( net of eligible short positions)	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	(7,644)
44	<b>Additional Tier 1 capital (AT1)</b>	<b>145,280</b>
45	<b>Tier 1 Capital (T1 = CET1 + AT1)</b>	<b>699,915</b>
<b>Tier 2 Capital : instruments and provisions</b>		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	Directly issued capital instruments subject to phase out from Tier 2	-
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)	3,386
49	of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 Capital	53,065
51	Tier 2 capital before regulatory adjustments	56,451
<b>Tier 2 Capital: regulatory adjustments</b>		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross holdings in Tier 2 instruments	-
54	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)	(3,041)
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-
56	National specific regulatory adjustments	-
57	Total regulatory adjustments to Tier 2 capital	(3,041)
58	<b>Tier 2 Capital (T2)</b>	<b>53,410</b>
59	<b>Total Capital (TC = T1 + T2)</b>	<b>753,325</b>
60	<b>Total risk-weighted assets (after applying 50% additional weighting)</b>	<b>4,436,483</b>
<b>Capital ratios and buffers</b>		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	<b>12.50%</b>
62	Tier 1 (as percentage of risk-weighted assets)	<b>15.78%</b>
63	Total capital (as percentage of risk-weighted assets)	<b>16.98%</b>
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus DSIB buffer requirement, expressed as a percentage of risk-weighted assets)	10.00%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	-
67	of which: DSIB buffer requirement	0.50%
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	5.50%
<b>National minima</b>		
69	Common Equity Tier 1 minimum ratio*	<b>7.00%</b>
70	Tier 1 minimum ratio	<b>8.50%</b>
71	Total capital minimum ratio excluding CCY and D-SIB buffers	<b>10.50%</b>
<b>Amounts below the thresholds for deduction(before risk weighting)</b>		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-
77	Cap on inclusion of provisions in Tier 2 under standardised approach	53,065
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-

\*In response to the COVID-19 crisis, Capital Conservation Buffer requirement of 2.5% has been temporarily relaxed from the minimum capital requirement by Central Bank of Kuwait until 30<sup>th</sup> June 2021.



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

		30 June 2021
Item		KD '000s
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	6,945,102
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	(30,019)
<b>3</b>	<b>Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)</b>	<b>6,915,083</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)	789
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	8,762
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>9,551</b>
<b>Other off-balance sheet exposures</b>		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	1,186,262
11	(Adjustments for conversion to credit equivalent amounts)	(899,743)
<b>12</b>	<b>Off-balance sheet items (sum of lines 10 and 11)</b>	<b>286,519</b>
<b>Capital and total exposures</b>		
<b>13</b>	<b>Tier 1 Capital</b>	<b>699,915</b>
<b>14</b>	<b>Total exposures (sum of lines 3, 9,12)</b>	<b>7,211,153</b>
<b>Leverage ratio</b>		
<b>15</b>	<b>Leverage ratio (Tier 1 Capital (13)/total exposures (14))</b>	<b>9.71%</b>