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

RISK MANAGEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

1. INTRODUCTION AND OVERVIEW

Boubyan Bank K.S.C.P and its subsidiaries (the “Group”) have achieved significant growth becoming a large group with international operations and a diversified portfolio of financial services. It is now regulated by top internationally recognized regulators starting from the Central Bank of Kuwait (CBK), Capital Markets Authority (CMA), and Prudential Regulation Authority (PRA). The Risk Management Group (RMG) at Boubyan Bank is responsible for the risk management and oversight for the Group through adopting a comprehensive Enterprise Risk Management framework that is cascaded across the Group. Through this comprehensive framework, the Group has adopted various controls and tools including, but not limited to:

- Acting as a second line of defense through its proper monitoring and identification of key risks. This is supported by a robust technology infrastructure.
- A forward-looking Risk Appetite framework which is a key input in developing business and capital plans and performance measurement.

The Group maintains its overall oversight and accountability through the Board Risk and Compliance Committee (BRCC). The BRCC is responsible for overseeing the Group’s risk and compliance functions and their associated strategies and policies and monitors their adherence to these. The Group Chief Risk Officer (GCRO) and the Group Head of Compliance assist the BRCC in achieving these objectives.

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed Islamic banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2009, Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel framework consists of three Pillars. Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the “Standardised Approach”. Pillar 2 pertains to the Supervisory Review Process and emphasises the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks.

In line with the above mentioned CBK guidelines, these disclosures include information on the Group’s risk management objectives and policies, risk assessment processes, capital management and capital adequacy.

Detailed information on risk assessment includes:

- Risk weighted assets of the Group - credit risk, market risk and operational risk
- Credit risk profile of gross credit exposure by counterparty classifications and economic activity.
- Profile of gross credit exposure by economic activity, geographical region and maturity
- Profile of credit risk mitigation by economic activity
- Profile of impaired loans by economic activity and geographical region

Information on capital adequacy includes:

- Capital adequacy computation
- Capital profile – CET 1, Tier I and Tier II

2. REGULATORY SCOPE OF CONSOLIDATION

The core activities of the Bank and its subsidiaries (collectively the “Group”) are retail, corporate, insurance, investment banking, and asset management, in accordance with Codes of the Islamic Sharia’a, as approved by the Group’s Sharia’a Supervisory Board. For further details on the Group’s activities, please refer to note 29 of the Group’s consolidated financial statements.

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, unless otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2 and 3.1 of the Group’s consolidated financial statements for the year ended 31 December 2023.

The principal subsidiaries of the Group are presented in the note 15 of the Group’s consolidated financial statements. All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations.

Significant investments in banking, financial and insurance entities that are outside the scope of regulatory consolidation are required to be subject to the threshold treatment prescribed under the CBK Basel III rules and are risk-weighted and/or capital deducted.

- All the significant investments in banking and financial entities classified as associates have been subject to the threshold treatment and risk-weighted as prescribed.
- Other significant investments in banking and financial entities classified as equities have been subject to the threshold treatment and risk-weighted as prescribed.

Other ‘minority’ investments in banking, financial and insurance entities classified as equities have been subject to the prescribed threshold treatment and risk-weighted as required.

3. 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 Bank's share capital as at 31 December 2023 comprised **3,963,003,433** shares (31 December 2022 comprised 3,738,682,484 shares) issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

Table 1	**2023** **KD '000s**	2022 KD '000s
Regulatory Capital		
Common Equity Tier 1 Capital	**793,581**	777,787
Additional Tier 1 Capital	**136,254**	152,708
Tier 1 Capital	**929,835**	930,495
Tier 2 Capital	**69,163**	64,445
Total Regulatory Capital	**998,998**	994,940

4. 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:

	2023		2022	
Table 2	**MCR***	**CAR**	MCR*	CAR
Common Equity Tier 1 capital adequacy ratio	**10.50%**	**14.27%**	10.50%	15.14%
Tier 1 capital adequacy ratio	**12.00%**	**16.72%**	12.00%	18.11%
Total Regulatory capital adequacy ratio	**14.00%**	**17.97%**	14.00%	19.37%

* includes 2.5% capital conservation buffer and 1% D-SIB buffer (2022: 1% D-SIB buffer) which are to be met through CET1 capital.

The countercyclical capital buffer has not been required for the year ended 31 December 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.

5. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group's risk-weighted capital requirements for credit, market and operational risks are shown below.

5.1 Credit risk

The Minimum Capital requirement (MCR) in respect of credit risk as at 31 December 2023 is **KD 672,017 thousand** (31 December 2022: KD 621,959 thousand) as detailed below:

	2023			2022		
	Gross credit exposure	**Risk weighted assets**	**Minimum capital requirement**	Gross credit exposure	Risk weighted assets	Minimum capital requirement
Table 3	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**65,001**	**-**	**-**	80,049	-	-
Claims on sovereigns	**781,330**	**139,424**	**18,125**	926,655	101,354	13,176
Claims on international organisations	**153,308**	**-**	**-**	122,546	-	-
Claims on public sector Entities	**519,122**	**180,005**	**23,401**	399,105	131,755	17,128
Claims on MDBs	**199,010**	**35,421**	**4,605**	82,939	24,515	3,187
Claims on banks	**558,924**	**144,252**	**18,753**	514,978	135,501	17,615
Claims on corporates	**3,401,084**	**2,366,424**	**307,635**	3,190,816	2,261,483	293,993
Regulatory retail exposure	**2,484,910**	**1,720,648**	**223,684**	2,433,789	1,709,671	222,257
Past due exposure	**53,731**	**37,066**	**4,819**	50,763	34,144	4,439
Investments in real estate	**73,521**	**147,043**	**19,116**	33,618	67,236	8,741
Investments and financing to customers	**96,313**	**125,023**	**16,253**	76,680	95,438	12,407
Sukuk exposures	**36,397**	**25,204**	**3,277**	16,475	11,574	1,505
Other exposures*	**455,910**	**248,854**	**32,349**	401,966	211,626	27,511
	8,878,561	**5,169,364**	**672,017**	8,330,379	4,784,297	621,959

*Other exposures above includes a threshold deduction of **KD Nil** (31 December 2022: KD Nil) and an amount of **KD 129,486 thousand** negative (31 December 2022: KD 123,555 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk weighted assets, which is allowed in arriving Tier 2 Capital.

5.2 Market risk:

The total Minimum Capital requirement (MCR) in respect of market risk was **KD 1,545 thousand** arising only from foreign exchange risk, (31 December 2022: KD 641 thousand).

5.3 Operational Risk:

The Minimum Capital requirement (MCR) in respect of operational risk was **KD 49,333 thousand**, (31 December 2022: KD 45,226 thousand). This Minimum Capital requirement (MCR) was computed using the Basic Indicator Approach by multiplying the three-year average gross income by a pre-defined beta factor.

6. GROUP RISK MANAGEMENT

The Group's business operations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk/return ratio. The Bank manages its risks in a structured, systematic and transparent manner through a risk policy which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes. The Group's risk management function is independent of business units; it reports directly to the Risk and Compliance Committee of the Board and takes a holistic and objective approach to assist the Board and Executive Management in managing the Group's risks. Group risk oversight includes subsidiaries ensuring compliance with the group risk appetite and local laws and regulations.

During 2009 the Bank augmented its overall framework for governance and capital planning and management by undertaking an Internal Capital Adequacy Assessment Process (ICAAP), which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential risks that the Bank faces and are not covered under Pillar I.

The Bank continues to update its ICAAP assessment to reflect the growth and complexity of its business model and changes to its risk infrastructure.

6. GROUP RISK MANAGEMENT (CONTINUED)

In line with the guidelines from the Basel Committee and Central Bank of Kuwait, key principles of the Group's ICAAP include:

- Responsibilities of the board and senior management.
- Sound capital management.
- Comprehensive assessment of Pillar II risks, e.g., credit (sector and name concentration), profit rate risk, liquidity, legal, reputational and strategic risks, residual market risk, residual operational risk and sharia risk
- Monitoring and reporting.
- Control and review of the process.

The key features of the Group's comprehensive risk management policy are:

- The Board of Directors provides overall risk management direction and oversight.
- The Group's risk appetite is proposed by the Management Executive Committee and approved by the board of directors.
- Risk management is embedded in the Bank as an intrinsic process and is a core competency of all its employees.
- The Bank manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
- The Group's Internal Audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a bank-wide basis.

The risk management function assists Executive Management in controlling and actively managing the Group's overall risks.

The function also ensures that:

- The Group's overall business strategy is consistent with its risk appetite approved by the board of directors.
- Risk policies, procedures and methodologies are consistent with the Group's risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.
- Risks and limits of the portfolio are monitored throughout the Bank.

The Bank regularly assesses the adequacy and effectiveness of its risk management framework in the light of the changing risk environment.

6.1 Scope and nature of risk reporting tools

The comprehensive risk management framework enables the Bank to identify, assess, limit and monitor risks using a comprehensive range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in corporate and consumer financing and other asset exposures, such as collateral coverage ratio, limit utilisation, past-due alerts, etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposure to losses due to extreme movements in market prices or rates.

The Bank regularly assesses the adequacy and effectiveness of its reporting tools and metrics in light of the changing risk environment.

6.2 Risk management processes

Through the comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

The key risks assumed by the Bank in its daily operations are outlined below:

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.1 Credit risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. These risks arise in the Group's normal course of business.

6.2.2 Credit risk management strategy

The approach to credit risk is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes, combined with clear policies, limits and approval structures which guide the day-to-day initiation and management of the Group's credit risk exposure. This approach comprises credit limits which are established for all customers after a careful assessment of their credit worthiness.

Standing procedures, outlined in the Group's credit policies and manuals, require that all credit proposals be subjected to detailed screening pending submission to the appropriate credit committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The board of directors defines the Group's credit risk management strategy and approves credit risk policies to ensure alignment of the Group's exposure with its risk appetite.

6.2.3 Credit risk management structure and governance

Senior management implements the board of directors' credit risk strategy and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Group's credit committee, chaired by the Group's CEO and comprising senior executives from the business divisions, meets regularly and reviews the Group's financing portfolios and advises the board appropriately.

In compliance with CBK regulations, financing to individual board members and related parties is fully secured and monitored by the Board Executive Committee. Such transactions are made on substantially the same terms, including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the board of directors in line with the relative authorities from the Shareholders' General Assembly.

Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available) and application of local business and market knowledge. Country limit exposures are subject to periodic approval by the board of directors or the Board Executive Committee.

6.2.4 Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer.
- Internal credit-rating models are regularly reviewed by the Bank's risk management function in co-ordination with line management and the Management Credit Committee (MCC) and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by either the Board Executive Committee (BEC) or the Management Credit Committee (MCC).
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.5 Key features of consumer credit risk management

- Oversight of consumer finance risk is undertaken by an independent unit directly within bank risk management. Within this framework, limits and approval authorities are exercised by consumer banking officers with defined approval authorities.
- Consumer credit risk management functional areas are aligned with key concepts of risk management, namely, governance, control, measurement and reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, consumer banking (i.e., underwriting) is responsible for adherence to CBK regulations and guidelines, the credit policies, controls and processes. As second line of defence, the consumer credit risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the internal audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures and the external audit, submits quarterly report to the regulatory authorities on the compliance of regulations and guidelines stipulated by Central Bank of Kuwait
- All significant financing policies and amendments to policies are reviewed annually by the Management Executive Committee and approved by the Board.
- The consumer financing risk assessment uses risk “scorecard” customer-centric methodologies which incorporate CBK regulatory guidelines and bank policies related to consumer financing facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from financing bureaus, particularly Kuwait Credit Bureau report, to assist in assessing an applicant’s ability to repay and the probability of default. This model is reviewed and refined continually.

6.2.6 Group’s credit risk monitoring

The Group’s exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilisation and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal rating process.

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting also includes a “dashboard” for consumer financing, classification and delinquency monitoring.

A specialised and focused team on recovery and collections handles the management and collection of irregular financing facilities.

6.2.7 Group’s credit risk mitigation strategy

Portfolio diversification is the cornerstone of the Group’s credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The risk appetite requires that the bank limits its financing concentration per entity to specific percentage of the Group’s regulatory capital.

Credit risk mitigates such as collateral and guarantees are effective mitigating factors within the Group’s portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications and risk participation arrangements with other banks are used to manage the Group’s exposures.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.8 Management of credit collateral and valuation

The main types of collateral accepted by the Bank include:

- cash collateral;
- quoted shares and units in collective investment schemes;
- bank guarantees;
- commercial and residential real estate; and
- eligible debt instruments (principally sovereign and bank obligors).

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel III framework, only cash collateral, guarantees from banks with defined high credit-quality ratings, quoted shares, eligible debt instruments and units in collective investment schemes are recognized as risk mitigation for capital adequacy purposes.

The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independent of the business units. Real estate collateral is valued on an annual basis.

The Group's credit exposures were covered by the following eligible financial collateral:

	2023		2022	
	Gross credit exposure	**Eligible Credit Risk Mitigation**	Gross credit exposure	Eligible Credit Risk Mitigation
Table 4	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Cash	**65,001**	**-**	80,049	-
Claims on sovereigns	**781,330**	**-**	926,655	-
Claims on international organisations	**153,308**	**-**	122,546	-
Claims on public sector Entities	**519,122**	**-**	399,105	-
Claims on MDBs	**199,010**	**-**	82,939	-
Claims on banks	**558,924**	**-**	514,978	-
Claims on corporates	**3,401,084**	**234,686**	3,190,816	245,991
Regulatory retail exposure	**2,484,910**	**-**	2,433,789	-
Past due exposure	**53,731**	**4,703**	50,763	5,601
Investments in real estate	**73,521**	**-**	33,618	-
Investments and financing to customers	**96,313**	**4,186**	76,680	5,911
Sukuk exposures	**36,397**	**-**	16,475	-
Other exposures	**455,910**	**-**	401,966	-
	8,878,561	**243,575**	8,330,379	257,503

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures

The Group's gross credit exposures, average credit exposures and net credit exposures, the former adjusted for credit risk mitigation factors, respectively, are detailed below:

	2023			2022		
	Gross credit exposure	**Self-funded exposure**	**Funded through investments accounts exposure**	Gross credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 5	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**65,001**	**36,615**	**28,386**	80,049	50,600	29,449
Claims on sovereigns	**781,330**	**304,031**	**477,299**	926,655	375,289	551,366
Claims on international organisations	**153,308**	**59,007**	**94,301**	122,546	49,630	72,916
Claims on public sector Entities	**519,122**	**241,822**	**277,300**	399,105	171,407	227,698
Claims on MDBs	**199,010**	**80,443**	**118,567**	82,939	35,814	47,125
Claims on banks	**558,924**	**289,258**	**269,666**	514,978	276,079	238,899
Claims on corporates	**3,401,084**	**1,664,542**	**1,736,542**	3,190,816	1,686,707	1,504,109
Regulatory retail exposure	**2,484,910**	**956,427**	**1,528,483**	2,433,789	985,669	1,448,120
Past due exposure	**53,731**	**27,058**	**26,673**	50,763	25,735	25,028
Investments in real estate	**73,521**	**73,521**	**-**	33,618	33,618	-
Investments and financing to customers	**96,313**	**76,182**	**20,131**	76,680	58,874	17,806
Sukuk exposures	**36,397**	**14,009**	**22,388**	16,475	6,672	9,803
Other exposures	**455,910**	**296,881**	**159,029**	401,966	263,187	138,779
	8,878,561	**4,119,796**	**4,758,765**	8,330,379	4,019,281	4,311,098

	2023			2022		
	***Average credit exposure**	***Average Self-funded exposure**	***Average Funded through investments accounts exposure**	*Average credit exposure	*Average Self-funded exposure	*Average Funded through investments accounts exposure
Table 6	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**71,116**	**39,267**	**31,849**	72,962	44,609	28,353
Claims on sovereigns	**864,924**	**343,707**	**521,217**	798,277	332,623	465,654
Claims on international organisations	**153,335**	**60,542**	**92,793**	120,901	50,443	70,458
Claims on public sector Entities	**432,936**	**188,752**	**244,184**	385,314	172,196	213,118
Claims on MDBs	**149,313**	**61,271**	**88,042**	61,396	31,511	29,885
Claims on banks	**483,632**	**263,066**	**220,566**	601,647	311,013	290,634
Claims on corporates	**3,323,952**	**1,680,401**	**1,643,551**	3,090,917	1,666,978	1,423,939
Regulatory retail exposure	**2,454,315**	**968,959**	**1,485,356**	2,428,733	1,013,869	1,414,864
Past due exposure	**56,409**	**30,661**	**25,748**	45,774	23,478	22,296
Investments in real estate	**66,730**	**66,730**	**-**	28,792	28,792	-
Investments and financing to customers	**82,798**	**64,044**	**18,754**	70,425	55,810	14,615
Sukuk exposures	**26,302**	**10,328**	**15,974**	16,670	6,960	9,710
Other exposures	**451,668**	**292,873**	**158,795**	384,609	256,753	127,856
	8,617,430	**4,070,601**	**4,546,829**	8,106,417	3,995,035	4,111,382

* Based on quarterly average balances

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures (continued)

	2023			2022		
	Net credit exposure	**Self-funded exposure**	**Funded through investments accounts exposure**	Net credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 7	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**65,001**	**36,615**	**28,386**	80,049	50,600	29,449
Claims on sovereigns	**781,330**	**304,031**	**477,299**	926,655	375,289	551,366
Claims on international organisations	**153,308**	**59,007**	**94,301**	122,546	49,630	72,916
Claims on public sector Entities	**519,122**	**241,822**	**277,300**	399,105	171,407	227,698
Claims on MDBs	**199,010**	**80,443**	**118,567**	82,939	35,814	47,125
Claims on banks	**558,924**	**289,258**	**269,666**	514,978	276,079	238,899
Claims on corporates	**3,166,398**	**1,566,449**	**1,599,949**	2,944,825	1,578,142	1,366,683
Regulatory retail exposure	**2,484,910**	**956,427**	**1,528,483**	2,433,789	985,669	1,448,120
Past due exposure	**49,028**	**25,248**	**23,780**	45,162	23,467	21,695
Investments in real estate	**73,521**	**73,521**	**-**	33,618	33,618	-
Investments and financing to customers	**92,127**	**74,570**	**17,557**	70,769	56,480	14,289
Sukuk exposures	**36,397**	**14,009**	**22,388**	16,475	6,672	9,803
Other exposures	**455,910**	**296,881**	**159,029**	401,966	263,185	138,781
	8,634,986	**4,018,281**	**4,616,705**	8,072,876	3,906,052	4,166,824

As at 31 December 2023, **23.9%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), (31 December 2022: 23.0%) as detailed below:

	2023			2022		
	Net credit exposure	**Rated exposure**	**Unrated exposure**	Net credit exposure	Rated exposure	Unrated exposure
Table 8	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Cash	**65,001**	**-**	**65,001**	80,049	-	80,049
Claims on sovereigns	**781,330**	**781,330**	**-**	926,655	926,655	-
Claims on international organisations	**153,308**	**153,308**	**-**	122,546	122,546	-
Claims on public sector Entities	**519,122**	**254,029**	**265,093**	399,105	121,046	278,059
Claims on MDBs	**199,010**	**199,010**	**-**	82,939	82,939	-
Claims on banks	**558,924**	**558,924**	**-**	514,978	514,978	-
Claims on corporates	**3,166,398**	**-**	**3,166,398**	2,944,825	-	2,944,825
Regulatory retail exposure	**2,484,910**	**-**	**2,484,910**	2,433,789	-	2,433,789
Past due exposure	**49,028**	**-**	**49,028**	45,162	-	45,162
Investments in real estate	**73,521**	**-**	**73,521**	33,618	-	33,618
Investments and financing to customers	**92,127**	**-**	**92,127**	70,769	-	70,769
Sukuk exposures	**36,397**	**36,397**	**-**	16,475	16,475	-
Other exposures	**455,910**	**79,373**	**376,537**	401,966	74,344	327,622
	8,634,986	**2,062,371**	**6,572,615**	8,072,876	1,858,983	6,213,893

The Group uses external ratings (where available) to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures (continued)

The geographical distribution of the gross credit exposure before taking into consideration credit enhancements is as detailed below:

31 December 2023	**Middle East**	**North America**	**Europe**	**Asia and Other**	**Total**
Table 9	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**	**KD '000s**
Cash	**46,149**	**-**	**18,852**	**-**	**65,001**
Claims on sovereigns	**774,920**	**-**	**-**	**6,410**	**781,330**
Claims on international organisations	**-**	**-**	**-**	**153,308**	**153,308**
Claims on public sector Entities	**513,172**	**-**	**5,430**	**520**	**519,122**
Claims on MDBs	**199,010**	**-**	**-**	**-**	**199,010**
Claims on banks	**492,413**	**25,891**	**39,473**	**1,147**	**558,924**
Claims on corporates	**3,114,106**	**432**	**285,135**	**1,411**	**3,401,084**
Regulatory retail exposure	**2,484,910**	**-**	**-**	**-**	**2,484,910**
Past due exposure	**44,168**	**-**	**9,563**	**-**	**53,731**
Investments in real estate	**52,187**	**-**	**21,334**	**-**	**73,521**
Investments and financing to customers	**32,728**	**-**	**60,574**	**3,011**	**96,313**
Sukuk exposures	**36,397**	**-**	**-**	**-**	**36,397**
Other exposures	**348,551**	**105,602**	**1,757**	**-**	**455,910**
	8,138,711	**131,925**	**442,118**	**165,807**	**8,878,561**

31 December 2022	Middle East	North America	Europe	Asia and Other	Total
Table 9	KD '000s	KD '000s	KD '000s	KD '000s	KD '000s
Cash	49,502	-	30,547	-	80,049
Claims on sovereigns	920,299	-	-	6,356	926,655
Claims on international organisations	-	-	-	122,546	122,546
Claims on public sector Entities	387,706	-	10,906	493	399,105
Claims on MDBs	82,939	-	-	-	82,939
Claims on banks	418,758	28,231	66,860	1,129	514,978
Claims on corporates	2,763,658	-	427,158	-	3,190,816
Regulatory retail exposure	2,433,789	-	-	-	2,433,789
Past due exposure	42,814	-	7,949	-	50,763
Investments in real estate	26,953	-	6,665	-	33,618
Investments and financing to customers	29,926	-	46,754	-	76,680
Sukuk exposures	16,475	-	-	-	16,475
Other exposures	315,066	70,249	16,651	-	401,966
	7,487,885	98,480	613,490	130,524	8,330,379

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.8 Gross, average and net credit exposures (continued)

The Group's gross credit exposure by residual contractual maturity is as detailed below:

31 December 2023 Table 10	**Up to 3 months KD '000s**	**3 – 6 months KD '000s**	**6 – 12 months KD '000s**	**Over 1 year KD '000s**	**Total KD '000s**
Cash	**65,001**	**-**	**-**	**-**	**65,001**
Claims on sovereigns	**509,489**	**64,458**	**11,008**	**196,375**	**781,330**
Claims on international organisations	**101,232**	**40,419**	**11,657**	**-**	**153,308**
Claims on public sector Entities	**220,606**	**101,525**	**885**	**196,106**	**519,122**
Claims on MDBs	**61,844**	**3,136**	**-**	**134,030**	**199,010**
Claims on banks	**360,790**	**36,018**	**16,619**	**145,497**	**558,924**
Claims on corporates	**2,049,111**	**850,995**	**231,100**	**269,878**	**3,401,084**
Regulatory retail exposure	**16,878**	**4,655**	**21,310**	**2,442,067**	**2,484,910**
Past due exposure	**53,731**	**-**	**-**	**-**	**53,731**
Investments in real estate	**-**	**-**	**-**	**73,521**	**73,521**
Investments and financing to customers	**56,417**	**10,856**	**7,145**	**21,895**	**96,313**
Sukuk exposures	**15,302**	**-**	**-**	**21,095**	**36,397**
Other exposures	**-**	**3,414**	**15,204**	**437,292**	**455,910**
	3,510,401	**1,115,476**	**314,928**	**3,937,756**	**8,878,561**

31 December 2022 Table 10	Up to 3 months KD '000s	3 – 6 months KD '000s	6 – 12 months KD '000s	Over 1 year KD '000s	Total KD '000s
Cash	80,049	-	-	-	80,049
Claims on sovereigns	627,340	52,353	-	246,962	926,655
Claims on international organisations	100,780	21,766	-	-	122,546
Claims on public sector Entities	224,215	119,408	1,019	54,463	399,105
Claims on MDBs	60,737	-	-	22,202	82,939
Claims on banks	265,737	98,913	10,918	139,410	514,978
Claims on corporates	2,248,662	348,365	229,174	364,615	3,190,816
Regulatory retail exposure	1,430	3,356	14,724	2,414,279	2,433,789
Past due exposure	50,763	-	-	-	50,763
Investments in real estate	-	-	-	33,618	33,618
Investments and financing to customers	43,882	15,494	11,913	5,391	76,680
Sukuk exposures	-	-	-	16,475	16,475
Other exposures	-	-	15,364	386,602	401,966
	3,703,595	659,655	283,112	3,684,017	8,330,379

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 "Past-due" and impairment provisions

Credit facilities are classified as "past-due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as "past-due and impaired" if the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

"Past due" and "Past-due and impaired" facilities are managed and monitored as "irregular facilities" and are classified into the following four categories which are then used to guide the provisioning process:

Category	Criteria
Watchlist	Irregular for a period up to 90 days (inclusive)
Substandard	Irregular for a period between 91 and 180 days (inclusive)
Doubtful	Irregular for a period between 181 days and 365 days (inclusive)
Bad	Irregular for a period exceeding 365 days

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

The Group's impaired finance portfolio as at 31 December 2023 was **KD 65,219 thousand** against which a specific provision of **KD 12,333 thousand** has been made, (31 December 2022: KD 63,353 thousand and KD 13,394 thousand), as detailed below:

	2023			2022		
	Impaired finance facilities	**Related specific provision**	**Net balance**	Impaired finance facilities	Related specific provision	Net balance
Table 11	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Claims on corporates	**48,052**	**1,614**	**46,438**	48,816	4,929	43,887
Regulatory retail exposure	**17,167**	**10,719**	**6,448**	14,537	8,465	6,072
	65,219	**12,333**	**52,886**	63,353	13,394	49,959

The geographical distribution of "past-due and impaired "financing and the related specific provision are as follows:

	2023			2022		
	Middle East	**Europe**	**Total**	Middle East	Europe	Total
Table 12	**KD '000s**	**KD '000s**	**KD '000s**	KD '000s	KD '000s	KD '000s
Past due and impaired financing	**55,509**	**9,710**	**65,219**	52,280	11,073	63,353
Related specific provision	**12,145**	**188**	**12,333**	10,215	3,179	13,394

In accordance with CBK regulations, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities is made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

The adequacy of provisions are regularly evaluated and monitored by the Provisions Committee.

The Group's total provision as at 31 December 2023 was **KD 208,083 thousand** inclusive of a general provision of **KD 194,625 thousand**, (31 December 2022: KD 199,760 thousand and KD 184,902 thousand), as detailed below:

	2023	2022
Table 13	**KD '000s**	KD '000s
Claim on corporates	**169,863**	160,625
Regulatory retail exposure	**24,762**	24,277
	194,625	184,902

The Group's general provision above includes **KD 2,481 thousand** relating to "non-cash" facilities in accordance with CBK regulations, (31 December 2022: KD 2,430 thousand).

6. GROUP RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 "Past-due" and impairment provisions (continued)

The geographical distribution of the general provision on "cash" facilities is as follows:

	2023	2022
Table 14	**KD '000s**	KD '000s
Middle East and North Africa	**176,876**	171,301
Europe & UK	**15,268**	11,171
	192,144	182,472

The analysis of specific and general provisions is further detailed in note 8 and note13 of the Group's consolidated financial statements.

6.3 "Market" risk

"Market" risk is defined as the potential loss in value of financial instruments caused by adverse movements in market variables such as profit rates, foreign exchange rates and equity prices.

Market risk results from uncertainty in future earnings arising from changes in profit rates, exchange rates, market prices and volatilities. Speculative Market Risk is not undertaken by the Bank but market risk arises from financing and investment activities.

The strategy for controlling market risk includes:

- Stringent controls and limits.
- Strict segregation of "front", "middle" and "back" office duties.
- Regular independent reporting of positions.
- Regular independent review of all controls and limits.

6.3.1 Market-Risk management framework

The market-risk management framework governs the Group's activities related to market risk. Market risk arising from banking book activities is the primary responsibility of the Group's Asset and Liability Management Committee (ALCO) and managed within a structure of approved financing and position limits.

To support the ALCO, an Asset-Liability Management (ALM) unit exists within RMG. The unit is responsible for managing the balance sheet risk and its associated market, currency, and profit rate risks. Profit rate risk arises from the maturity mismatch between asset and liability. Through the unit's ALM infrastructure, it runs various scenarios and sensitivity analyses of balance sheet composition and interest rate movements to arrive at optimal structures. The Group, as part of its asset-liability management, also uses derivatives and hedging instruments as part of managing its exposure to profit rate risks.

6.4 Liquidity risk

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the Bank to maintain adequate liquidity at all times. The bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of liabilities.

6.5 Reputation and fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion which will affect the ability to establish new relationships or services or to continue servicing existing relationships.

Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, and general public and fiduciary and non-fiduciary clients.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.5 Reputation and fiduciary risk (continued)

Through its policies and practices Boubyan ensures proper screening of clients' risk profiles and performance expectations is conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated, and funds placed under management are treated with due care and professionalism.

During the year, assets under management at the Group increased by **22%** to reach **KD 754,230 thousand** on 31 December 2023 (31 December 2022: decreased by 6.3% to reach KD 618,294 thousand).

6.6 Non-Financial Risk

In order to ensure a consistent framework for managing non-financial risks, Risk Management Group (RMG) has a dedicated division. The Non-Financial Risk (NFR) division is comprised of Operational Risk, Fraud Risk, Technology Risk, Business Continuity & Sustainability, and Data Privacy. This provides a greater opportunity to align risk management practices with the business direction and external mandates such as the CBK's Cyber Security Framework (CSF). Non-Financial Risk (NFR) also works very closely with the Information Security Department (ISD) to ensure better visibility and management of cyber risks across the group.

6.6.1 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems failure, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial or reputational loss.

The Bank monitors its operational risks through an operational-risk management Framework which defines roles and responsibilities for managing and reporting operational risk. The key components of this framework are Risk and Control Self Assessments (RCSA), comprehensive documented policies, procedures and internal controls. The framework also ensures that data across Group entities is maintained in accordance with local regulatory guidelines and global standards such as compliance to PA-DSS (Payment Application Data Security Standards), PCI-DSS (Payment Card Industry Security Standards), and European Union's GDPR (General Data Protection Regulation).

Through the framework, line management is able to identify, assess and decide in what form and scale it can accept, control and reduce operational risk, together with the form of risk-prevention measures which are necessary. Furthermore, it embeds a culture of transparency of information, escalation of key issues, and accountability for issue resolution. The Group's risk management collates and reviews actual loss data arising from the Group's day-to-day operations to continuously refine its control arrangements. The operational-risk framework is supplemented by regular reviews from the Bank internal audit function.

The Group's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Group's services for laundering money and/or financing terrorism. The Group's "anti-money laundering" and "combating terrorism-financing" initiatives are regularly reviewed to ensure full compliance with legal and regulatory requirements and international best practices.

6.6.2 Fraud Risk

"Fraud" is defined as any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator or group of people in collusion causing a loss to the deceived party. This includes a financial gain in addition to other benefits, such as the right to have access to or obtain information by deceit or any other dishonest conduct. Whether the loss is material or related to an intangible benefit such as intellectual property rights, fraud usually involves a loss to the group, its shareholders or customers and an attempt to hide this loss.

The Bank has implemented an Enterprise Fraud Risk Management System (EFMS) using a layered approach for proactive real-time & near real-time monitoring of customer transaction activity across products, payment channels, accounts, users and processes. This helps in identifying unusual behaviour that could be a sign of criminal activity, fraud or corruption. The EFMS leverages artificial intelligence & machine learning to achieve a 360^0 view of the customer behaviour and profiles to enhance transaction level and account level fraud detection, investigation and prevention.

The Bank is committed to maintaining high legal, ethical, and moral standards to adhere to the principles of integrity, objectivity and honesty. The Bank takes a very serious approach to all suspected cases, confirmed cases of fraud and/or corruption by its staff and has implemented procedures to handle external fraud and claims affecting bank's customers. The Bank has zero tolerance at all levels for any dishonest & fraudulent behaviour and is committed to preventing such behaviour; treating and responding fully and fairly in accordance with the provisions of the Code of Conduct, Customer Fair Practices and Central Bank of Kuwait guidelines.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.6 Non-Financial Risk (continued)

6.6.3 Technology Risk

Technology risk is defined as the business risk associated with the use, ownership, operation, involvement, influence and adoption of technology within the bank. Technology risk consists of technology related events that could potentially impact the business and create challenges in meeting strategic goals and objectives. Technology risks are inherited in all Bank's products, services, processes and systems.

The Bank has a Technology Risk Management Department (TRMD) that acts as the 2nd line of defence over the use of Information Technology (IT). TRMD assists with risk assessments and analysis related to technology adoption and changes. The department works closely with other stakeholders to ensure that new or updated policies and procedures sufficiently address technology risks. TRMD also participates in critical projects and conducts an independent review of major IT related incidents to ensure root causes are addressed. Risk and Control Self Assessments covering the technology processes and related systems and services for the bank and its subsidiaries are conducted.

The TRMD supports the Bank in the automation and digitization of business processes in a secure manner. These initiatives include Robotic Process Automation (RPA) and Robotic Desktop Automation (RDA), Near Field Communication (NFC), card-less payments, contactless and wearable payments, mobile banking, and online banking.

6.6.4 Business Continuity and Sustainability

The Bank has a master business continuity plan together with a fully-equipped IT disaster recovery facility which is tested periodically. The Crisis Management Plan, including underlying technical capabilities for disaster recovery, are continually reviewed and enhanced in light of potential scenarios. Business Continuity Management Committee, comprised of senior management, provides oversight for this function and ensures funds are available to support the activities.

The Bank also continues to enhance its focus on sustainability. As such, bank has set out a clear vision that articulates and enforces Environmental, Social, and Governance (ESG) criteria, starting with issuing bank' s first sustainability report in March 2021 which was followed by subsequent annual reports . This report serves as a cornerstone in transparently disclosing our ESG performance to our stakeholders. We have achieved various milestones over the past years, such as launching an Islamic Digital Bank, "Nomo", the very first of its kind that accommodates a diverse range of customer segments in the Middle East who are interested in investing and having access to a secure international banking experience. The Bank also runs an Emerging Businesses Incubation Program to support entrepreneurs and Small to Medium Enterprises (SMEs). This is conducted through coaching and training programs that provide them with adequate skills catered to their business ideas, and with tools that strengthen the SMEs' resilience and market readiness. We continued to exhibit diversity within our culture, specifically in terms of female representation in leadership levels and in cultivating innovative talents.

Boubyan recognizes the ESG challenges and risks arising in the market, and the necessity of having an aligned and institutionalized ESG roadmap that serves as a proactive readiness action plan with a defined strategic direction. The Bank has an ESG roadmap and a strategy framework, covering risks and opportunities within the current business operations that will help Boubyan towards ESG goals. We believe that by transparent disclosure of our non-financial performance, the oversight of higher management, and continuing the development of standardized reporting approach, will result in a deeper engagement and sustained value with our stakeholders

6.7 Information Security and Cyber Risk

An important aspect of managing risks for the Bank is to prevent against cyber threats. The Bank continues to invest in business and technical controls to strengthen the systems and underlying infrastructure. Further, the Bank ensures awareness of cybersecurity issues and maintains plans for incidents and crises. Cyber risks and related controls are frequently discussed at relevant governance forums and the Board to ensure appropriate oversight.

Information Security Department (ISD) acts as the 2nd line of defence over other Bank's functions. Given the increasing digital capabilities within the Bank and the extension of Nomo Bank under BLME, Boubyan Group strives to achieve high standards or information security risk management. To that end, the Bank maintains ISO27001 certification for an independent validation of the strength of the information security management system and handling of payment card data is certified for compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Bank ensures compliance with the Central Bank of Kuwait (CBK) Cyber Security Framework (CSF) and an assessment of the same is conducted on a regular basis.

The Bank considers the number of attack vectors at the Bank as confidential information that is not shared publicly. The maximum value of the insurance policy over breaches or other cybersecurity incidents, and the frequency of audits performed on the Bank's information security policies and systems may be shared once a Non-Disclosure Agreement (NDA) is signed.

6. GROUP RISK MANAGEMENT (CONTINUED)

6.8 Data Privacy

The Bank has an approved Data Privacy Policy that demonstrates Bank's commitment to applicable data privacy laws, and related compliance oversight efforts. The Policy describes the principles and conditions that apply to handling, processing and storage of personal data, sets out how these principles and conditions apply in the context of the Bank's operations, and how they are relevant to personal data collected from different data subjects (i.e. customers, employees or suppliers).

The Policy also addresses regulatory requirements related to assessment of products and services that entail processing of personal data, and the Bank's ability to respond to data subject rights.

6.9 Risk Management Information System (MIS) & Risk Analytics

The Bank puts a lot of emphasis on implementing and independently validating state-of-the-art models and MIS while developing world leading risk management information system. The guiding principles are to accurately and continuously measure the risk exposures, make the exposures' data and its magnitude available at all times with no lag (i.e. near real time) for risk monitoring against board risk appetite, and corrective actions and risk adjusted decision- making. This framework covers financial risk and non-financial risks areas. The scope of the application involves the full data and exposures across the group. The Bank is working to embed this framework across a number of the group entities.

7. COMPLIANCE WITH SHARI'A PRINCIPLES

Fatwa & Sharia'a Supervisory Board of the Group is responsible for monitoring the Group's compliance with its issued fatwa and resolutions. The Sharia'a Supervisory Board reviews and approves the contract and agreement forms after obtaining the necessary information to provide its opinion. Random samples of operations related to the Group's transactions are reviewed through Sharia'a supervision according to the annual Sharia'a audit plan for all the departments and through the periodic reports provided by the Sharia'a supervisory department about the audit processes, field visits, workflow and the validity of implementing the fatwa and resolutions issue by the Sharia'a Supervisory Board. Accordingly, an annual report about the Group's compliance with Sharia'a fatwa and resolutions are issued according to those fatwa and resolutions and it is attached along with Group's annual report and submitted to shareholders in the General Assembly. The external auditors have looked at the procedures adopted by the Sharia'a Supervisory Board review all the Shari's committee minute of the meeting held during the year and regarding to this and based on CBK circular number (2/RBA/100/2003) issue the report describing the procedures that taken in place during the year to ensure that Bank compliance with Shari's rules and principles in addition, they disclosed in the report that Bank had comply with all Sharia'a Supervisory Board rules and instructions.

The violations related to compliance of Sharia's principles for the year ended 31 December 2023 is **KD Nil**, (31 December 2022: KD nil).

The Shari's Supervisor Board's remuneration for the year ended 31 December 2023 is **KD 102 thousand**, (31 December 2022: KD 102 thousand).

8. INVESTMENT ACCOUNTS

Investment accounts receive a proportion of profit based on an agreed profit-sharing ratio and bear a share of loss.

Investment accounts take the form of unrestricted Mudaraba or Wakala contracts and include savings accounts and fixed term deposit accounts.

Saving Investment Accounts

These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time. The profit sharing of saving investment accounts is calculated and distributed monthly and the rate of profits on the accounts balances were ranging between 0.4% and 1.4% based on the product and currency.

Fixed-Term Deposit Investment Accounts

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits have a predetermined maturity date and renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit. The profit sharing of fixed-term deposit investment accounts is calculated monthly and distributed on the month ended after the maturity date and the rate of profits on the accounts balances were ranging between 1.3% and 4.3% based on the product and currency.

Investment accounts are invested in pools of assets and receive a proportion share of net income from these assets after allocating its proportional share of expenses. These assets are complying with the Codes of the Islamic Sharia'a, as approved by the Group's Sharia'a Supervisory Board. The Bank does not maintain investment risk reserve or profit equalization reserve.

A weighting factor of 50% is applied on the credit risk-weighted exposures financed from investment accounts.

9. COMPOSITION OF CAPITAL

9.1 Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

- Common Equity Tier 1
- Tier 1 Capital
- Total Capital

Common Equity Tier 1 Capital comprises share capital, share premium, retained earnings, eligible reserves and related eligible non-controlling interests. The book values of Goodwill and Intangibles are deducted along with other regulatory adjustments.

Tier 1 Capital consists of Common Equity Tier 1 Capital and Additional Tier 1 Capital which includes eligible portions of non-controlling interests.

Total Regulatory Capital includes Tier 1 Capital and Tier 2 Capital which consists of the allowed portions of general provisions and certain additional eligible non-controlling interests.

The below table summarizes the composition of capital and ratios:

	2023	**2022**
Table 15	**KD '000s**	KD '000s
Common Equity Tier 1 Capital before regulatory adjustments	**850,432**	816,342
Less:		
Total regulatory adjustments to Common Equity Tier 1	**56,851**	38,555
Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**-**	-
Common Equity Tier 1 Capital (CET1)	**793,581**	777,787
Additional Tier 1 Capital (AT1)	**136,254**	152,708
Tier 1 Capital (T1 = CET1 + AT1)	**929,835**	930,495
Tier 2 Capital (T2)	**69,163**	64,445
Total Capital (TC = T1 + T2)	**998,998**	994,940
Total risk-weighted assets	**5,560,734**	5,137,120
Capital ratios and buffers		
Common Equity Tier 1 Capital (as percentage of risk-weighted assets)	**14.27%**	15.14%
Tier 1 Capital (as percentage of risk-weighted assets)	**16.72%**	18.11%
Total Regulatory Capital (as percentage of risk-weighted assets)	**17.97%**	19.37%
National minima		
Common Equity Tier 1 minimum ratio (excluding Capital Conservation, Counter Cyclical and DSIB buffers)	**7.00%**	7.00%
Tier 1 minimum ratio	**8.50%**	8.50%
Total capital minimum ratio	**10.50%**	10.50%
Bank minima		
Common Equity Tier 1 minimum ratio (including Capital Conservation and DSIB buffers)	**10.50%**	10.50%
Tier 1 minimum ratio	**12.00%**	12.00%
Total capital minimum ratio	**14.00%**	14.00%

A detailed breakdown of the Group's regulatory capital position under the common disclosures template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Appendices Table 1.

10 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 16 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.

31 December 2023

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	**398,952**	**398,952**	
Deposits with Central Bank of Kuwait	**218,997**	**218,997**	
Deposits with other banks	**96,228**	**96,228**	
Islamic financing to customers	**6,321,041**	**6,321,041**	
of which general provisions(netted above) capped for Tier 2 inclusion	***66,236***	***66,236***	**A**
Investment in Sukuk	**886,286**	**886,286**	
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	***0***	***0***	**B**
of which reciprocal cross-holding in Additional Tier 1 instruments	***16,327***	***16,327***	**C**
Other investment securities	**156,760**	**156,760**	
Investment properties	**73,521**	**73,521**	
Other assets	**103,988**	**103,988**	
of which Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	***19,213***	***19,213***	**D**
Property and equipment	**149,216**	**149,216**	
of which Other intangibles (net of related tax liability)	***37,584***	***37,584***	**E**
Total assets	**8,404,989**	**8,404,989**	
Liabilities			
Due to banks	**187,206**	**187,206**	
Depositors' accounts	**6,479,066**	**6,479,066**	
Medium term financing	**591,680**	**591,680**	
Other liabilities	**118,202**	**118,202**	
Total liabilities	**7,376,154**	**7,376,154**	
Equity			
Share capital	**396,300**	**396,300**	**F**
Share premium	**316,942**	**316,942**	**G**
Proposed bonus shares	**23,778**	**23,778**	**H**
Treasury shares	**(54)**	**(54)**	**I**
Statutory reserve	**55,233**	**55,233**	**J**
Voluntary reserve	**15,327**	**15,327**	**K**
Other reserves	**299**	**299**	**L**
Retained earnings	**15,127**	**15,127**	
of which Retained Earnings eligible as CET1 Capital	***27,185***	***27,185***	**M**
of which Modification loss on deferral of financing instalments	***(12,058)***	***(12,058)***	
Proposed Cash Dividends	**31,700**	**31,700**	
Equity attributable to equity holders of the Bank	**854,652**	**854,652**	
Perpetual Tier 1 Sukuk	**150,385**	**150,385**	**N**
Non-controlling interests	**23,798**	**23,798**	
of which limited recognition eligible as CET1 Capital	***15,368***	***15,368***	**O**
of which limited recognition eligible as AT1 Capital	***2,196***	***2,196***	**P**
of which limited recognition eligible as Tier 2 Capital	***2,927***	***2,927***	**Q**
Total equity	**1,028,835**	**1,028,835**	
Total liabilities and equity	**8,404,989**	**8,404,989**	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

31 December 2022

Table 16 - Step 1 and 2 of Reconciliation requirements	Balance sheet as in published financial statements KD '000s	Under regulatory scope of consolidation KD '000s	Reference
Assets			
Cash and balances with banks	533,183	533,183	
Deposits with Central Bank of Kuwait	247,802	247,802	
Deposits with other banks	131,685	131,685	
Islamic financing to customers	5,913,518	5,913,518	
of which general provisions(netted above) capped for Tier 2 inclusion	*61,348*	*61,348*	A
Investment in Sukuk	609,565	609,565	
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	-	-	B
of which reciprocal cross-holding in Additional Tier 1 instruments	-	-	
Other investment securities	155,156	155,156	
Investment properties	33,618	33,618	
Other assets	127,596	127,596	
of which Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*7,072*	*7,072*	C
Property and equipment	128,634	128,634	
of which Other intangibles (net of related tax liability)	*31,429*	*31,429*	D
Total assets	7,880,757	7,880,757	
Liabilities			
Due to banks	198,678	198,678	
Depositors' accounts	5,961,728	5,961,728	
Medium term financing	637,629	637,629	
Other liabilities	103,023	103,023	
Total liabilities	6,901,058	6,901,058	
Equity			
Share capital	373,868	373,868	E
Share premium	316,942	316,942	F
Proposed bonus shares	22,432	22,432	G
Treasury shares	(54)	(54)	H
Statutory reserve	46,761	46,761	I
Voluntary reserve	15,327	15,327	J
Other reserves	(3,788)	(3,788)	K
Retained earnings	4,717	4,717	
of which Retained Earnings eligible as CET1 Capital	*28,833*	*28,833*	L
of which Modification loss on deferral of financing instalments	*(24,116)*	*(24,116)*	
Proposed Cash Dividends	22,429	22,429	
Equity attributable to equity holders of the Bank	798,634	798,634	
Perpetual Tier 1 Sukuk	150,385	150,385	M
Non-controlling interests	30,680	30,680	
of which limited recognition eligible as CET1 Capital	*15,967*	*15,967*	N
of which limited recognition eligible as AT1 Capital	*2,323*	*2,323*	O
of which limited recognition eligible as Tier 2 Capital	*3,097*	*3,097*	P
Total equity	979,699	979,699	
Total liabilities and equity	7,880,757	7,880,757	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

Table 17 provides the relevant lines under 'Table 24: Composition of Regulatory Capital' with cross references to the letters in Table 16, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

Table 17 **31 December 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
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	**396,300**	**F**
2	Retained earnings	**27,185**	**M**
3	Accumulated other comprehensive income (and other reserves)	**411,579**	**G+H+J+K+L**
5	Common share capital issued by subsidiaries and held by third parties	**15,368**	**O**
6	Common Equity Tier 1 Capital before regulatory adjustments	**850,432**	
	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)	**(37,584)**	**E**
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(19,213)**	**D**
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(54)**	**I**
18	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**-**	
28	**Total regulatory adjustments to Common Equity Tier 1**	**(56,851)**	
29	**Common Equity Tier 1 capital (CET1)**	**793,581**	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**150,385**	**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)	**2,196**	**P**
36	**Additional Tier 1 capital before regulatory adjustments**	**152,581**	
	Additional Tier 1 capital : regulatory adjustments		
38	Reciprocal cross-holding in Additional Tier 1 instruments	**(16,327)**	**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**	**(16,327)**	
44	**Additional Tier 1 capital (AT1)**	**136,254**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**929,835**	
	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)	**2,927**	**Q**
50	General Provisions included in Tier 2 Capital	**66,236**	**A**
51	**Tier 2 Capital before regulatory adjustments**	**69,163**	
	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)**	**69,163**	
59	**Total capital (TC = T1 + T2)**	**998,998**	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

Table 17

31 December 2022

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	28,833	L
3	Accumulated other comprehensive income (and other reserves)	397,674	F+G+I+J+K
5	Common share capital issued by subsidiaries and held by third parties	15,967	N
6	Common Equity Tier 1 Capital before regulatory adjustments	816,342	
	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)	(31,429)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(7,072)	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**	(38,555)	
29	**Common Equity Tier 1 capital (CET1)**	777,787	
	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)	2,323	O
36	**Additional Tier 1 capital before regulatory adjustments**	152,708	
	Additional Tier 1 capital : regulatory adjustments		
38	Reciprocal cross-holding in Additional Tier 1 instruments	-	
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)**	152,708	
45	**Tier 1 capital (T1 = CET1 + AT1)**	930,495	
	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)	3,097	P
50	General Provisions included in Tier 2 Capital	61,348	A
51	**Tier 2 Capital before regulatory adjustments**	64,445	
	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)**	64,445	
59	**Total capital (TC = T1 + T2)**	994,940	

11. LEVERAGE RATIO

In October 2014, CBK issued the regulations on the 'Leverage ratio' introduced by Basel Committee on Banking Supervision (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:

	2023	2022
Table 18		
Tier 1 Capital (KD '000s)	**929,835**	930,495
Total Exposures (KD '000s)	**8,794,302**	8,231,962
Leverage Ratio (%)	**10.57%**	11.30%

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

	2023	2022
Table 19	**KD '000s**	KD '000s
On-balance sheet exposures	**8,331,811**	7,842,202
Exposures to Sharia compliant hedging contracts	**31,704**	30,450
Off-balance sheet items	**430,787**	359,310
Total Exposures	**8,794,302**	8,231,962

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

11.1 Leverage Ratio Reconciliation

Table 20 provides the reconciliation of the balance sheet assets 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

	2023	2022
Table 20	**KD '000s**	KD '000s
Item		
Total consolidated assets as per published financial statements	**8,404,989**	7,880,757
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-
Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**	-
Adjustments for Exposures to Sharia compliant hedging contracts	**31,704**	30,450
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**430,787**	359,310
Other adjustments	**(73,178)**	(38,555)
Leverage ratio exposure	**8,794,302**	8,231,962

12. LIQUIDITY COVERAGE RATIO DISCLOSURE

12.1 Introduction

In December 2014, the Central Bank of Kuwait (CBK) issued a directive (2/RB/346/2014) to Islamic banks operating in Kuwait on the adoption of the Liquidity Coverage Ratio (LCR) as part of the Central Banks's implementation of the Basel III reforms.

The main objective of the Liquidity Coverage Ratio (LCR) is to ensure the short-term resilience of the liquidity risk management of banks by ensuring that they have sufficient high quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of 30 days.

12.2 Definition

The LCR is defined as a ratio of Islamic Sharia'a compliant HQLA to the total net cash outflows estimated for the next 30 'calendar' days. HQLA are classified into two categories: "Level 1" and "Level 2" with a cap on "Level 2" assets to the total HQLA. "Level 2 HQLA" are calculated after applying the hair cut provided by the Central Bank of Kuwait on their market values. The net cash outflows are calculated by applying cash outflow and inflow run off factors assigned by the Central Bank of Kuwait. These factors apply to the various categories of liabilities (outflows relating to retail and wholesale deposits, contingent funding obligations and undrawn commitments) and assets (inflows from retail and corporate financing receivables) maturing within 30 days.

The LCR is calculated by dividing the amount of unencumbered HQLA by the estimated net outflows over a stressed 30-day period.

12.3 Regulatory Scope of Reporting and Consolidation

The LCR is reported on a consolidated basis, banking group including the branches and subsidiaries inside and outside Kuwait.

The LCR is calculated on a total currency level. For follow up purposes only the LCR is prepared on a stand-alone basis for significant currencies. Significant currencies are defined as those whose aggregate liabilities (on- and off- balance sheet) constitute more than 5% of the Group's total aggregate liabilities. Accordingly, the Bank reports the LCR for Kuwaiti Dinar (KWD) and US Dollar (USD) and British Pound Sterling (GBP) denominated balances in addition to the total currency level.

12.4 Liquidity Policy and Contingency Funding Plan

The Group's liquidity management is guided by its liquidity policy which is reviewed annually and approved by the board of directors. The liquidity policy document specifies the main goals, policies and procedures for managing liquidity risk. The liquidity policy outlines procedures to identify, measure and monitor liquidity risk parameters in line with regulatory and internal limits, under normal and stress scenarios.

The liquidity policy also encompasses the Group's Contingency Funding Plan (CFP), which is approved by the board of directors, charts the course to be followed under stressed conditions.

12.5 Funding Strategy and Liquidity Management

While the operational aspect of day-to-day cash flow and liquidity management rests with Treasury Group, other groups such as Consumer Banking Group (CBG), Corporate Banking Group (COR), Risk Management Division (RMD), and Financial Control Group (FCG) play a key role in managing and monitoring the longer-term funding profile of the bank under the oversight of the Asset Liability Management Committee (ALCO).

The Group's long-term strategy has been to maintain a strong and diversified liabilities profile. The bank has embraced a robust funding profile through its wide domestic retail customer base and the diversified wholesale funding customers. The Group's major wholesale funding counterparties comprise mostly of Kuwaiti government and quasi-sovereign agencies with which the Bank has established a strong and long-term relationship. Moreover, given its strong and consistent credit rating, the Bank is able to obtain longer-term funding from the debt market through its Global Medium-Term Note (GMTN) program, medium term financing and perpetual Tier 1 sukuk.

12.6 Results Analysis and Main Drivers

The Group's HQLA during the three months ended 31 December 2023, averaged **KD 868 million** (post-haircut) against an average net cash-outflow of **KD 449 million**. The daily-average LCR for the observed period was **193.38%.**

The HQLA is primarily comprised of Level 1 assets which represent cash and reserve balances with the CBK as well as debt issuances by sovereign and Islamic development banks in domestic and foreign currencies. Level 2 assets comprises of debt issuances by International Islamic Liquidity Management Corporation and other non-financial institutions in domestic and foreign currencies. Level 1 assets comprise of **73%** of the total HQLA

12. LIQUIDITY COVERAGE RATIO DISCLOSURE (CONTINUED)

12.7 Quantitative Information

Quantitative information on the Liquidity Coverage Ratio is provided in the table below. The values are calculated as the simple average of daily observations over the period between 1 October 2023 and 31 December 2023 for the Bank at Group level.

Table 21

value in KD '000s

SL.	Description	Value before applying flow rates (average)**	Value after applying flow rates[1] (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		**867,830**
Cash Outflows			
2	Retail deposits and small business	**1,865,932**	**295,502**
3	· Stable deposits	9,545	477
4	· Less stable deposits	1,856,386	295,025
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:	**1,248,073**	**765,804**
6	· Operational deposits	-	-
7	· Non-operational deposits (other unsecured commitments)	1,248,073	765,804
8	Secured Funding		-
9	Other cash outflows, including:	**137,105**	**13,710**
10	· Resulting from Shari'ah compliant hedging contracts	-	-
11	· Resulting from assets-backed sukuk and other structured funding instruments	-	-
12	· Binding credit and liquidity facilities	137,105	13,710
13	Other contingent funding obligations	**1,530,100**	**76,505**
14	Other contractual cash outflows obligations	**150,228**	**150,228**
15	**Total Cash Outflows**		**1,301,749**
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	**1,319,872**	**808,962**
18	Other cash Inflows	**44,013**	**44,013**
19	**Total Cash Inflows**	**1,363,885**	**852,975**
LCR			**Total Adjusted Value [2]**
20	Total HQLA (after adjustments)		**867,830**
21	Net Cash Outflows		**448,774**
22	LCR		**193.38%**

**Simple Average for all business days of the template reporting period.

1 Is the value after the application of respective haircuts for HQLA, inflow and outflow rates.

2 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets for HQLA and cap on inflows).

13. REMUNERATION DISCLOSURE

13.1 Qualitative Information

13.1.1 Governance bodies

The Group's remuneration framework is under the supervision of the Board of Directors. As per the Group's policies and charters, the Board is responsible to review and approve the remuneration policy and oversee the implementation of the remuneration framework.

The Board Nomination and Remuneration Committee (BNRC) comprises three non-executive Board members. Its main responsibility, in terms of remuneration mandates, is to support the board in setting the principles of the Group's remuneration policy and ensures effective implementation in accordance with the Group's remuneration policy and Corporate Governance Code.

The Group remuneration policy is developed and implemented at the Group level and covers Group's wholly owned subsidiaries.

The remuneration policy defines three major categories for remuneration treatment, governance and disclosures.

Senior Management: includes all employees in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators. The number of employees in this category as at 31 December 2023 was **61 employees**, (31 December 2022: 58 employees).

Material Risk Takers: includes all employees whose activities and decisions have a material impact on the risk profile of the Bank. The number of employees in this category as at 31 December 2023 was **27 employees**, (31 December 2022: 26 employees).

Financial and Risk Control: includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions. The number of employees in this category as at 31 December 2023 was **16 employees**, (31 December 2022: 17 employees).

13.1.2 Remuneration Structure and design

Boubyan Group's remuneration policy is in line with the strategic objectives of the Group. The policy is designed mainly to attract, retain and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.

The Group's financial remuneration framework has been linked with long-term and short-term performance objectives. The Board-approved Group's Strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of those KPIs towards the overall Group strategy [including financial and non-financial criteria and Key Risk Indicators (KRIs), as appropriate].

The employees of the Bank are entitled to two categories of remuneration, which are as follows:

Fixed remuneration: such remuneration are defined in the employment agreements, and may include fixed salaries (i.e. basic salary , allowances and annual fixed pay as a percentage of basic salary) and other benefits (i.e. medical insurance, air-tickets, and schooling support),

Variable remuneration: such remuneration are driven mainly by performance and guided by the "Employee Incentive Plan". This is in the form of cash bonus and/or Employee Stock Options (ESOP).

The remuneration policy is reviewed by the Board Nomination and Remuneration Committee annually and any amendments should be approved by the Board of Directors.

The risk management, compliance and internal audit functions are independent functions. The risk management and compliance functions are reporting to and assessed by the Board Risk Committee. The internal audit function is reporting to and assessed by the Board Audit Committee. The total remuneration for these positions are determined and approved by the Board Risk Committee and Board Audit committee as a fully independent parties.

The Bank considers its Group risk profile when determining its annual remuneration pool; the risk profile includes the key risks to which the Group is exposed such as strategic, credit, market, liquidity, and operational risk.

The overall variable remuneration pool is determined by taking into account of relevant risk metrics. The metrics used to determine the pool are linked with key risk indicators and they are in line with the Group's overall risk strategy. The Group applied the key risk indicators (KRIs) this year without significant change from last year's KRIs.

13. REMUNERATION DISCLOSURE (CONTINUED)

13.1 Qualitative Information (continued)

13.1.3 An Overview on the Key Performance Indicators

The overall strategy of the Bank is set and approved by the Board and translated into KPIs. These are then documented and communicated to ensure the alignment of management activities to the strategy applied by Senior Management. These KPIs are monitored and reported to the Board on a regular basis.

Remuneration is determined based on the achievement of KPIs toward the overall Group strategy; this includes financial and non-financial criteria and Key Risk Indicators (KRIs) at Group's level.

The Group's performance management policy sets the methodology of linking an individual's annual performance with the Group's overall performance.

The annual remuneration pool for this year was approved by the board of directors after review, discussion and recommendation by the Board Nomination and Remuneration Committee. The percentage of approved remuneration was determined based on the Bank-level KPIs.

The performance appraisal form for each position identifies the quantitative weights of individual KPIs; the final scoring of the appraisal is linked with a quantitative formula to determine the level of remunerations.

Since the overall remuneration pool of the Group is linked to Group performance, the Group adjusts the remuneration percentages in case of weak performance and business recessions.

13.1.4 Remuneration Adjustments

The annual remuneration amount (fixed and variable) is reviewed by the Board Nomination and Remuneration Committee and is then subject to review and approval by the board of directors'.

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred.

The deferment of variable remuneration applies to the equity shares as per the ESOP terms. This deferred variable remuneration is subject to clawback in the event of established fraud, misleading information or exceeding the approved risk limits.

13.1.5 Types of Remuneration Components

The Bank has two main remuneration components (fixed and variable). The variable component is mainly linked with performance and is subject to the deferment approach as mentioned above.

The fixed component (salaries, benefits) is on cash basis, while the variable component is on cash or equity basis (ESOP).

The percentage between fixed and variable (cash and equity) is reviewed and approved by the board of directors on an annual basis.

In case weak performance and business recessions, the Group would try to minimise the percentage of variable remuneration, especially for the Senior Management and Material Risk-Takers.

13. REMUNERATION DISCLOSURE (CONTINUED)

13.2 Quantitative Information

During the year, the Board Nomination and Remuneration Committee met **4 times**, (31 December 2022: 4 times).

The total remuneration paid to the Committee Chairperson was **KD 10 thousand**, (31 December 2022: KD 10 thousand).

The quantitative disclosures detailed below cover only senior management and other material risk takers:

The number of employees having received a variable remuneration award during 2023 was **72 employees** and they represent **7.05%** of the total number of employees (31 December 2022: 68 employees representing 6.31% of the total number of employees).

The number of employees who received sign-on awards or guaranteed bonuses during 2023 was **1 employee** (31 December 2022: 1 employee).

The total amount of end-of-service benefit paid during 2023 was **KD 783 thousand**; this is related to **6 employees** (31 December 2022: KD 229 thousand related to 5 employees).

The total amount of outstanding deferred remuneration as at 31 December 2023 was KD **4,856 thousand** (31 December 2022: KD 3,598 thousand).

Total amount of deferred remuneration paid during 2023 was **KD 1,105 thousand** (31 December 2022: KD 924 thousand).

Total salaries & remuneration granted during reported period

Senior Management	**2023**		2022	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 22	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Fixed remuneration:				
- Cash	**6,164**	**-**	5,861	-
- Others (refer note below)	**-**	**572**	-	612
Variable remuneration:				
- Cash	**1,901**	**-**	1,890	-
- DCC (Deferred cash payment)	**-**	**1,674**	-	1,744

*Material Risk Takers**	**2023**		2022	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Table 23	**KD '000s**	**KD '000s**	KD '000s	KD '000s
Fixed remuneration:				
- Cash	**2,726**	**-**	2,728	-
- Others (refer note below)	**-**	**319**	-	406
Variable remuneration:				
- Cash	**954**	**-**	1,014	-
- DCC (Deferred cash payment)	**-**	**892**	-	962

Note: This consists of deferred end-of-service benefits in line with Boubyan Bank policy

Employees Category

	2023		2022	
Table 24	**Number of employees**	**Remuneration Fixed and Variable**	Number of employees	Remuneration Fixed and Variable
		KD '000s		KD '000s
Senior Management	**61**	**10,311**	58	10,107
Material Risk Takers*	**27**	**4,891**	26	5,110
Financial and Risk Control	**16**	**1,605**	17	1,905

** Material Risk Takers are identified as Senior Management*

14. APPENDICES

Table 1: Regulatory Capital Composition: Common Disclosure Template

Row Number	Item	2023 KD '000s	2022 KD '000s
	Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	**396,300**	373,868
2	Retained earnings	**50,963**	28,833
3	Accumulated other comprehensive income (and other reserves)	**387,801**	397,674
5	Common share capital issued by subsidiaries and held by third parties	**15,368**	15,967
6	**Common Equity Tier 1 capital before regulatory adjustments**	**850,432**	816,342
	Common Equity Tier 1 Capital : regulatory adjustments		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(37,584)**	(31,429)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(19,213)**	(7,072)
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(54)**	(54)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(56,851)**	(38,555)
29	**Common Equity Tier 1 Capital after the regulatory adjustments (CET1)**	**793,581**	777,787
	Additional Tier 1 Capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**150,385**	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)	**2,196**	2,323
36	**Additional Tier 1 Capital before regulatory adjustments**	**152,581**	152,708
	Additional Tier 1 Capital : regulatory adjustments		
38	Reciprocal cross holdings in Additional Tier 1 instruments	**(16,327)**	-
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**	**(16,327)**	-
44	**Additional Tier 1 capital (AT1)**	**136,254**	152,708
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**929,835**	930,495
	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)	**2,927**	3,097
50	General Provisions included in Tier 2 Capital	**66,236**	61,348
51	**Tier 2 capital before regulatory adjustments**	**69,163**	64,445
	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)**	**69,163**	64,445
59	**Total Capital (TC = T1 + T2)**	**998,998**	994,940
60	**Total risk-weighted assets**	**5,560,734**	5,137,120
	Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**14.27%**	15.14%
62	Tier 1 (as percentage of risk-weighted assets)	**16.72%**	18.11%
63	Total capital (as percentage of risk-weighted assets)	**17.97%**	19.37%
	National minima		
69	Common Equity Tier 1 minimum ratio (excluding Capital Conservation, Counter Cyclical and DSIB buffers)	**7.00%**	7.00%
70	Tier 1 minimum ratio	**8.50%**	8.50%
71	Total capital minimum ratio	**10.50%**	10.50%

14. APPENDICES (CONTINUED)

Table 2: Leverage Ratio: Common Disclosure Template

	Item	**2023 KD '000s**	2022 KD '000s
	On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	**8,404,989**	7,880,757
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	**(73,178)**	(38,555)
3	**Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)**	**8,331,811**	7,842,202
	Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	**23,520**	24,116
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	**8,184**	6,334
6	Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Group's accounting policy.	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	**-**	-
8	(Group's exposures to exempted Central counter parties "CCP")	**-**	-
9	**Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)**	**31,704**	30,450
	Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	**1,697,404**	1,576,575
11	(Adjustments for conversion to credit equivalent amounts)	**(1,266,617)**	(1,217,265)
12	**Off-balance sheet items (sum of lines 10 and 11)**	**430,787**	359,310
	Capital and total exposures		
13	**Tier 1 Capital**	**929,835**	930,495
14	**Total exposures (sum of lines 3, 9,12)**	**8,794,302**	8,231,962
	Leverage ratio		
15	**Leverage ratio (Tier 1 Capital (13)/total exposures (14))**	**10.57%**	11.30%

14. APPENDICES (CONTINUED)

Table 3: Regulatory Capital: Main Features Template

	Disclosure template for main features of regulatory capital instruments	
1	Issuer	Boubyan Tier 1 Sukuk Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS2306403788
3	Governing law(s) of the instrument	English law
	Regulatory treatment	
4	Type of Capital (CET1,AT1 or T2)	Additional Tier 1
5	Eligible at solo/group/group and solo	Group and Solo
6	Instrument type	Subordinated Debt
7	Amount recognized in regulatory capital	USD 500 million (KWD 150.385 million)
8	Par value of instrument	USD 1,000/-
9	Accounting classification	Equity Tier 1
10	Original date of issuance	01 April 2021
11	Perpetual or dated	Perpetual
12	Original maturity date	No maturity
13	Issuer call subject to prior supervisory approval	Yes
14	Optional call date, contingent call dates and redemption amount	Optional Call date: 01 October 2026 (6 months par call)
15	Subsequent call dates, if applicable	On the First Call Date 1 October or on any Periodic Distribution Date thereafter (01 April and 01 October every year)
	Coupons/ dividends	
16	Fixed or floating dividend/coupon	Fixed
17	Coupon rate and any related index	3.95%
18	Existence of a dividend stopper	Yes
19	Fully discretionary, partially discretionary or mandatory	Partially discretionary
20	Existence of step up or other incentive to redeem	No
21	Noncumulative or cumulative	Non-Cumulative
22	Convertible or non-convertible	Non-Convertible
23	If convertible, conversion trigger (s)	Not applicable
24	If convertible, fully or partially	Not applicable
25	If convertible, conversion rate	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable
27	If convertible, specify instrument type convertible into	Not applicable
28	If convertible, specify issuer of instrument it converts into	Not applicable
29	Write-down feature	Yes
30	If write-down, write-down trigger (s)	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.
31	If write-down, full or partial	Can be partial
32	If write-down, permanent or temporary	Permanent
33	If temporary write-down, description of write-up mechanism	Not applicable
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Deeply subordinated, senior only to ordinary shares and Common Equity Tier 1 Capital
35	Non-compliant transitioned features	No
36	If yes, specify non-compliant features	Not applicable