

# **KHALEEJI COMMERCIAL BANK BSC**

## **PUBLIC DISCLOSURES** *(Based on CBB guidelines)*

**30 June 2022**

*These disclosures have been prepared in accordance with the Public Disclosure Module (“PD”), Section PD-1.3: Disclosures in Annual Reports and PD-3.1.6 Semi-annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. These disclosures should be read in conjunction with the detailed risk management disclosures made in the annual report for the year ended 31 December 2021, and the condensed consolidated interim financial information for the six months ended 30 June 2022.*

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## **Khaleeji Commercial Bank BSC**

### **Public Disclosures for the six months ended 30 June 2022**

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#### **Executive Summary**

The Public Disclosures made under this section have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module (“PD”), Section PD-1.3: Disclosures in Annual Reports of the CBB Rule Book, Volume II for Islamic Banks and Section PD-3.1.6: Publication of reviewed (Unaudited) quarterly financial statements for locally incorporated banks.

All figures presented in this section are reported in BD thousands and are as of 30 June 2022 unless otherwise stated.

Khaleeji Commercial Bank BSC (the “Bank”) Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB’s Basel 3 framework.

At 30 June 2022, Bank’s CET1 and T1 capital and total capital adequacy ratios were 13.71 percent, 19.79 percent and 20.91 percent, respectively.

The shareholders in their extraordinary general meeting dated 24 March 2022, approved the cancellation of 44,228,946 treasury shares. The cancellation will reduce Bank’s issued and paid-up capital but will have no impact on the Bank profitability and dividends. For details of changes in the capital structure during the six months period ended 30 June 2022, please refer to note 16 of the condensed consolidated interim financial information for the six month ended 30 June 2022.

The Group has provided payment holidays on financing exposure till end June 2021, December 2021 and June 2022. For details of holiday payments to customers, please refer to note 8 of the condensed consolidated interim financial information for the six month ended 30 June 2022.

The Group is carrying out group restructuring program which involves spinning off of its infrastructure and real estate assets, please refer to note 11 of the condensed consolidated interim financial information for the six month ended 30 June 2022.

**1 Group Structure**

The Bank operates under a retail banking license granted by the CBB on 20 October 2003. The Bank does not have significant operating subsidiaries. The subsidiaries set-up is primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB guidelines and are risk weighted as investments for capital adequacy computation purposes.

**2 Capital Management and Capital Adequacy Ratio**

**2.1 Capital management**

The Bank's policy is to maintain a strong capital base to develop and retain investor, creditor and market confidence and to sustain business growth. The Bank recognizes the impact of a high level of capital on shareholders' returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

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**2.2 Statement of Financial position under the regulatory scope of consolidation**

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of Financial position as in published financial statements	Statement of Financial position as per regulatory reporting	Reference
<b>ASSETS</b>			
CASH AND BANK BALANCES	70,760	70,758	
OF WHICH ECL (STAGE 1&2)	-	-	a
OF WHICH CASH AND BANK BALANCES TO SUBSIDIARY (COMMERCIAL ENTITY)	2	-	
PLACEMENTS WITH FINANCIAL INSTITUTIONS	47,740	47,745	
OF WHICH ECL (STAGE 1&2)	(5)	-	b
FINANCING ASSETS	337,272	345,815	
OF WHICH ECL (STAGE 1&2)	(8,543)	-	c
OF WHICH FINANCING TO SUBSIDIARY (COMMERCIAL ENTITY)	-	-	
SOVEREIGN SUKUK	300,452	300,933	
OF WHICH ECL (STAGE 1&2)	(481)	-	d
IJARAH ASSETS	165,718	166,843	
OF WHICH ECL (STAGE 1&2)	(1,125)	-	e
ASSETS HELD-FOR-SALE	4,341	4,341	
OF WHICH ASSETS HELD-FOR-SALE OF SUBSIDIARY (COMMERCIAL ENTITY)	-	-	
INVESTMENT SECURITIES	177,221	229,226	
OF WHICH INVESTMENT SECURITIES TO SUBSIDIARY (COMMERCIAL ENTITY)	(51,896)	-	
OF WHICH ECL (STAGE 1&2)	(109)	-	f
OF WHICH RELATED TO INSIGNIFICANT INVESTMENTS IN FINANCIAL ENTITIES	-	-	
OF WHICH CAPITAL ADJUSTMENTS RELATED TO INVESTMENT IN FINANCIAL ENTITIES WHERE OWNERSHIP IS < 10% OF ISSUED COMMON SHARE CAPITAL (AMOUNT ABOVE 10% CET1A)	-	-	g
OF WHICH RELATED TO OTHER INVESTMENTS	177,221	229,226	
INVESTMENT IN REAL ESTATE	87,450	23,889	
OF WHICH INVESTMENT IN REAL ESTATE OF SUBSIDIARY (COMMERCIAL ENTITY)	63,561	-	
EQUITY ACCOUNTED INVESTEEES	24,586	27,079	
OF WHICH EQUITY ACCOUNTED INVESTEEES OF SUBSIDIARY (COMMERCIAL ENTITY)	(2,493)	-	
OTHER ASSETS	19,714	19,703	
OF WHICH RECEIVABLE FROM SUBSIDIARY (COMMERCIAL ENTITY)	11	-	
PROPERTY AND EQUIPMENT	1,537	1,537	
<b>TOTAL ASSETS</b>	<b>1,236,791</b>	<b>1,237,869</b>	
<b>LIABILITIES</b>			
PLACEMENTS FROM FINANCIAL INSTITUTIONS	121,450	121,450	
PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS	113,509	113,509	
TERM BORROWING	137,890	137,890	
CUSTOMERS' CURRENT ACCOUNTS	85,425	86,329	
OF WHICH ACCOUNT OF SUBSIDIARY (COMMERCIAL ENTITY)	(904)	-	
OTHER LIABILITIES	25,769	25,840	
OF WHICH ECL (STAGE 1&2)	73	-	h
OF WHICH PAYABLES OF SUBSIDIARY (COMMERCIAL ENTITY)	(144)	-	
<b>TOTAL LIABILITIES</b>	<b>484,043</b>	<b>485,018</b>	
<b>EQUITY OF INVESTMENT ACCOUNT HOLDERS</b>	<b>598,853</b>	<b>598,866</b>	
OF WHICH ACCOUNTS OF SUBSIDIARY (COMMERCIAL ENTITY)	(13)	-	
<b>OWNERS' EQUITY</b>			
SHARE CAPITAL	84,783	84,783	i
SUBORDINATED MUDARABA (AT 1)	47,222	47,222	
STATUTORY RESERVE	10,110	10,110	j
TREASURY SHARES	(6,253)	(6,253)	k
INVESTMENT FAIR VALUE RESERVE	(5,469)	(5,469)	l
RETAINED EARNINGS BEFORE MODIFICATION LOSS	13,374	23,338	m
LESS: MODIFICATION LOSS NET OF GOVERNMENT GRANT AND ECL ADD BACK*	-	(10,082)	
RETAINED EARNINGS	13,374	13,256	
OF WHICH RETAINED EARNINGS OF SUBSIDIARY (COMMERCIAL ENTITY)	118	-	
<b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>	<b>143,767</b>	<b>143,649</b>	
ECL (STAGE 1&2)	-	10,336	a+b+c+d+e+f-h
<b>NON-CONTROLLING INTEREST</b>	<b>10,128</b>	<b>-</b>	
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY</b>	<b>1,236,791</b>	<b>1,237,869</b>	

\* As per CBB circular on Regulatory concessionary measures, aggregate of modification loss and incremental ECL provision for stage 1 and 2 from March to December 2020 added back to Tier 1 capital. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024

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**2.3 Composition of Capital**

Composition of Capital as at 30 June 2022			Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1.	Directly issued qualifying common share capital plus related stock surplus less treasury shares	83,171	i+j+k+l
2.	Retained earnings	23,338	m
3.	Accumulated other comprehensive income (and other reserves)	-	
4.	<i>Not applicable</i>		
5.	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6.	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	106,509	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
7.	Prudential valuation adjustments	-	
8.	Goodwill (net of related tax liability)	-	
9.	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10.	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11.	Cash-flow hedge reserve	-	
12.	Shortfall of provisions to expected losses	-	
13.	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14.	<i>Not applicable</i>		
15.	Defined-benefit pension fund net assets	-	
16.	Investments in own shares	-	
17.	Reciprocal cross-holdings in common equity	-	
18.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19.	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	g
20.	Mortgage servicing rights (amount above 10% threshold)	-	
21.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22.	Amount exceeding the 15% threshold	-	
23.	of which: significant investments in the common stock of financials	-	
24.	of which: mortgage servicing rights	-	
25.	of which: deferred tax assets arising from temporary differences	-	
26.	CBB specific regulatory adjustments	-	
27.	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28.	<b>Total regulatory adjustments to Common equity Tier 1</b>	-	
29.	<b>Common Equity Tier 1 capital (CET1)</b>	106,509	
<b>Additional Tier 1 capital: instruments</b>			
30.	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	47,222	
31.	of which: classified as equity under applicable accounting standards	47,222	
32.	of which: classified as liabilities under applicable accounting standards	-	
33.	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	
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)	-	
35.	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
36.	<b>Additional Tier 1 capital before regulatory adjustments</b>	47,222	
<b>Additional Tier 1 capital: regulatory adjustments</b>			
37.	Investments in own Additional Tier 1 instruments	-	
38.	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40.	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41.	CBB specific regulatory adjustments	-	
42.	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43.	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	-	
44.	<b>Additional Tier 1 capital (AT1)</b>	47,222	

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45.	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	153,731	
<b>Tier 2 capital: instruments and provisions</b>			
46.	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47.	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	-	
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)	-	
49.	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
50.	Provisions	8,699	
51.	<b>Tier 2 capital before regulatory adjustments</b>	8,699	
<b>Tier 2 capital: regulatory adjustments</b>			
52.	Investments in own Tier 2 instruments	-	
53.	Reciprocal cross-holdings in Tier 2 instruments	-	
54.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55.	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56.	National specific regulatory adjustments	-	
57.	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
58.	<b>Tier 2 capital (T2)</b>	8,699	
59.	<b>Total capital (TC = T1 + T2)</b>	162,430	
60.	<b>Total risk weighted assets</b>	776,982	
<b>Capital ratios and buffers</b>			
61.	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.71%	
62.	Tier 1 (as a percentage of risk weighted assets)	19.79%	
63.	Total capital (as a percentage of risk weighted assets)	20.91%	
64.	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9%	
65.	<i>of which: capital conservation buffer requirement</i>	2.5%	
66.	<i>of which: bank specific countercyclical buffer requirement</i>	N/A	
67.	<i>of which: D-SIB buffer requirement</i>	N/A	
68.	<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)</b>	13.71%	
<b>National minima including CCB (where different from Basel III)</b>			
69.	CBB Common Equity Tier 1 minimum ratio	9.0%	
70.	CBB Tier 1 minimum ratio	10.5%	
71.	CBB total capital minimum ratio	12.5%	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
72.	Non-significant investments in the capital of other financials	-	
73.	Significant investments in the common stock of financials	-	
74.	Mortgage servicing rights (net of related tax liability)	-	
75.	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
76.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	10,336	a+b+c+d+e+f-h
77.	Cap on inclusion of provisions in Tier 2 under standardized approach	8,699	
78.	N/A	-	
79.	N/A	-	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)</b>			
80.	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	NA	
81.	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	NA	
82.	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	NA	
83.	<i>Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>	NA	
84.	<i>Current cap on T2 instruments subject to phase out arrangements</i>	NA	
85.	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	NA	

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2.4 Unconsolidated legal entities for regulatory purposes

Legal entities that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Legal Entity name	Entity classification as per CBB Rules & Guidelines	Treatment by the Bank for regulatory purposes	Extracts of financial information as at 30 June 2022 (Amount in BD 000's)	
			Total assets	Total equity
Harbour West 2 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	8,481	8,481
Surooh LTD	Commercial entity	Risk weighted	3,482	2,180
HH Hotel Properties W.L.L.	Commercial entity	Risk weighted	60,192	59,998
KHCB Tier 1 Sukuk Limited	Trust	Risk weighted	67,768	67,765
Amlak II Company	Commercial entity	Risk weighted	4,063	3,916

**Khaleeji Commercial Bank BSC**  
**Public Disclosures for the six months ended 30 June 2022**

**2.5 Disclosure template for main feature of regulatory capital instruments**

1.	Issuer	Khaleeji Commercial Bank B.S.C	KHCB Tier 1 Sukuk Limited
2.	Unique identifier	KHCB	NA
3.	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain	English law, Cayman Islands Law
	<b>Regulatory treatment</b>		
4.	Transitional CBB rules	Common Equity Tier 1	Additional Tier 1
5.	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
6.	Eligible at solo/group/group & solo	Group and solo	Group and solo
7.	Instrument type (types to be specified by each jurisdiction)	Equity Shares	Subordinated Mudaraba
8.	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 85 million	BD 47 million
9.	Par value of instrument	BD 0.100	USD 200,000 and integral multiples of USD 1,000 in excess thereof
10.	Accounting classification	Shareholders' Equity	Shareholders' Equity
11.	Original date of issuance	Various	30-Jun-20
12.	Perpetual or dated	Perpetual	Perpetual
13.	Original maturity date	No Maturity	No Maturity
14.	Issuer call subject to prior supervisory approval	No	Yes
15.	Optional call date, contingent call dates and redemption amount	Not applicable	30-Jun-25
16.	Subsequent call dates, if applicable	Not applicable	After the First Call Date, subject to the CBB approval
	<b>Coupons / dividends</b>		
17.	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders	Fixed
18.	Coupon rate and any related index	Not applicable	10%
19.	Existence of a dividend stopper	Not applicable	Not applicable
20.	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21.	Existence of step up or other incentive to redeem	No	No
22.	Noncumulative or cumulative	Non-cumulative	Non-cumulative
23.	Convertible or non-convertible	Non-convertible	Convertible
24.	If convertible, conversion trigger (s)	Not applicable	If a Non-Viability Event occurs (means that the Central Bank has informed the Bank in writing that either (i) it has to cancel/write-off the Certificates on the grounds of non-viability; or (ii) an immediate public sector injection of capital is required, without which the Bank would become non-viable).
25.	If convertible, fully or partially	Not applicable	Full of Partial
26.	If convertible, conversion rate	Not applicable	Conversion will take place at higher of, i) current market value, ii) Net book value or iii) determination of independent valuer
27.	If convertible, mandatory or optional conversion	Not applicable	Optional
28.	If convertible, specify instrument type convertible into	Not applicable	CET1 Instruments
29.	If convertible, specify issuer of instrument it converts into	Not applicable	KHCB
30.	Write-down feature	No	No
31.	If write-down, write-down trigger(s)	Not applicable	Not applicable
32.	If write-down, full or partial	Not applicable	Not applicable
33.	If write-down, permanent or temporary	Not applicable	Not applicable
34.	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable	Rank subordinate to all Senior Obligations, and rank Pari Passu with all other Pari Passu Obligations.
36.	Non-compliant transitioned features	No	No
37.	If yes, specify non-compliant features	Not applicable	Not applicable

**Khaleeji Commercial Bank BSC**  
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2.6 Capital structure, minimum capital requirements and capital adequacy

Following is the break-up of capital structure as at 30 June 2022:

BD 000's

<b>Eligible capital</b>	<b>30 June 2022</b>
<b>Common Equity Tier 1 (CET1)</b>	
Issued and fully paid ordinary shares	84,783
Less: Treasury Shares	6,253
Statutory reserve	10,109
Retained earnings	16,530
Current interim cumulative net profit	6,810
Other reserve	(5,469)
<b>Total CET1 capital prior to the regulatory adjustments</b>	<b>106,510</b>
Less: Investment in own shares	-
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	-
<b>Total Common Equity Tier 1 capital after the regulatory adjustments</b>	<b>106,510</b>
<b>Other Capital</b>	
AT1	47,222
<b>Total Tier 1 Capital</b>	<b>153,732</b>
Expected credit losses (ECL) Stage 1 & 2 – (Tier 2)	8,699
<b>Total Available T2 Capital</b>	<b>8,699</b>
<b>Total Capital</b>	<b>162,431</b>

	<b>30 June 2022</b>
Credit risk weight exposures	695,946
Market risk weight exposures	7,838
Operational risk weight exposures	73,199
<b>Total risk weighted exposures</b>	<b>776,983</b>

<b>Capital adequacy ratio (CET1)</b>	<b>13.71%</b>
<b>Capital adequacy ratio (T1)</b>	<b>19.79%</b>
<b>Capital adequacy ratio (Total capital)</b>	<b>20.91%</b>

The above capital adequacy ratios are calculated by dividing the respective regulatory capital base by the total Risk Weighted Assets (RWAs).

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Break-up of capital requirement in accordance with the capital adequacy module of the CBB for the period ended 30 June 2022 is as follows (in BD 000's):

Exposure classification	Exposure			Risk weighted assets <sup>[1]</sup>			Capital requirement @ 12.5%		
	Self-Financed <sup>[2]</sup>	IAH <sup>[3]</sup>	Total	Self – Financed	IAH	Total	Self – Financed	IAH	Total
▪ Cash and collection items	3,822	-	3,822	-	-	-	-	-	-
▪ Sovereigns	111,361	218,874	330,235	-	-	-	-	-	-
▪ Claims on PSEs	36,998	25,440	62,438	1,904	-	1,904	238	-	238
▪ Banks	5,614	85,184	90,798	2,807	44,269	47,076	351	5,534	5,885
▪ Corporates	159,178	256,802	415,980	195,555	464,629	660,184	24,444	58,079	82,523
▪ Mortgage	17,188	-	17,188	6,016	-	6,016	752	-	752
▪ Past due facilities	17,102	-	17,102	22,087	-	22,087	2,761	-	2,761
▪ Investments in equities/sukuk/Funds	43,168	-	43,168	64,752	-	64,752	8,094	-	8,094
▪ Holdings of real estate	97,467	-	97,467	240,884	-	240,884	30,111	-	30,111
▪ Other assets	9,273	-	9,273	9,273	-	9,273	1,159	-	1,159
<b>Credit Risk</b>	<b>501,171</b>	<b>586,300</b>	<b>1,087,471</b>	<b>543,278</b>	<b>508,898</b>	<b>1,052,175</b>	<b>67,910</b>	<b>63,613</b>	<b>131,523</b>
<b>Market Risk</b>	<b>7,838</b>	<b>-</b>	<b>7,838</b>	<b>7,838</b>	<b>-</b>	<b>7,838</b>	<b>980</b>	<b>-</b>	<b>980</b>
<b>Operational Risk</b>	<b>73,199</b>	<b>-</b>	<b>73,199</b>	<b>73,199</b>	<b>-</b>	<b>73,199</b>	<b>9,150</b>	<b>-</b>	<b>9,150</b>
<b>Total</b>	<b>582,208</b>	<b>586,300</b>	<b>1,168,508</b>	<b>624,315</b>	<b>508,898</b>	<b>1,133,212</b>	<b>78,040</b>	<b>63,613</b>	<b>141,653</b>

<sup>[1]</sup> For capital adequacy computations, 100% of the RWAs are reckoned for self-financed assets while only 30% is considered for assets funded through equity of investment account holders (IAH).

<sup>[2]</sup> Excludes credit risk mitigants of BD 155,122 thousand.

<sup>[3]</sup> Excludes credit risk mitigants of BD 12,566 thousand.

### 3 Credit Risk

#### 3.1 Levels of exposure

Gross credit exposure along with average credit exposure broken down under different exposure classes as at 30 June 2022 is as follows: BD000's

	Average <sup>[1]</sup> Exposure	Gross Exposure		
		Self – Financed	IAH	Total
Cash and bank balances <sup>[2]</sup>	80,941	18,033	52,731	<b>70,764</b>
Placement with financial institutions <sup>[2]</sup>	38,393	-	47,745	<b>47,745</b>
Sovereign sukuk <sup>[2]</sup>	302,291	152,204	148,729	<b>300,933</b>
Financing assets <sup>[2]</sup>	337,202	141,323	204,492	<b>345,815</b>
Ijarah assets <sup>[2]</sup>	161,570	166,843	-	<b>166,843</b>
Investment securities	231,857	84,057	145,169	<b>229,226</b>
Assets held for sale	4,341	4,341	-	<b>4,341</b>
Investment in Real estate	13,149	16,411	-	<b>16,411</b>
Development property	7,474	7,478	-	<b>7,478</b>
Equity accounted investees	27,275	27,079	-	<b>27,079</b>
Other assets, including property and equipment	18,775	21,240	-	<b>21,240</b>
<b>Total funded Credit Exposure</b>	<b>1,223,268</b>	<b>639,009</b>	<b>598,866</b>	<b>1,237,874</b>
Financial guarantees	15,395	16,077	-	<b>16,077</b>
Undrawn financing facilities	1,127	1,138	-	<b>1,138</b>
<b>Total unfunded Credit Exposure</b>	<b>16,522</b>	<b>17,215</b>	<b>-</b>	<b>17,215</b>

<sup>[1]</sup> Represents quarterly average balances for the six month period ended 30 June 2022.

<sup>[2]</sup> Gross of ECL Stage 1 and Stage 2 provision.

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3.2 Concentration of credit risk

3.2.1 Geographic distribution

The geographical exposure profile as at 30 June 2022 was as follows:

BD 000's

30 June 2022	GCC Countries	Europe	USA	Asia	Australia	Total
<b>Assets</b>						
Cash and bank balances	49,972	687	20,075	26	-	70,760
Placement with financial institutions	37,561	10,179	-	-	-	47,740
Sovereign sukuk	300,452	-	-	-	-	300,452
Financing assets	331,327	5,945	-	-	-	337,272
Ijarah assets	165,718	-	-	-	-	165,718
Investment securities	172,711	-	-	-	4,510	177,221
Assets held for sale	4,341	-	-	-	-	4,341
Investment in Real Estate	16,411	-	-	-	-	16,411
Development property	71,039	-	-	-	-	71,039
Equity accounted investees	24,586	-	-	-	-	24,586
Other assets	13,863	5,628	206	16	1	19,714
Property and equipment	1,537	-	-	-	-	1,537
<b>Total funded exposures</b>	<b>1,189,518</b>	<b>22,439</b>	<b>20,281</b>	<b>42</b>	<b>4,511</b>	<b>1,236,791</b>
Guarantees	16,077	-	-	-	-	16,077
Undrawn financing facilities	46,285	-	-	-	-	46,285
<b>Total unfunded exposures</b>	<b>62,362</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,362</b>

3.2.2 Industry/ sector-wise distribution

The Board of Directors has stipulated maximum exposures to various industry sectors. The industry/ sector wise exposure as at 30 June 2022 was as follows:

BD 000's

30 June 2022	Banks and financial institutions	Real estate	Others	Total
<b>Assets</b>				
Cash and bank balances	70,760	-	-	70,760
Placement with financial institutions	47,740	-	-	47,740
Sovereign sukuk	-	-	300,452	300,452
Financing assets	2,602	126,525	208,145	337,272
Ijarah assets	-	137,216	28,502	165,718
Investment securities	15,638	71,752	89,831	177,221
Assets held for sale	-	4,341	-	4,341
Investment in Real Estate	-	16,411	-	16,411
Development property	-	71,039	-	71,039
Equity accounted investees	-	24,586	-	24,586
Other assets	6,561	566	12,587	19,714
Property and equipment	-	-	1,537	1,537
<b>Total funded exposure</b>	<b>143,301</b>	<b>452,436</b>	<b>641,054</b>	<b>1,236,791</b>
Guarantees	-	7,483	8,594	16,077
Undrawn financing facilities	-	7,091	39,194	46,285
<b>Total unfunded exposures</b>	<b>-</b>	<b>14,574</b>	<b>47,788</b>	<b>62,362</b>

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**3.2.3 Transactions with related counterparties**

Related counterparties are those entities which are related to the Bank through significant shareholding, control, or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties, the Bank strictly follows the guidelines issued by CBB for this purpose. For details of Transactions with related parties during the six months period ended 30 June 2022 and outstanding balances pertaining to related parties, please refer to note 24 of the condensed consolidated interim financial information for the six month ended 30 June 2022.

**3.2.4 Exposures exceeding materiality thresholds**

The Bank is required to carry out capital adjustments (deduction) for its exposure to significant investments in capital of banking and financial entities that are outside the scope of regulatory consolidation subject to certain materiality thresholds as defined in the Capital Adequacy Module ("CA Module") of the CBB Rule Book.

Further, the exposures in excess of limits prescribed by Credit Risk Management Module ("CM Module") (single obligor limit of 15% of total capital and aggregate limit for connected counterparty exposure of 25% of total capital) are subject to risk weight of 800%. For investment in a financial entity where ownership is < 10% of the issued common capital, 60% of the amount exceeding 10% of CET1(a) is subject to deduction from CET1(a). The following table summarizes the exposures exceeding regulatory limits as of 30 June 2022:

BD 000's

Counterparty	Exposure type	Total exposure	Limit as a percentage	Exposure in excess of the limits
Exposure to Controller	Financing	8,351	0%	8,351
Single obligor limits	Investment securities	54,171	15%	29,822

**3.2.5 Exposures in highly leveraged counterparties**

The following balances represent the financing facilities to highly leveraged or other high-risk counterparties as of 30 June 2022:

Counterparties	Gross BD '000	Provision BD '000	Net BD '000
Counterparty # 1	4,185	3,348	837
Counterparty # 2	2,280	-	2,280

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**3.2.6 Residual contractual maturity of the credit portfolio and investment in sukuk**

The Bank's policy provides guidelines for the appropriate tenor for corporate clients and retail customers. These guidelines are reviewed on a periodic basis. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The contractual residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in sukuk in banking book is given in the table below (in BD 000's):

<b>Maturity Scale</b>	<b>&lt; 1 M</b>	<b>1 - 3 M</b>	<b>3 - 6 M</b>	<b>6M - 1Y</b>	<b>1 - 3Y</b>	<b>3 - 5Y</b>	<b>5 - 10Y</b>	<b>10 - 20Y</b>	<b>Over 20Y</b>	<b>Total</b>
<b>Credit portfolio:</b>										
Murabaha	32,510	8,083	11,126	56,713	72,637	71,099	69,143	8,566	2,706	<b>332,583</b>
Mudaraba	53	11	67	134	708	1,588	2,128	-	-	<b>4,689</b>
Ijarah	5,535	2,144	3,141	5,989	26,436	24,849	45,441	41,352	10,831	<b>165,718</b>
<b>Total</b>	<b>38,098</b>	<b>10,238</b>	<b>14,334</b>	<b>62,836</b>	<b>99,781</b>	<b>97,536</b>	<b>116,712</b>	<b>49,918</b>	<b>13,537</b>	<b>502,990</b>
<b>Investment in sukuk- banking book</b>										
	5,261	-	12,606	-	164,084	123,340	86,050	-	-	391,341
<b>Total</b>	<b>5,261</b>	<b>-</b>	<b>12,606</b>	<b>-</b>	<b>164,084</b>	<b>123,340</b>	<b>86,050</b>	<b>-</b>	<b>-</b>	<b>391,341</b>
<b>Grand Total</b>	<b>43,359</b>	<b>10,238</b>	<b>26,940</b>	<b>62,836</b>	<b>263,865</b>	<b>220,876</b>	<b>202,762</b>	<b>49,918</b>	<b>13,537</b>	<b>894,331</b>

**3.3 Equity risk in banking book**

The Bank has certain equity investments in the Banking book and they are subject to credit risk weighting under the capital adequacy framework.

**Information on equity investments**

BD 000's

Privately held	84,057
Other income, net of amortization	63
Structured Note profit, net	168

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

<b>Equity investments in banking book</b>	<b>Gross exposure</b>		<b>Risk weighted exposure</b>		<b>Capital requirement @ 12.5%</b>	
	<b>Self-financed</b>	<b>IAH</b>	<b>Self-financed</b>	<b>IAH</b>	<b>Self-financed</b>	<b>IAH</b>
	Unlisted	4,510	29,822	6,765	7,305	846
Investments in unlisted real estate companies	12,012	-	48,048	-	6,006	-
Investments in unrated funds – unlisted	15,639	-	23,459	-	2,932	-
Other holding of real estate	51,896	-	103,792	-	12,974	-
Other exposures with excess of large exposure limits		24,349		71,572	-	8,946
<b>Total</b>	<b>84,057</b>	<b>54,171</b>	<b>182,064</b>	<b>78,877</b>	<b>22,758</b>	<b>9,859</b>

BD 000's

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**3.4 Geographical and sector wise break up of impairment allowances and impaired and past due accounts**

BD 000's

	GCC Countries	Europe	Total
<b>Credit Impaired:</b>			
3 months to 1 year	15,814	-	<b>15,814</b>
1 year to 3 years	5,947	-	<b>5,947</b>
More than 3 years	14,020	-	<b>14,020</b>
	<b>35,781</b>	-	<b>35,781</b>
<b>Less: Stage 3 impairment allowance:</b>			
At 1 January 2022	16,760	-	<b>16,760</b>
Net Transfer	(210)	-	<b>(210)</b>
Charge during the period	328	-	<b>328</b>
Write off during the period	-	-	<b>-</b>
Disposals	(904)	-	<b>(904)</b>
	<b>15,974</b>	-	<b>15,974</b>
<b>Carrying amount</b>	<b>19,807</b>	-	<b>19,807</b>
<b>Past due but not credit impaired:</b>			
Up to 3 months	10,757	-	<b>10,757</b>
3 months to 1 year	8,467	-	<b>8,467</b>
More than 1 year	20	-	<b>20</b>
	<b>19,244</b>	-	<b>19,244</b>
<b>Stage 1 and Stage 2 impairment allowance</b>	<b>9,554</b>	<b>113</b>	<b>9,667</b>

	Banks and financial institutions	Real estate	Others	Total
<b>Credit Impaired:</b>				
3 months to 1 year	953	3,165	11,696	<b>15,814</b>
1 year to 3 years	-	2,703	3,244	<b>5,947</b>
More than 3 years	-	5,031	8,989	<b>14,020</b>
	<b>953</b>	<b>10,899</b>	<b>23,929</b>	<b>35,781</b>
<b>Less: Stage 3 impairment allowance:</b>				
At 1 January 2022	603	4,698	11,459	<b>16,760</b>
Net Transfer	-	(105)	(105)	<b>(210)</b>
Charge during the period	-	1,332	(1,004)	<b>328</b>
Write off during the period	-	-	-	<b>-</b>
Disposals	-	(896)	(8)	<b>(904)</b>
	<b>603</b>	<b>5,029</b>	<b>10,342</b>	<b>15,974</b>
<b>Carrying amount</b>	<b>350</b>	<b>5,870</b>	<b>13,587</b>	<b>19,807</b>
<b>Past due but not credit impaired:</b>				
Up to 3 months	-	3,067	7,690	<b>10,757</b>
3 months to 1 year	-	7,346	1,121	<b>8,467</b>
More than 1 year	-	-	20	<b>20</b>
	-	<b>10,413</b>	<b>8,831</b>	<b>19,244</b>
<b>Stage 1 and Stage 2 impairment allowance</b>	-	<b>2,235</b>	<b>7,432</b>	<b>9,667</b>

**3.5 Renegotiated facilities**

During the period, facilities of BD 1,178 thousand were renegotiated representing 0.2% of the total outstanding facilities, out of which BD 591 thousand are classified as neither past due nor impaired as of 30 June 2022. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. The Bank carried out an assessment of the renegotiated facilities. The renegotiated terms improved or restored the Bank's ability to collect profit and principal.

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**3.6 Legal action and write off of exposures**

The Bank has policy for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means.

As of 30 June 2022, the Bank did not have any material legal contingency from pending legal actions. Based on management estimates there is no potential liability arising from these pending legal actions.

The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means. The Bank has written-off financing facilities amounting to BD Nil thousand during the six months period ended 30 June 2022.

**3.7 Penalties for delayed payments**

In cases where customers delay the payments of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. The Bank recovers such penalties from customers when the amounts are significant. As per policy such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

The Bank has a policy of creating a contribution for Charity and Zakah fund for any non-Islamic income earned. During the six months period ended 30 June 2022, an amount of BD 5 thousand was thus transferred to Charity and Zakah fund. As at 30 June, there was no Shari'a violation that lead to a major impact on Bank's Shari'a governance framework, financial, reputation and invalidation of transactions.

**3.8 Credit risk mitigation**

The position of collateral cover for all credit exposures categorized on the basis of the type of security as on 30 June 2022 is given in the table below:

BD 000's

Collateral Type	Murabaha	Musharaka	Mudaraba	Wakala	Istisna	Ijarah	Value of collateral <sup>[1]</sup>	Gross Exposure <sup>[2]</sup>	% of cover	% of Total
Real Estate	286,281	-	-	-	-	221,394	507,675	386,544	131%	94%
Listed Securities	6,288	-	-	-	-	-	6,288	5,947	106%	1%
Unlisted Securities	-	-	-	-	-	-	-	-	0%	0%
Bank Guarantee	-	-	-	-	-	-	-	-	0%	0%
Cash	-	-	-	-	-	-	-	-	-	-
Collateral Unsecured	22,891	-	-	-	-	1,357	24,248	46,465	52%	4%
Others	-	-	-	-	-	-	-	74,395	0%	0%
	3,174	-	-	-	-	-	3,174	15,282	21%	1%
<b>Total</b>	<b>318,634</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>222,751</b>	<b>541,384</b>	<b>528,633</b>	<b>102%</b>	<b>100%</b>

<sup>[1]</sup> Represents collateral values based on the last valuation carried out based on the Bank's valuation policy including collaterals which exceed the book value of the facility.

<sup>[2]</sup> The amounts are gross of Stage 1 and Stage 2 ECL BD 9,668 thousand and Stage 3 ECL BD 15,974 thousand.

The estimated fair values of the Group's credit exposure are not significantly different from their carrying values. The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities.

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3.9 Regulatory capital requirements by type of financing contracts

BD 000's

Financing contracts	Exposure		Credit Risk Weighted Assets		Capital Requirement @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Murabaha	136,544	204,492	173,319	17,273	21,665	2,159
Ijarah assets	166,843	-	10,789	-	1,349	-
Musharaka	-	-	-	-	-	-
Mudharabah	4,689	-	4,689	-	586	-
Wakala	90	-	90	-	11	-
Istisna	-	-	-	-	-	-
<b>Total</b>	<b>308,166</b>	<b>204,492</b>	<b>188,887</b>	<b>17,273</b>	<b>23,611</b>	<b>2,159</b>

4 Market Risk

4.1 Regulatory capital allocation against market rate risk

The table below shows the market risk position for each category of the market risk as at period ended 30 June 2022 along with the maximum and minimum values during the period:

BD 000's

	As at 30 June	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk	-	-	-
Foreign exchange risk	627	649	627
Commodity risk	-	-	-
<b>Total (A)</b>	<b>627</b>	<b>649</b>	<b>627</b>
Risk Weighted Assets (A x 12.5)	7,838	8,113	7,838
Capital requirement @ 12.5%	980	1,014	980

5 Operational Risk

5.1 Regulatory capital allocation against operational risk

The Bank uses the Basic Indicator Approach ("BIA") in calculating its regulatory capital requirement for operational risk.

The risk weighted assets and capital requirement for operational risk as at 30 June 2022 is as given below:

BD 000's

Average gross income for 3 years (A)	39,039
Operational Risk Weighted Assets B = (A x 15% x 12.5)	73,199
Capital requirement (B x 12.5%)	9,150

6 Other Risks

6.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to managing liquidity is to ensure that it will always have sufficient funds and high quality liquid assets to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

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Maturity profile of assets and liabilities based on residual contractual maturity or expected maturity as at 30 June 2022 is as follows:

BD 000's

<b>30 June 2022</b>	<b>Up to 3 months</b>	<b>3 to 6 months</b>	<b>6 months-1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and bank balances	63,351	2,522	4,652	235	-	<b>70,760</b>
Placements with financial institutions	47,740	-	-	-	-	<b>47,740</b>
Sovereign sukuk	300,452	-	-	-	-	<b>300,452</b>
Financing assets <sup>1</sup>	40,656	11,193	56,846	73,344	155,233	<b>337,272</b>
Ijarah assets	7,679	3,141	5,989	26,436	122,473	<b>165,718</b>
Investment securities	-	-	1,851	84,491	90,879	<b>177,221</b>
Investment Held for Sale	4,341	-	-	-	-	<b>4,341</b>
Investment in real estate	-	-	-	-	16,411	<b>16,411</b>
Development property	-	-	-	-	71,039	<b>71,039</b>
Equity accounted investees	-	-	-	-	24,586	<b>24,586</b>
Other assets	1,486	1,245	651	16,332	-	<b>19,714</b>
Property and equipment	-	-	-	-	1,537	<b>1,537</b>
<b>Total assets</b>	<b>465,705</b>	<b>18,101</b>	<b>69,989</b>	<b>200,838</b>	<b>482,158</b>	<b>1,236,791</b>

<b>Liabilities</b>	<b>Up to 3 months</b>	<b>3 to 6 months</b>	<b>6 months-1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
Placements from financial institutions	105,032	8,136	8,282	-	-	<b>121,450</b>
Placements from non-financial institutions and individuals	34,296	31,680	35,576	9,061	2,896	<b>113,509</b>
Term financing from financial institutions	88,333	-	-	49,557	-	<b>137,890</b>
Customers' current accounts <sup>3</sup>	26,264	8,314	9,028	10,317	31,502	<b>85,425</b>
Other liabilities	17,450	3,729	1,224	3,366	-	<b>25,769</b>
<b>Total liabilities</b>	<b>271,375</b>	<b>51,859</b>	<b>54,110</b>	<b>72,301</b>	<b>34,398</b>	<b>484,043</b>
<b>Equity of Investment Account Holders<sup>1</sup></b>	<b>134,054</b>	<b>119,175</b>	<b>163,206</b>	<b>92,160</b>	<b>90,258</b>	<b>598,853</b>
<b>Restricted Investment accounts</b>	-	-	-	<b>1,516</b>	-	<b>1,516</b>
<b>Commitments</b>	<b>12,542</b>	<b>10,368</b>	<b>11,339</b>	<b>28,089</b>	<b>24</b>	<b>62,362</b>

<sup>1</sup>Allocated using behavioral approach to compute expected maturity profile.

Following are the key liquidity ratios which reflect the liquidity position of the Bank for the past 5 years:

	<b>June 2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Inter-bank assets to inter-bank liabilities	70.13%	59.12%	64.11%	84.82%	62.61%
Liquid assets to total assets	28.92%	27.61%	24.41%	38.83%	60.02%
Liquid assets to total deposits	44.83%	41.20%	35.66%	51.79%	47.55%
Net liquid assets to total deposits	29.61%	24.54%	24.22%	33.70%	18308%

Figures in %

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*Net stable funding Ratio (NSFR)*

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability. NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding".

NSFR calculated as per the requirements of the CBB rulebook, as of 30 June 2022 is as follows:

	<b>Total weighted value</b>
	<b>30 June 2022</b>
Available stable funding (ASF)	647,751
Required stable funding (RSF)	641,229
NSFR %	101.02%
Minimum required by CBB	100%

*Liquidity Coverage Ratio (LCR)*

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high-quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days.

	<b>Average balance</b>
	<b>30 June 2022</b>
Stock of HQLA	256,455
Net cashflows	212,781
LCR %	120.5%
Minimum required by CBB*	100%

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**6.2 Profit rate risk in the banking book**

A summary of the Bank's profit rate gap position at 30 June 2022 is as follows:

BD 000's

30 June 2022	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
<b>Assets</b>						
Placements with financial institutions	47,740	-	-	-	-	47,740
Financing assets	69,308	4,238	31,466	45,326	186,934	337,272
Ijarah assets	17	14	40	2,985	162,662	165,718
Sovereign sukuk	17,776	12,606	-	84,640	185,430	300,452
<b>Total profit rate sensitive assets</b>	<b>134,841</b>	<b>16,858</b>	<b>31,506</b>	<b>132,951</b>	<b>535,026</b>	<b>851,182</b>
<b>Liabilities</b>						
Placements from financial institutions	105,033	8,136	8,281	-	-	<b>121,450</b>
Placements from non-financial institutions and individuals	34,213	36,965	36,211	6,120	-	<b>113,509</b>
Term financing from financial institutions	88,333	-	-	49,557	-	<b>137,890</b>
Customers' current accounts	1,154	-	-	-	-	<b>1,154</b>
Equity of investment account holders	420,574	48,159	127,777	2,343	-	<b>598,853</b>
<b>Total profit rate sensitive liabilities</b>	<b>649,307</b>	<b>93,260</b>	<b>172,269</b>	<b>58,020</b>	<b>-</b>	<b>972,856</b>
<b>Profit rate gap</b>	<b>(514,466)</b>	<b>(76,402)</b>	<b>(140,763)</b>	<b>74,931</b>	<b>535,026</b>	<b>(121,674)</b>

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

An analysis of the Bank's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

	<b>100bp parallel increase/ decrease</b>	<b>50bp increase/ decrease</b>
At 30 June 2022	± 1,217	± 608
At 31 December 2021	± 1,047	± 523

The other principal risk, to which the banking book is exposed, is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the RMD in its day-to-day monitoring activities. The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis points (bps) parallel fall or rise across all yield curves and a 50 bps rise or fall of all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

	<b>200bp parallel increase/ decrease</b>
At 30 June 2022	± 2,434
At 31 December 2021	± 2,094

### **6.3 Counterparty credit risk**

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank manages such risk through natural hedges to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit markets transactions (primarily interbank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the Bank's Risk Management Department. As at 30 June 2022, the Bank did not have any open position in foreign currency risk management instruments.

### **6.4 Concentration risk**

Concentration risks arises when a number of obligors, counterparties or investees are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region. The Bank has established exposure limits to various geographic regions and industry sectors. For break-up of exposure geography and industry/ sector wise, please refer points 3.2.1 and 3.2.2 above.

### **6.5 Reputational risk**

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. The Bank has a well-developed and coherently implemented communication strategy to cover such contingencies. The Bank also allocates additional capital for such risks under its ICAAP.

### **6.6 Profit rate risk**

The Group faces various profit rate risks which can be classified broadly into the following categories:

- a. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by equity of investment account holders. This can be due to the return on such assets being lower than that of competitors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on IAH for further details.
- b. Re-pricing risk which arises from either change in profit rates in the market or timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off-balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;
- c. Profit Yield curve risk which arises when unanticipated shifts of the yield curve which may have adverse effects on the Group's income and/or underlying economic value;
- d. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off-balance sheet instruments of similar maturities or re-pricing frequencies

### **6.7 Other risks**

Other risks include strategic risk, fiduciary risks, and regulatory risks etc. which are inherent in all business and are not easily measurable or quantifiable. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective. The Bank also allocates additional capital for such risks under its ICAAP.

## **7 Compliance Disclosure**

During the period, the Bank was charged a penalty of BD 100 due to late submission of a report by the CBB.

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**8 Financial Performance**

Following are basic quantitative indicators of the financial performance:

(Annualized rates)

	June 2022	2021	2020	2019	2018
Return on average equity	8.98%	7.21%	9.14%	(14.99)%	2.45%
Return on average assets	1.17%	1.03%	0.86%	(1.62)%	0.36%
Finance income to finance expense	124.73%	117.49%	119.25%	119.57%	155.60%
Cost-to-Income-Ratio*	44.78%	41.99%	45.92%	72.58%	64.59%

\* Cost has been considered excluding impairment allowances.

**9 Product Disclosures**

**9.1 Equity of investment account holders (IAH's)**

The details of income distribution to IAH holders for the last five years are given below:

	BD 000's				
	June 2022	2021	2020	2019	2018
Allocated income to IAH	16,172	25,939	21,574	23,544	14,221
Distributed profit *	7,026	11,955	12,285	15,087	8,602
Mudarib fees	9,146	13,985	9,289	8,457	5,619
<b>As at 30 June</b>					
IAH <sup>[1]</sup>	587,315	462,999	435,886	467,268	343,849
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

<sup>[1]</sup> Represents average balance

\* Includes contribution towards deposit protection scheme

**Ratio of financing of the IAH by type of IAH contracts as at 30 June 2022:**

**Type of IAH contracts**

1 Month Mudharaba<sup>1</sup>  
 3 Months Mudharaba  
 6 Months Mudharaba  
 12 Months Mudharaba  
 18 Months Mudharaba  
 24 Months Mudharaba  
 36 Months Mudharaba  
 VIP Mudharaba  
 Total

**Ratio of financing**

54.0%  
 3.2%  
 3.7%  
 14.9%  
 0.1%  
 4.8%  
 0.1%  
 19.2%  
 100.0%

<sup>1</sup> Includes saving account, Al-Wafer account and call mudharaba accounts.

**Ratio of profit distributed to PSIA by type of IAH (based on tenor):**

BD 000's

Mudaraba Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
1 Month <sup>[2]</sup>	2,481	2,712	2,170	1,657	1,029	35.3	22.7	17.7	11.0	11.79
3 Months	338	852	633	763	290	4.8	7.1	5.1	5.1	3.38
6 Months	294	601	656	658	536	4.2	5.0	5.3	4.4	6.23
12 Months	1,472	3,024	3,797	4,592	3,936	20.9	25.3	30.9	30.4	45.75
18 Months	3	6	9	6	6	0.0	0.1	0.1	0.0	0.07
24 Month	568	1,131	1,312	1,078	122	8.1	9.5	10.7	7.1	1.42
36 Month	11	19	106	514	367	0.2	0.2	0.9	3.4	4.26
VIP Mudaraba	1,859	3,610	3,552	5,819	2,316	26.5	30.2	28.9	38.6	27.01
Wakala	-	2,712	50	-	-	-	-	0.4	-	-
<b>Total</b>	<b>7,026</b>	<b>14,667</b>	<b>12,285</b>	<b>15,087</b>	<b>8,602</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>[1]</sup> Includes saving account, Al-Wafer account, e-trade account, and call mudharaba accounts

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9.1 Equity of investment account holders (IAH's) (Continued)

**Distribution of profits by type of IAH products** (Annualised rates)

Year	Avg. profit earned from IAH assets (%age of asset)	PER set aside as a %age of IAH assets	IRR set aside as a %age of IAH assets	Mudharib fees as a %age of IAH assets	Profit paid as a %age of IAH assets
2022	5.51	-	-	3.11	2.39
2021	5.60	-	-	3.02	2.58
2020	4.95	-	-	2.13	2.82
2019	5.04	-	-	1.81	3.23
2018	4.14	-	-	1.63	2.50

Following are the average profit rates declared and distributed to the investors by the Bank:

(Annualised rates)

Type of deposit	2022	2021	2020	2019	2018
1 month Mudharaba <sup>[1]</sup>	1.68%	1.42%	1.32%	1.03%	0.86%
3 months Mudharaba	2.47%	2.80%	3.28%	3.66%	2.51%
6 months Mudharaba	2.45%	2.93%	3.45%	3.69%	2.96%
12 months Mudharaba	3.15%	3.27%	3.71%	3.86%	3.37%
18 months Mudharaba	2.25%	3.39%	3.70%	3.44%	2.81%
24 months Mudharaba	3.94%	3.98%	5.88%	5.48%	3.26%
36 Months Mudharaba	3.38%	3.74%	2.10%	5.22%	4.93%
VIP Mudharaba	3.00%	3.40%	4.18%	4.94%	3.10%
Wakala	-	-	0.96%	-	-

<sup>[1]</sup> Includes saving account, Al-Wafer account, e-trade account, and call mudharaba accounts.

**Market benchmark rates:**

The Bank refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to benchmark the rate of return on IAH.

**IAH account by type of assets:**

The following table summarizes the movement in type of assets in which the IAH funds are invested and allocated among various type of assets for the year ended 30 June 2022:

Particular	Allocation at 1 January 2022	Movement	Allocation at 30 June 2022	Proportion of total assets (%)	% of funding by IAH as at 30 June 2022
Cash and bank balances	65,870	(13,139)	52,731	8.81%	74.52%
Placements with financial institutions	26,391	21,354	47,745	7.97%	100.00%
Financing assets:	280,917	(76,425)	204,492	34.15%	60.63%
-Murabaha	280,917	(76,425)	204,492	34.15%	60.63%
-Istisna	-	-	-	0.00%	0.00%
Investment securities – Sukuk	172,029	121,869	293,898	49.08%	65.88%
<b>Total</b>	<b>545,207</b>	<b>53,659</b>	<b>598,866</b>		

**Variations in Mudarib's agreed profit-sharing ratio from the contractually agreed ratio**

	June 2022	2021	2020	2019	2018
Average mudarib share as a percentage of total income allocated to IAH	49.05%	53.73%	60.72%	46.56%	41.82%
Average mudarib share contractually agreed with IAH	68.73%	63.70%	63.89%	59.38%	62.20%
Average mudarib fees sacrificed by the Bank	19.68%	9.97%	3.17%	12.82%	20.38%

For details of assets that the Bank has pledged as collateral as of 30 June 2022, please refer to note 7 of the condensed consolidated interim financial information for the six month ended 30 June 2022.

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9.2 Restricted Investment Accounts (RIA's)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2022	2021	2020	2019	2018
RIA 1 – Safana	<p>An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell. In 2011, the Bank made an offer to buy back &lt; BD 20,000 of each investors funds in RIA 1 at par. This offer was formalized in a letter to investors dated 25 May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.</p> <p>KHCB and NS12 (special purpose vehicle incorporated by the Bank on behalf of investors with the principle purpose of holding plots of lands in the Nurana Project) recently appointed Key Point to work out an in-kind exit scheme for the RIA investors by offering the 19 plots. Scheme documents has been received from Key Point and approved by KHCB and NS 12 management to be circulated to investors.</p> <p>Approved Scheme Documents have been circulated by Key Point to all investors and followed by a workshop conducted at KHCB offices on the 24th August 2016, to explain and answer any queries or information needed to exercise the Plots Application Forms. Last date of returned Application Forms was 7th September 2016, along with the Opening Date which was held at 24th Floor, KHCB Offices managed and monitored by Key Point and witnessed By KHCB employs; the result was 6 plots were allotted out of 19 plots. The in-kind exit scheme has been completed and an open auction held on 22nd November, 2016 to allow maximum opportunities to the Investors to re-participate once again on the remaining plots. KPMG was engaged by KHCB to audit the whole In-kind exit process.</p> <p>Following the 3 allotment rounds of which RIA 1 investors participated, 6 plots have been allocated. Total revise fund BD 5,176,246 which included KHCB and total remaining NS 12 BD 6,979,665 as at 31 December 2020. The Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration therefore RIA investors have received an offer the exit the fund.</p> <p>As of 30 June 2022, the Group has acquired shares in RIA-1 amount BD 2.22mn, which was part of the assets transferred to Infracorp.</p>	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-

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9.2 Restricted Investment Accounts (RIA's)(Continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2022	2021	2020	2019	2018
RIA 5 - North Gate	<p>A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraq). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works.</p> <p>During Q1 2015, the Bank effected a buy-back option to all RIA investors for up to an amount of BD 30,000 plus 5% premium for all investors. RIA investors holding BD 30,000 and below was exited in full. A detailed letter was sent to all RIA investors in this regard. The offer was made valid up to 15 June 2015 AND during Q3 2015 the Bank paid 5.62% as partial redemption to the remaining investors.</p> <p>Moreover, during December 2018 dividend declared amount of BD 259,500 to all RIA investors and it was paid by following quarter.</p> <p>The Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration therefore RIA investors have received an offer the exit the fund.</p> <p>As of 30 June 2022, the Group has acquired shares in RIA-1 amount BD 2.22mn, which was part of the assets transferred to Infracorp.</p>	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-