

**KHALEEJI COMMERCIAL BANK BSC**

**RISK MANAGEMENT DISCLOSURES**  
*(Based on Basel 3, Basel 2 (Pillar III) and IFSB guidelines)*

**30 June 2020**

*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 2019, and the condensed consolidated interim financial information for the six months ended 30 June 2020.*

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## **Khaleeji Commercial Bank BSC**

### **Risk Management Disclosures for the six months ended 30 June 2020**

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#### **Executive Summary**

The Central Bank of Bahrain (“CBB”) Basel 3 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015. The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [ i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [ i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%]. These disclosures 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. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board’s (“IFSB”) recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their web site along with the half yearly financial statements.

All figures presented in this section are reported in BD thousands and are as of 30 June 2020 unless otherwise stated.

Khaleeji Commercial Bank BSC (the “Bank”) has adopted the Standardized Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk to determine its capital requirements. This section contains quantitative information on risk components and capital adequacy. The quantitative disclosures relating to remuneration are disclosed on annual basis in the Bank’s annual report. For qualitative and quantitative disclosures relating to the Bank’s risk management policies, capital adequacy policies and practices, corporate governance and remuneration, refer to the Pillar 3 disclosures in the section “Risk Management Disclosure” of the annual report for the year ended 31 December 2019.

The Bank’s Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB’s Basel 3 framework.

The Banks total risk weighted exposures as at 30 June 2020 amounted to BD 622,632 thousand. Credit risk accounted for 89.5 percent, operational risk 9.4 percent and market risk 1.1 percent of the total risk weighted exposures. Tier I and total regulatory capital were BD 141,172 thousand and BD 148,955 thousand, respectively, as at 30 June 2020.

At 30 June 2020, Bank’s CET1 and T1 capital and total capital adequacy ratios were 13.53 percent, 20.29 percent and 21.41 percent, respectively.

**Khaleeji Commercial Bank BSC**  
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**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.

| Assets  | Statement of Financial position as in published financial statements | Statement of Financial position as per regulatory reporting | Reference |
|---|--|---|-----------|
| <b>ASSETS</b>   |  |   |           |
| <b>Cash and bank balances</b>   | <b>96,327</b>  | <b>96,329</b>   |           |
| Of which ECL (stage 1&2)  | (2)  | -   | a         |
| <b>Placements with financial institutions</b>   | <b>10,036</b>  | <b>10,037</b>   |           |
| Of which ECL (stage 1&2)  | (1)  | -   | b         |
| <b>Financing assets</b>   | <b>309,081</b>   | <b>318,717</b>  |           |
| Of which ECL (stage 1&2)  | (7,993)  | -   | c         |
| Of which financing to subsidiary (commercial entity)  | (1,643)  | -   |           |
| <b>Investment in sukuk</b>  | <b>225,256</b>   | <b>225,322</b>  |           |
| Of which ECL (stage 1&2)  | (66)   | -   | d         |
| <b>Assets acquired for leasing</b>  | <b>121,265</b>   | <b>121,265</b>  |           |
| <b>Lease rental receivables</b>   | <b>21,390</b>  | <b>21,799</b>   |           |
| Of which ECL (stage 1&2)  | (409)  | -   | e         |
| <b>Investment in equity securities</b>  | <b>40,766</b>  | <b>40,766</b>   |           |
| Of which related to Insignificant Investments in Financial Entities   | 8,205  | 8,205   | f         |
| 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   | 32,561   | 32,561  |           |
| <b>INVESTMENT IN ASSOCIATE</b>  | <b>29,012</b>  | <b>29,012</b>   |           |
| <b>Investment in real estate</b>  | <b>17,781</b>  | <b>17,781</b>   |           |
| <b>Development property</b>   | <b>57,418</b>  | <b>52,144</b>   |           |
| Of which development property of subsidiary (commercial entity)   | 5,274  |   |           |
| <b>Other assets</b>   | <b>24,936</b>  | <b>25,036</b>   |           |
| Of which receivable from subsidiary (commercial entity)   | (100)  |   |           |
| <b>Property and equipment</b>   | <b>7,545</b>   | <b>7,545</b>  |           |
| <b>TOTAL ASSETS</b>   | <b>960,813</b>   | <b>965,753</b>  |           |

**LIABILITIES**

|   |                |                |   |
|---|----------------|----------------|---|
| <b>Placements from financial institutions</b>                     | <b>108,143</b> | <b>108,143</b> |   |
| <b>Placements from non-financial institutions and individuals</b> | <b>165,516</b> | <b>165,516</b> |   |
| <b>Term Borrowing</b>   | <b>79,636</b>  | <b>79,636</b>  |   |
| <b>Customers' current accounts</b>                                | <b>51,136</b>  | <b>51,424</b>  |   |
| Of which account of subsidiary (commercial entity)                | (288)          | -              |   |
| <b>Other liabilities</b>  | <b>14,028</b>  | <b>12,267</b>  |   |
| Of which ECL (stage 1&2)  | 198            | -              | h |
| Of which payables of subsidiary (commercial entity)               | 1,563          | -              |   |
| <b>TOTAL LIABILITIES</b>  | <b>418,459</b> | <b>416,986</b> |   |

|   |                |                |  |
|---|----------------|----------------|--|
| <b>EQUITY OF INVESTMENT ACCOUNT HOLDERS</b> | <b>398,926</b> | <b>398,926</b> |  |
|---|----------------|----------------|--|

**OWNERS' EQUITY**

|   |                 |                 |             |
|---|-----------------|-----------------|-------------|
| <b>Share capital</b>  | <b>89,212</b>   | <b>89,212</b>   | i           |
| <b>SUBORDINATED MUDARABA (AT 1)</b>   | <b>47,060</b>   | <b>47,060</b>   |             |
| <b>Statutory reserve</b>  | <b>8,225</b>    | <b>8,225</b>    | j           |
| <b>Treasury shares</b>  | <b>(11,765)</b> | <b>(11,765)</b> | k           |
| <b>INVESTMENT FAIR VALUE RESERVE</b>  | <b>(226)</b>    | <b>(226)</b>    | l           |
| <b>Retained earnings</b>  | <b>8,746</b>    | <b>8,666</b>    | m           |
| Of which retained earnings of subsidiary (commercial entity)                      | 80              | -               |             |
| <b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>                    | <b>141,252</b>  | <b>141,172</b>  |             |
| <b>ECL (stage 1&amp;2)</b>  | <b>-</b>        | <b>8,669</b>    | a+b+c+d+e-h |
| <b>Non-controlling interest</b>   | <b>2,176</b>    | <b>-</b>        |             |
| <b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY</b> | <b>960,813</b>  | <b>965,753</b>  |             |

**Khaleeji Commercial Bank BSC**  
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**2.3 Composition of Capital as at 30 June 2020**

| Composition of Capital as at 30 June 2020                     |  |          | 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   | 97,211   | i+j+l  |
| 2.  | Retained earnings  | 8,666    | 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>  | 105,877  |  |
| <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  | (11,765) | k  |
| 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)                      | 8,225    | f  |
| 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>  | (11,765) |  |
| 29.   | <b>Common Equity Tier 1 capital (CET1)</b>   | 94,112   |  |
| <b>Additional Tier 1 capital: instruments</b>                 |  |          |  |
| 30.   | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus  | 47,060   |  |
| 31.   | of which: classified as equity under applicable accounting standards   | 47,060   |  |
| 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.   | of which: instruments issued by subsidiaries subject to phase out  | -        |  |
| 36.   | <b>Additional Tier 1 capital before regulatory adjustments</b>   | 47,060   |  |
| <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   | -        |  |

**Khaleeji Commercial Bank BSC**  
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|  |  |         |             |
|--|--|---------|-------------|
| 43.  | <b>Total regulatory adjustments to Additional Tier 1 capital</b>   | -       |             |
| 44.  | <b>Additional Tier 1 capital (AT1)</b>   | 47,060  |             |
| 45.  | <b>Tier 1 capital (T1 = CET1 + AT1)</b>  | 141,172 |             |
| <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   | 7,783   |             |
| 51.  | <b>Tier 2 capital before regulatory adjustments</b>  | 7,783   |             |
| <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>   | 7,783   |             |
| 59.  | <b>Total capital (TC = T1 + T2)</b>  | 148,955 |             |
| 60.  | <b>Total risk weighted assets</b>  | 695,626 |             |
| <b>Capital ratios and buffers</b>  |  |         |             |
| 61.  | Common Equity Tier 1 (as a percentage of risk weighted assets)   | 13.53%  |             |
| 62.  | Tier 1 (as a percentage of risk weighted assets)   | 20.29%  |             |
| 63.  | Total capital (as a percentage of risk weighted assets)  | 21.41%  |             |
| 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.  | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)   | 13.53%  |             |
| <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   | 8,225   | f           |
| 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)   | 8,669   | a+b+c+d+e-h |
| 77.  | Cap on inclusion of provisions in Tier 2 under standardized approach   | 7,783   |             |
| 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 financials as at 30 June 2020<br>(Amount in BD 000's) |              |
|--------------------------------|---|---|---|--------------|
|                                |   |   | Total assets  | Total equity |
| Harbour West 2 Real Estate SPC | Commercial entity                                   | Risk weighted (look through approach)         | 9,006   | 9,006        |
| Harbour West 4 Real Estate SPC | Commercial entity                                   | Risk weighted (look through approach)         | 6,042   | 6,042        |
| Surooh LTD                     | Commercial entity                                   | Risk weighted                                 | 6,037   | 2,689        |
| HH Hotel Properties S.P.C      | Commercial entity                                   | Risk weighted                                 | 60,001  | 60,000       |

**Khaleeji Commercial Bank BSC**  
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**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  |
|     | <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   | Mudharaba Sukuk  |
| 8.  | Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)                   | BD 89 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**  
**Risk Management Disclosures for the six months ended 30 June 2020**

**2.6 Capital structure, minimum capital requirements and capital adequacy**

Following is the break-up of capital structure as at 30 June 2020:

BD 000's

| Eligible capital   | 30 June 2020   |
|--|----------------|
| <b>Common Equity Tier 1 (CET1)</b>   |                |
| Issued and fully paid ordinary shares  | 89,212         |
| Statutory reserve  | 8,225          |
| Less: Employee stock incentive program funded by the bank (outstanding)  | -              |
| Retained earnings  | 2,815          |
| Current interim cumulative net profit  | 5,851          |
| Other reserve  | (226)          |
| <b>Total CET1 capital prior to the regulatory adjustments</b>  | <b>105,877</b> |
| Less: Investment in own shares   | (11,765)       |
| 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>94,112</b>  |
| <b>Other Capital</b>   |                |
| AT1  | 47,060         |
| Expected credit losses (ECL) Satag 1 & 2 – (Tier 2)  | 7,783          |
| <b>Total available AT1 &amp; T2 Capital</b>  | <b>54,843</b>  |
| <b>Total Capital</b>   | <b>148,955</b> |

|                                      | 30 June 2020   |
|--------------------------------------|----------------|
| Credit risk weight exposures         | 622,632        |
| Market risk weight exposures         | 7,679          |
| Operational risk weight exposures    | 65,315         |
| <b>Total risk weighted exposures</b> | <b>695,626</b> |

|   |               |
|---|---------------|
| <b>Capital adequacy ratio (CET1)</b>          | <b>13.53%</b> |
| <b>Capital adequacy ratio (T1)</b>            | <b>20.29%</b> |
| <b>Capital adequacy ratio (Total capital)</b> | <b>21.41%</b> |

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

## Khaleeji Commercial Bank BSC

### Risk Management Disclosures for the six months ended 30 June 2020

Break-up of capital requirement in accordance with the capital adequacy module of the CBB for the period ended 30 June 2020 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     | 5,634                        |                    | 5,634          | -                                   |                | -              | -                           | -             | -             |
| ▪ Sovereigns                    | 40,535                       | 189,784            | 230,319        | -                                   | -              | -              | -                           | -             | -             |
| ▪ Claims on PSEs                | 9,849                        | 46,010             | 55,859         | -                                   | 7,769          | 7,769          | -                           | 971           | 971           |
| ▪ Banks                         |                              | 48,116             | 48,116         |                                     | 22,073         | 22,073         | -                           | 2,759         | 2,759         |
| ▪ Corporates                    | 160,884                      | 108,775            | 269,659        | 160,884                             | 107,644        | 268,528        | 20,111                      | 13,455        | 33,566        |
| ▪ Past due facilities           | 35,650                       |                    | 35,650         | 48,875                              |                | 48,875         | 6,109                       | -             | 6,109         |
| ▪ Investments in equities/sukuk | 63,714                       |                    | 63,714         | 95,571                              |                | 95,571         | 11,946                      | -             | 11,946        |
| ▪ Holdings of real estate       | 95,591                       |                    | 95,591         | 269,813                             |                | 269,813        | 33,727                      | -             | 33,727        |
| ▪ Other assets                  | 6,244                        |                    | 6,244          | 6,244                               |                | 6,244          | 781                         | -             | 781           |
| <b>Credit Risk</b>              | 418,101                      | 392,684            | 810,785        | 581,387                             | 137,485        | 718,872        | 72,673                      | 17,186        | 89,859        |
| <b>Market Risk</b>              | 7,679                        | -                  | 7,679          | 7,679                               | -              | 7,679          | 960                         | -             | 960           |
| <b>Operational Risk</b>         | 65,315                       | -                  | 65,315         | 65,315                              | -              | 65,315         | 8,164                       | -             | 8,164         |
| <b>Total</b>                    | <b>491,095</b>               | <b>392,684</b>     | <b>883,779</b> | <b>654,381</b>                      | <b>137,485</b> | <b>791,866</b> | <b>81,798</b>               | <b>17,186</b> | <b>98,983</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 153,615 thousand.

<sup>[3]</sup> Excludes credit risk mitigants of BD 6,242 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 2020 is as follows:

BD000's

|  | Average <sup>[1]</sup><br>Exposure | Gross Exposure |                |                |
|--|------------------------------------|----------------|----------------|----------------|
|  |                                    | Self-Financed  | IAH            | Total          |
| Cash and bank balances <sup>[2]</sup>  | 79,493                             | 45,516         | 50,813         | 96,329         |
| Placement with financial institutions <sup>[2]</sup>                           | 11,596                             | -              | 10,037         | 10,037         |
| Financing assets <sup>[2]</sup>  | 327,278                            | 205,962        | 112,755        | 318,717        |
| Investment in sukuk <sup>[2]</sup>   | 228,258                            | -              | 225,321        | 225,321        |
| Assets acquired for leasing(including lease rental receivables) <sup>[2]</sup> | 143,797                            | 143,064        | -              | 143,064        |
| Investment in equity securities  | 41,996                             | 40,766         | -              | 40,766         |
| Investments in associates  | 16,768                             | 29,012         | -              | 29,012         |
| Investment Real estate   | 17,781                             | 17,781         | -              | 17,781         |
| Development property   | 26,196                             | 52,144         | -              | 52,144         |
| Other assets, including property and equipment                                 | 32,249                             | 32,581         | -              | 32,581         |
| <b>Total funded Credit Exposure</b>  | <b>925,412</b>                     | <b>566,826</b> | <b>398,926</b> | <b>965,752</b> |
| Financial guarantees <sup>[3]</sup>  | 4,655                              | 5,011          | -              | 5,011          |
| <b>Total unfunded Credit Exposure</b>  | <b>4,655</b>                       | <b>5,011</b>   | <b>-</b>       | <b>5,011</b>   |

<sup>[1]</sup> Represents quarterly average balances for the six month period ended 30 June 2020.

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

**Khaleeji Commercial Bank BSC**  
**Risk Management Disclosures for the six months ended 30 June 2020**

3.2 Concentration of credit risk

3.2.1 Geographic distribution

The geographical exposure profile as at 30 June 2020 was as follows:

BD 000's

| 30 June 2020   | GCC Countries  | Europe       | USA           | Asia          | Australia    | Total          |
|--|----------------|--------------|---------------|---------------|--------------|----------------|
| <b>Assets</b>  |                |              |               |               |              |                |
| Cash and bank balances   | 70,347         | 2,758        | 23,215        | 7             | -            | 96,327         |
| Placement with financial institutions                            | 10,036         | -            | -             | -             | -            | 10,036         |
| Financing assets   | 306,858        | -            | -             | 2,223         | -            | 309,081        |
| Investment in sukuk  | 225,256        | -            | -             | -             | -            | 225,256        |
| Assets acquired for leasing (including lease rentals receivable) | 22,771         | -            | -             | 14,383        | 3,612        | 40,766         |
| Investment in equity securities                                  | 142,525        | -            | -             | 130           | -            | 142,655        |
| Investment in associates   | 29,012         | -            | -             | -             | -            | 29,012         |
| Investment in Real Estate  | 17,781         | -            | -             | -             | -            | 17,781         |
| Development property   | 57,418         | -            | -             | -             | -            | 57,418         |
| Other assets   | 24,152         | 15           | -             | 768           | 1            | 24,936         |
| Property and equipment   | 7,545          | -            | -             | -             | -            | 7,545          |
| <b>Total funded exposures</b>                                    | <b>913,701</b> | <b>2,773</b> | <b>23,215</b> | <b>17,511</b> | <b>3,613</b> | <b>960,813</b> |
|  | 10,320         | -            | -             | -             | -            | 10,320         |
| Guarantees   | -              | -            | -             | -             | -            | -              |
| Undrawn financing facilities                                     | 45,539         | -            | -             | -             | -            | 45,539         |
| <b>Total unfunded exposures</b>                                  | <b>55,859</b>  | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>55,859</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 2020 was as follows:

BD 000's

| 30 June 2020   | Banks and financial institutions | Real estate    | Others         | Total          |
|--|----------------------------------|----------------|----------------|----------------|
| <b>Assets</b>  |                                  |                |                |                |
| Cash and bank balances   | 96,327                           | -              | -              | 96,327         |
| Placement with financial institutions                            | 10,036                           | -              | -              | 10,036         |
| Financing assets   | 7,250                            | 136,867        | 164,964        | 309,081        |
| Investment in sukuk  | -                                | 2,257          | 222,999        | 225,256        |
| Assets acquired for leasing (including lease rentals receivable) | -                                | 127,966        | 14,689         | 142,655        |
| Investment in equity securities                                  | 8,205                            | 28,947         | 3,614          | 40,766         |
| Investment in associates   | -                                | 29,012         | -              | 29,012         |
| Investment in Real Estate  | -                                | 17,781         | -              | 17,781         |
| Development property   | -                                | 57,418         | -              | 57,418         |
| Other assets   | 1,526                            | 5,902          | 17,508         | 24,936         |
| Property and equipment   | -                                | 6,740          | 805            | 7,545          |
| <b>Total funded exposure</b>                                     | <b>123,344</b>                   | <b>412,890</b> | <b>424,579</b> | <b>960,813</b> |
| Guarantees   | 445                              | 1,082          | 8,793          | 10,320         |
| Undrawn financing facilities                                     | -                                | 33,538         | 12,001         | 45,539         |
| <b>Total unfunded exposures</b>                                  | <b>445</b>                       | <b>34,620</b>  | <b>20,794</b>  | <b>55,859</b>  |

**Khaleeji Commercial Bank BSC**  
**Risk Management Disclosures for the six months ended 30 June 2020**

**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 2020 and outstanding balances pertaining to related parties, please refer to note 18 of the condensed consolidated interim financial information for the six month ended 30 June 2020.

**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 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 2020:

BD 000's

| Counterparty                     | Exposure type                           | Total exposure | Exposure as a percentage of total capital | Exposure in excess of the limits |
|----------------------------------|---|----------------|---|----------------------------------|
| Connected counterparties         | Investments, financing and other assets | 20,231         | 13.58%                                    | -                                |
| Investment in financial entities | Investment in financial entities <10%   | 8,205          | 5.51%                                     | -                                |

**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 2020:

| Counterparties   | Gross BD '000 | Provision BD '000 | Net BD '000 |
|------------------|---------------|-------------------|-------------|
| Counterparty # 1 | 4,185         | 815               | 3,369       |
| Counterparty # 2 | 2,280         | -                 | 2,280       |

**Khaleeji Commercial Bank BSC**  
**Risk Management Disclosures for the six months ended 30 June 2020**

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

The Bank's policy allows exposures up to a maximum period of 7 years for corporate customers and 25 years for retail customers with any exceptions to be approved by the Board of directors. 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                                 | 23,407          | 14,631         | 20,125         | 33,844         | 115,899        | 59,548         | 32,883         | 221             | 6               | <b>300,565</b> |
| Mudaraba                                 | 195             | 20             | 30             | 60             | 225            | 226            | 290            | -               | -               | <b>1,046</b>   |
| Wakala                                   | 5,007           | -              | -              | -              | -              | -              | -              | -               | -               | <b>5,007</b>   |
| Istisna                                  | 29              | 10             | 34             | 95             | 456            | 666            | 1,174          | -               | -               | <b>2,463</b>   |
| Ijarah                                   | 2,257           | 1,418          | 3,669          | 8,231          | 35,633         | 30,162         | 34,283         | 22,483          | 4,519           | <b>142,655</b> |
| <b>Total</b>                             | <b>30,895</b>   | <b>16,080</b>  | <b>23,858</b>  | <b>42,230</b>  | <b>152,212</b> | <b>90,602</b>  | <b>68,630</b>  | <b>22,704</b>   | <b>4,525</b>    | <b>451,737</b> |
| <b>Investment in sukuk- banking book</b> |                 |                |                |                |                |                |                |                 |                 |                |
|  | -               | -              | -              | -              | 18,162         | 80,106         | 126,988        | -               | -               | <b>225,256</b> |
| <b>Total</b>                             | <b>-</b>        | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>18,162</b>  | <b>80,106</b>  | <b>126,988</b> | <b>-</b>        | <b>-</b>        | <b>225,256</b> |
| <b>Grand Total</b>                       | <b>30,895</b>   | <b>16,080</b>  | <b>23,858</b>  | <b>42,230</b>  | <b>170,374</b> | <b>170,708</b> | <b>195,618</b> | <b>22,704</b>   | <b>4,525</b>    | <b>676,993</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  
Dividend income

|        |
|--------|
| 40,766 |
| 132    |

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 Investments in unlisted real estate companies | 11,818     | -                             | 17,727     | -                                  | 2,216      |
|   | 28,948   | -          | 115,792                       | -          | 14,474                             | -          |
| <b>Total</b>                              | <b>40,766</b>  | <b>-</b>   | <b>133,519</b>                | <b>-</b>   | <b>16,690</b>                      | <b>-</b>   |

BD 000's

**Khaleeji Commercial Bank BSC**  
**Risk Management Disclosures for the six months ended 30 June 2020**

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

|  | BD 000's      |         |              |               |
|--|---------------|---------|--------------|---------------|
|  | GCC Countries | Europe  | Asia         | Total         |
| <b>Impaired and non-performing</b>                       |               |         |              |               |
| 3 months to 1 year                                       | 34,214        | -       | -            | 34,214        |
| 1 year to 3 years  | 17,803        | -       | -            | 17,803        |
| More than 3 years  | 3,382         | -       | -            | 3,382         |
|  | <b>55,399</b> | -       | -            | <b>55,399</b> |
| <b>Less: Stage 3 ECL allowance</b>                       |               |         |              |               |
| At 1 January 2020  | 29,181        | 4,260   | -            | 33,440        |
| Transfer to Stage 3                                      | 839           | (10)    | -            | 829           |
| Net Charge during the period                             | (506)         | (857)   | -            | (1,363)       |
| Write off during the period                              | (10,139)      | -       | -            | (10,139)      |
| Disposal   | (7,642)       | (3,393) | -            | (11,035)      |
| At 30 June 2020  | <b>11,732</b> | -       | -            | <b>11,732</b> |
| <b>Carrying amount</b>                                   | <b>43,667</b> | -       | -            | <b>43,667</b> |
| <b>Past due but not impaired, including substandard:</b> |               |         |              |               |
| Up to 3 months   | 41,104        | -       | -            | 41,104        |
| 3 months to 1 year                                       | 3,767         | -       | 2,177        | 5,944         |
| More than 1 year   | -             | -       | -            | -             |
|  | <b>44,871</b> | -       | <b>2,177</b> | <b>47,048</b> |
| <b>Stage 1 and Stage 2 ECL allowance</b>                 | 6,699         | 1,703   | -            | <b>8,401</b>  |

|  | BD 000's                         |               |               |               |
|--|----------------------------------|---------------|---------------|---------------|
|  | Banks and financial institutions | Real estate   | Others        | Total         |
| <b>Impaired:</b>                         |                                  |               |               |               |
| 3 months to 1 year                       | -                                | 7,258         | 26,956        | 34,214        |
| 1 year to 3 years                        | 1,047                            | 3,408         | 13,348        | 17,803        |
| More than 3 years                        | -                                | 1,239         | 2,144         | 3,382         |
|  | <b>1,047</b>                     | <b>11,905</b> | <b>42,447</b> | <b>55,399</b> |
| <b>Less: Stage 3 ECL allowance</b>       |                                  |               |               |               |
| At 1 January 2020                        | 524                              | 3,836         | 29,080        | 33,440        |
| Transfer to Stage 3                      | -                                | (39)          | 869           | 829           |
| Net Charge during the period             | -                                | 98            | (1,461)       | (1,363)       |
| Write off during the period              | -                                | (798)         | (9,342)       | (10,139)      |
| Disposal                                 | -                                | (108)         | (10,927)      | (11,035)      |
| At 30 June 2020                          | <b>524</b>                       | <b>2,990</b>  | <b>8,218</b>  | <b>11,732</b> |
| <b>Carrying amount</b>                   | <b>522</b>                       | <b>8,915</b>  | <b>34,229</b> | <b>43,667</b> |
| <b>Past due but not impaired:</b>        |                                  |               |               |               |
| Up to 3 months                           | -                                | 31,843        | 9,261         | 41,104        |
| 3 months to 1 year                       | -                                | 3,571         | 2,373         | 5,944         |
| More than 1 year                         | -                                | -             | -             | -             |
|  | -                                | <b>35,414</b> | <b>11,634</b> | <b>47,048</b> |
| <b>Stage 1 and Stage 2 ECL allowance</b> | 6,699                            | 1,703         | -             | <b>8,401</b>  |

For the movement on impairment allowance of financing assets, please refer to note 8 of the condensed consolidated interim financial information for the six month ended 30 June 2020.

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### **Risk Management Disclosures for the six months ended 30 June 2020**

#### **3.5 Renegotiated facilities**

During the period, facilities of BD 6,233 thousands were renegotiated, out of which BD 4,630 thousand are classified as neither past due nor impaired as of 30 June 2020. 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.

#### **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 2020, 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 10,154 thousand during the six months period ended 30 June 2020.

#### **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 2020, an amount of BD 36 thousand was thus transferred to Charity and Zakah fund.

#### **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 2020 is given in the table below:

BD 000's

| <b>Collateral Type</b> | <b>Murabaha</b> | <b>Musharaka</b> | <b>Mudaraba</b> | <b>Wakala</b> | <b>Istisna</b> | <b>Ijara</b>   | <b>Value of collateral <sup>[1]</sup></b> | <b>Gross Exposure <sup>[2]</sup></b> | <b>% of cover</b> | <b>% of Total</b> |
|------------------------|-----------------|------------------|-----------------|---------------|----------------|----------------|---|--------------------------------------|-------------------|-------------------|
| Real Estate            | 228,321         | -                | -               | 2,587         | -              | 218,433        | <b>449,341</b>                            | 323,091                              | 139%              | 94%               |
| Listed Securities      | 6,244           | -                | -               | -             | -              | -              | <b>6,244</b>                              | 6,490                                | 96%               | 1%                |
| Unlisted Securities    | -               | -                | -               | -             | -              | -              | -   | -                                    | 0%                | 0%                |
| Bank Guarantee         | -               | -                | -               | -             | -              | -              | -   | -                                    | 0%                | 0%                |
| Cash Collateral        | 18,478          | -                | -               | -             | -              | 574            | <b>19,052</b>                             | 41,478                               | 46%               | 4%                |
| Unsecured              | -               | -                | -               | -             | -              | -              | -   | 89,296                               | 0%                | 0%                |
| Others                 | 5,269           | -                | -               | -             | -              | -              | <b>5,269</b>                              | 11,515                               | 46%               | 1%                |
| <b>Total</b>           | <b>258,312</b>  | -                | -               | <b>2,587</b>  | -              | <b>219,006</b> | <b>479,905</b>                            | <b>471,870</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 8,401 thousand and Stage 3 ECL BD 11,732 thousand.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities. During the half year ended 30 June 2020, the Bank had repossessed real estate collateral of BD 282 thousand.

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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  | 200,212        | 110,292        | 189,155                     | 31,215        | 23,644                      | 3,902        |
| Ijara assets (including lease rentals receivable) | 142,655        | -              | -                           | -             | -                           | -            |
| Musharaka   | 105            | -              | 105                         | -             | 13                          | -            |
| Mudharabah  | 1,047          | -              | 1,047                       | -             | 131                         | -            |
| Wakala  | 5,007          | -              | 5,007                       | -             | 626                         | -            |
| Istisna   | -              | 2,463          | -                           | 739           | -                           | 92           |
| <b>Total</b>                                      | <b>349,026</b> | <b>112,755</b> | <b>195,314</b>              | <b>31,954</b> | <b>24,414</b>               | <b>3,994</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 2020 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                     | 614           | 639        | 614        |
| Commodity risk                            | -             | -          | -          |
| <b>Total (A)</b>                          | <b>614</b>    | <b>639</b> | <b>614</b> |
| Risk Weighted Assets (A x 12.5)           | 7,679         | 7,985      | 7,679      |
| Capital requirement @ 12.5%               | 960           | 998        | 960        |

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 2020 is as given below:

BD 000's

|   |        |
|---|--------|
| Average gross income for 3 years (A)                  | 34,835 |
| Operational Risk Weighted Assets B = (A x 15% x 12.5) | 65,315 |
| Capital requirement (B x 12.5%)                       | 8,164  |

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 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 2020 is as follows:

BD 000's

| 30 June 2020   | Up to 3 months | 3 to 6 months | 6 months-1 year | 1 to 3 years   | Over 3 years   | Total          |
|--|----------------|---------------|-----------------|----------------|----------------|----------------|
| <b>Assets</b>  |                |               |                 |                |                |                |
| Cash and bank balances   | 87,776         | 2,041         | 4,096           | 2,414          | -              | 96,327         |
| Placements with financial institutions   | 10,036         | -             | -               | -              | -              | 10,036         |
| Financing assets <sup>1</sup>  | 43,299         | 20,189        | 33,999          | 116,579        | 95,014         | 309,081        |
| Investment in sukuk  | 183,597        | 41,659        | -               | -              | -              | 225,256        |
| Investment in equity securities  | -              | -             | 7,001           | 15,549         | 18,216         | 40,766         |
| Assets acquired for leasing <sup>2</sup><br>(including lease rental receivables) | 3,676          | 3,669         | 8,231           | 35,633         | 91,447         | 142,655        |
| Investment in associates   | 923            | -             | 1,981           | -              | 26,107         | 29,012         |
| Investment properties  | -              | -             | -               | -              | 17,781         | 17,781         |
| Development property   | -              | -             | -               | -              | 57,418         | 57,418         |
| Other assets   | 943            | 206           | 11              | 23,776         | -              | 24,936         |
| Property and equipment   | -              | -             | -               | -              | 7,545          | 7,545          |
| <b>Total assets</b>  | <b>330,251</b> | <b>67,764</b> | <b>55,319</b>   | <b>193,952</b> | <b>313,528</b> | <b>960,813</b> |

| Liabilities  | Up to 3 months | 3 to 6 months  | 6 months-1 year | 1 to 3 years  | Over 3 years   | Total          |
|--|----------------|----------------|-----------------|---------------|----------------|----------------|
| Placements from financial institutions                     | 6,541          | 7,569          | -               | -             | 94,033         | 108,143        |
| Placements from non-financial institutions and individuals | 57,951         | 34,350         | 57,928          | 11,525        | 3,762          | 165,516        |
| Medium-Term Borrowing                                      | 11,897         | 67,739         | -               | -             | -              | 79,636         |
| Customers' current accounts <sup>3</sup>                   | 15,722         | 4,977          | 5,404           | 6,176         | 18,857         | 51,136         |
| Other liabilities  | 5,050          | 1,581          | 1,455           | 5,942         | -              | 14,028         |
| <b>Total liabilities</b>                                   | <b>97,160</b>  | <b>116,215</b> | <b>64,787</b>   | <b>23,644</b> | <b>116,653</b> | <b>418,459</b> |
| <b>Equity of Investment Account Holders<sup>3</sup></b>    | <b>93,303</b>  | <b>64,304</b>  | <b>99,391</b>   | <b>67,027</b> | <b>74,901</b>  | <b>398,926</b> |
| <b>Restricted Investment accounts</b>                      | -              | -              | -               | 10,681        | -              | 10,681         |
| <b>Commitments</b>   | 14,471         | 1,566          | 21,781          | 17,930        | 111            | 55,858         |

<sup>3</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:

Figures in %

|   | June 2020 | 2019   | 2018   | 2017   | 2016    |
|---|-----------|--------|--------|--------|---------|
| Inter-bank assets to inter-bank liabilities | 44.49%    | 84.82% | 62.61% | 47.02% | 162.20% |
| Liquid assets to total assets               | 21.52%    | 38.83% | 60.02% | 22.19% | 27.30%  |
| Liquid assets to total deposits             | 33.60%    | 51.79% | 47.55% | 35.12% | 35.94%  |
| Net liquid assets to total deposits         | 16.03%    | 33.70% | 18308% | 10.07% | 25.78%  |

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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 2020 is as follows:

|                                | <b>Total weighted value</b> |
|--------------------------------|-----------------------------|
|                                | <b>30 June 2020</b>         |
| Available stable funding (ASF) | 632,245                     |
| Required stable funding (RSF)  | 681,738                     |
| NSFR %                         | 92.7%                       |
| Minimum required by CBB        | 80%                         |

*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 2020</b>    |
| Stock of HQLA           | 145,712                |
| Net cashflows           | 67,197                 |
| LCR %                   | 216.8%                 |
| Minimum required by CBB | 80%                    |

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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 2020 is as follows:

BD 000's

| <b>30 June 2020</b>  | <b>Up to 3 months</b> | <b>3 - 6 months</b> | <b>6 months - 1 year</b> | <b>1 - 3 years</b> | <b>More than 3 years</b> | <b>Total</b>    |
|--|-----------------------|---------------------|--------------------------|--------------------|--------------------------|-----------------|
| <b>Assets</b>  |                       |                     |                          |                    |                          |                 |
| Placements with financial institutions                           | 10,036                | -                   | -                        | -                  | -                        | <b>10,036</b>   |
| Financing assets   | 36,140                | 12,672              | 25,642                   | 57,562             | 177,066                  | <b>309,081</b>  |
| Assets acquired for leasing (including lease rental receivables) | 6,547                 | 55                  | 252                      | 2,568              | 133,233                  | <b>142,655</b>  |
| Investments securities (sukuk)                                   | -                     | -                   | -                        | 18,162             | 207,095                  | <b>225,256</b>  |
| <b>Total profit rate sensitive assets</b>                        | <b>52,723</b>         | <b>12,727</b>       | <b>25,893</b>            | <b>78,292</b>      | <b>517,394</b>           | <b>687,029</b>  |
| <b>Liabilities</b>   |                       |                     |                          |                    |                          |                 |
| Placements from financial institutions                           | 6,541                 | 7,569               | -                        | -                  | 94,033                   | <b>108,143</b>  |
| Placements from non-financial institutions and individuals       | 48,160                | 16,046              | 48,383                   | 52,926             | -                        | <b>165,516</b>  |
| Medium-Term Borrowing  | 11,897                | 67,739              | -                        | -                  | -                        | <b>79,636</b>   |
| Customers' current accounts                                      | 1,196                 | -                   | -                        | -                  | -                        | <b>1,196</b>    |
| Equity of investment account holders                             | 163,763               | 76,811              | 148,556                  | 9,796              | 1                        | <b>398,926</b>  |
| <b>Total profit rate sensitive liabilities</b>                   | <b>231,556</b>        | <b>168,165</b>      | <b>196,939</b>           | <b>62,722</b>      | <b>94,034</b>            | <b>753,416</b>  |
| <b>Profit rate gap</b>   | <b>(178,833)</b>      | <b>(155,438)</b>    | <b>(171,046)</b>         | <b>15,570</b>      | <b>423,360</b>           | <b>(66,387)</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>At 30 June 2020</b> | <b>100bp parallel increase/ decrease</b> | <b>50bp increase/ decrease</b> |
| At 31 December 2019    | ± 66.39                                  | ± 33.19                        |
|                        | ± 43.27                                  | ± 21.63                        |

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>At 30 June 2020</b> | <b>200bp parallel increase/ decrease</b> |
| At 31 December 2019    | ± 132.77                                 |
|                        | ± 86.53                                  |

### **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 enters into Shari'a compliant foreign exchange risk/ profit rate risk transactions 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 Banks Risk Management Department. As at 30 June 2020, 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 Displaced commercial risk**

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.

### **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, there were no penalties paid to the CBB.

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**8 Financial Performance**

Following are basic quantitative indicators of the financial performance:

(Annualized rates)

|                                   | June 2020 | 2019     | 2018    | 2017    | 2016    |
|-----------------------------------|-----------|----------|---------|---------|---------|
| Return on average equity          | 6.52%     | (14.99)% | 2.45%   | 0.71%   | 4.77%   |
| Return on average assets          | 0.62%     | (1.62)%  | 0.36%   | 0.11%   | 0.77%   |
| Finance income to finance expense | 133.17%   | 119.57%  | 155.60% | 221.37% | 375.08% |
| Cost-to-Income-Ratio*             | 48.95%    | 72.58%   | 64.59%  | 60.80%  | 44.31%  |

\* 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 2020 | 2019    | 2018    | 2017    | 2016    |
|--|-----------|---------|---------|---------|---------|
| Allocated income to IAH                | 11,427    | 23,544  | 5,806   | 14,884  | 16,286  |
| Distributed profit *                   | 6,024     | 15,087  | 4,059   | 7,447   | 7,156   |
| Mudarib fees                           | 5,453     | 8,457   | 1,747   | 7,437   | 9,130   |
| <b>As at 30 June</b>                   |           |         |         |         |         |
| IAH <sup>[1]</sup>                     | 450,701   | 467,268 | 340,921 | 383,561 | 380,975 |
| 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 2020:**

**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**

35.9%  
 3.6%  
 4.3%  
 23.5%  
 0.1%  
 5.6%  
 0.9%  
 26.1%  
 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 |              |              |              |              |
|------------------------|----------------------------------|---------------|--------------|--------------|--------------|---|--------------|--------------|--------------|--------------|
|                        | 2020                             | 2019          | 2018         | 2017         | 2016         | 2020  | 2019         | 2018         | 2017         | 2016         |
| 1 Month <sup>[2]</sup> | 848                              | 1,657         | 1,029        | 959          | 834          | 14.1  | 11.0         | 11.79        | 12.9         | 11.6         |
| 3 Months               | 370                              | 763           | 290          | 297          | 405          | 6.1   | 5.1          | 3.38         | 4.0          | 5.7          |
| 6 Months               | 324                              | 658           | 536          | 1,012        | 1,346        | 5.4   | 4.4          | 6.23         | 13.6         | 18.8         |
| 12 Months              | 1,980                            | 4,592         | 3,936        | 3,024        | 3,039        | 32.9  | 30.4         | 45.75        | 40.6         | 42.5         |
| 18 Months              | 4                                | 6             | 6            | 6            | 8            | 0.1   | 0.0          | 0.07         | 0.1          | 0.1          |
| 24 Month               | 636                              | 1,078         | 122          | 239          | 25           | 10.6  | 7.1          | 1.42         | 3.2          | 0.4          |
| 36 Month               | -                                | 514           | 367          | 3            | -            | -   | 3.4          | 4.26         | -            | -            |
| VIP Mudaraba           | 1,861                            | 5,819         | 2,316        | 1,907        | 1,499        | 30.9  | 38.6         | 26.92        | 25.6         | 20.9         |
| <b>Total</b>           | <b>6,024</b>                     | <b>15,087</b> | <b>8,602</b> | <b>7,447</b> | <b>7,156</b> | <b>100.0</b>                                  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

<sup>[2]</sup> Includes saving account and call mudaraba

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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 |
|------|--|---------------------------------------|---------------------------------------|---------------------------------------|-------------------------------------|
| 2020 | 5.07   | -                                     | -                                     | 2.42                                  | 2.67                                |
| 2019 | 5.04   | -                                     | -                                     | 1.81                                  | 3.23                                |
| 2018 | 4.41   | -                                     | -                                     | 1.63                                  | 2.50                                |
| 2017 | 3.88   | -                                     | -                                     | 1.94                                  | 1.94                                |
| 2016 | 4.27   | -                                     | -                                     | 2.40                                  | 1.88                                |

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

(Annualised rates)

| Type of deposit                  | 2020  | 2019  | 2018  | 2017  | 2016  |
|----------------------------------|-------|-------|-------|-------|-------|
| 1 month Mudharaba <sup>[3]</sup> | 0.98% | 1.03% | 0.86% | 0.64% | 0.64% |
| 3 months Mudharaba               | 3.13% | 3.66% | 2.51% | 1.79% | 1.55% |
| 6 months Mudharaba               | 3.25% | 3.69% | 2.96% | 3.07% | 2.85% |
| 12 months Mudharaba              | 3.59% | 3.86% | 3.37% | 2.81% | 2.62% |
| 18 months Mudharaba              | 3.53% | 3.44% | 2.81% | 2.73% | 2.67% |
| 24 months Mudharaba              | 5.59% | 5.48% | 3.26% | 3.49% | 3.01% |
| 36 Months Mudharaba              | 0.00% | 5.22% | 4.93% | 3.39% | -     |
| VIP Mudharaba                    | 3.97% | 4.94% | 3.10% | 2.39% | 2.32% |

<sup>[3]</sup> Includes saving account and call mudaraba

**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 2020:

| Particular                             | Allocation at 1 January 2020 | Movement         | Allocation at 30 June 2020 | Proportion of total assets (%) | % of funding by IAH as at 30 June 2020 |
|--|------------------------------|------------------|----------------------------|--------------------------------|--|
| Cash and bank balances                 | 68,030                       | (17,218)         | 50,812                     | 12.74%                         | 52.75%                                 |
| Placements with financial institutions | 65,509                       | (55,472)         | 10,037                     | 2.52%                          | 100.01%                                |
| Financing assets:                      | 183,234                      | (70,479)         | 112,755                    | 28.26%                         | 36.29%                                 |
| -Murabaha                              | 181,501                      | (71,209)         | 110,292                    | 27.65%                         | 35.50%                                 |
| -Istisna                               | 1,733                        | 730              | 2,463                      | 0.62%                          | 0.79%                                  |
| Investment securities – Sukuk          | 195,062                      | 30,260           | 225,322                    | 56.48%                         | 100.03%                                |
| <b>Total</b>                           | <b>511,835</b>               | <b>(112,909)</b> | <b>398,926</b>             |                                |  |

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

|  | June 2020 | 2019   | 2018   | 2017   | 2016   |
|--|-----------|--------|--------|--------|--------|
| Average mudarib share as a percentage of total income allocated to IAH | 53.55%    | 46.56% | 41.82% | 41.86% | 53.57% |
| Average mudarib share contractually agreed with IAH                    | 63.10%    | 59.38% | 62.20% | 58.80% | 64.80% |
| Average mudarib fees sacrificed by the Bank                            | 9.55%     | 12.82% | 20.38% | 16.94% | 11.23% |

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**Risk Management Disclosures for the six months ended 30 June 2020**

9.2 Restricted Investment Accounts (RIA's)

| RIA name       | Details   | Launch date | Projected returns         | Return frequency           | Return annualized (%) |      |      |      |      |
|----------------|---|-------------|---------------------------|----------------------------|-----------------------|------|------|------|------|
|                |   |             |                           |                            | June 2020             | 2019 | 2018 | 2017 | 2016 |
| 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.</p> <p>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.</p> <p>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.</p> <p>Total revise fund BD 5,176,246 which included KHCB and total remaining NS 12 BD 6,979,665 as at 30 June 2020.</p> | 2007        | 61.78% over product tenor | Bullet payment on maturity | -                     | -    | -    | -    | -    |

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

## Khaleeji Commercial Bank BSC

### Risk Management Disclosures for the six months ended 30 June 2020

| RIA name           | Details   | Launch date | Projected returns          | Return frequency          | Return annualized (%) |      |      |      |      |
|--------------------|---|-------------|----------------------------|---------------------------|-----------------------|------|------|------|------|
|                    |   |             |                            |                           | June 2020             | 2019 | 2018 | 2017 | 2016 |
| 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> | 2008        | 90.66% over product tenor  | Bullet return at maturity | -                     | -    | -    | -    | -    |
| RIA 6 – Locata     | <p>A Restricted Mudaraba product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity, sales/marketing channels and further product enhancement capabilities. During the year, 479 shares were bought back from investors.</p>   | 2009        | 110.54% over product tenor | Bullet return at maturity | -                     | -    | -    | -    | -    |

The bank has outsourced the ground management of the project company to GFH Financial Group B.S.C. (“GFH”) effective from 11 February 2020 and KHCB confirms that GFH will continue to receive the same fee incentive as indicated in the relevant investment documentations.