

KHALEEJI COMMERCIAL BANK BSC

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

30 June 2018

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 2017, and the condensed consolidated interim financial information for the six months ended 30 June 2018.

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Risk Management Disclosures for the six months ended 30 June 2018

Executive Summary

The Central Bank of Bahrain's ("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 2018 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 2017.

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 2018 amounted to BD 667,200 thousand. Credit risk accounted for 89.6 percent, operational risk 9.2 percent and market risk 1.2 percent of the total risk weighted exposures. Tier I and total regulatory capital were BD 100,624 thousand and BD 108,099 thousand, respectively, as at 30 June 2018.

At 30 June 2018, Bank's CET1 and T1 capital and total capital adequacy ratios were 15.08 percent and 16.20 percent, respectively.

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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.

2.2 Statement of Financial position under the regulatory scope of consolidation

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

	Statement of Financial position as per regulatory reporting	Statement of Financial position as in published financial statements	Reference
ASSETS			
Cash and bank balances	47,076	47,076	
Placements with financial institutions	25,596	25,593	
Of which ECL (stage 1&2)	-	(3)	a
Financing assets	353,222	343,038	
Of which ECL (stage 1&2)	-	(8,634)	b
Investment in sukuk	122,241	122,237	
Of which ECL (stage 1&2)	-	(4)	c
Assets acquired for leasing	99,901	99,901	
Lease rental receivables	3,783	3,321	
Of which ECL (stage 1&2)	-	(462)	d
Investment in equity securities	50,841	50,841	
Of which related to Insignificant Investments in Financial Entities	10,862	10,862	e
Of which Capital adjustments related to Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	2,286	2,286	f
Of which related to other investments	37,693	37,693	
Investment in real estate	18,519	18,519	
Development property	-	6,003	
Other assets	17,028	16,928	
Property and equipment	7,797	7,797	
TOTAL ASSETS	746,004	741,254	
LIABILITIES			
Placements from financial institutions	112,012	112,012	
Placements from non-financial institutions and individuals	80,791	80,791	
Medium Term Borrowing	41,343	41,343	
Customers' current accounts	65,196	65,168	
Other liabilities	6,600	8,572	
TOTAL LIABILITIES	305,942	307,886	
EQUITY OF INVESTMENT ACCOUNT HOLDERS	328,049	328,049	
OWNERS' EQUITY			
Share capital	105,000	105,000	g
Statutory reserve	8,159	8,159	h
Treasury shares	(10,232)	(10,232)	i
Employee share incentive scheme	(10)	(9)	j
Retained earnings	(7)	67	k
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	102,910	102,985	
ECL (stage 1&2)	9,103	-	a+b+c+d
Non-controlling interest	-	2,333	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY	746,004	741,254	

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Risk Management Disclosures for the six months ended 30 June 2018

2.3 Composition of Capital as at 30 June 2017

Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31 st December 2016 to 31 December 2018)		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	113,149		g+h+j
2	Retained earnings	(7)		k
3	Accumulated other comprehensive income (and other reserves)	-		
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-	
6	Common Equity Tier 1 capital before regulatory adjustments	113,142		
Common Equity Tier 1 capital: regulatory adjustments				
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	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(10,232)		i
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)	13,148	19,012	b+e
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)	-	-	
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 of financials in the common stock	-	-	
24	of which: mortgage servicing rights	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	
26	National specific regulatory adjustments	-	-	
REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT				
	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)	(2,286)		c+f
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	Total regulatory adjustments to Common equity Tier 1	(12,518)		
29	Common Equity Tier 1 capital (CET1)	100,624		
Additional Tier 1 capital: instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-		
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-		
36	Additional Tier 1 capital before regulatory adjustments	-		

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Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31 st December 2016 to 31 December 2018)		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Additional Tier 1 capital: regulatory adjustments				
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	National specific regulatory adjustments	-		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	Additional Tier 1 capital (AT1)	-		
45	Tier 1 capital (T1 = CET1 + AT1)	100,624		
Tier 2 capital: instruments and provisions				
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	Expected Credit losses (ECL) Stage 1 & 2	7,474		a+b+c+d
51	Tier 2 capital before regulatory adjustments	7,474		
Tier 2 capital: regulatory adjustments				
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	Total regulatory adjustments to Tier 2 capital	-		
58	Tier 2 capital (T2)	7,474		
59	Total capital (TC = T1 + T2)	108,099		
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT				
60	Total risk weighted assets	667,200		
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.08%		
62	Tier 1 (as a percentage of risk weighted assets)	15.08%		
63	Total capital (as a percentage of risk weighted assets)	16.20%		
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)	2.50%		
65	<i>of which: capital conservation buffer requirement</i>	2.50%		
66	<i>of which: bank specific countercyclical buffer requirement (N/A)</i>	N/A		
67	<i>of which: D-SIB buffer requirement (N/A)</i>	N/A		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	12.58%		
National minima including CCB (if different from Basel 3)				
69	CBB Common Equity Tier 1 minimum ratio	9.00%		
70	CBB Tier 1 minimum ratio	10.50%		
71	CBB total capital minimum ratio	12.50%		

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Risk Management Disclosures for the six months ended 30 June 2018

Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31 st December 2016 to 31 December 2018)		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financials	13,148		e+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)	-		
Applicable caps on the inclusion of provisions in Tier 2				
76	Expected credit losses (stages 1 & 2) in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	(9,103)		a+b+c+d
77	Cap on inclusion of ECL in Tier 2 under standardized approach	7,474		
78	N/A	-		
79	N/A	-		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)				
80	Current cap on CET1 instruments subject to phase out arrangements	NA		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA		
82	Current cap on AT1 instruments subject to phase out arrangements	NA		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	NA		
84	Current cap on T2 instruments subject to phase out arrangements	NA		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	NA		

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 2018 (Amount in BD 000's)	
			Total assets	Total equity
Harbour West 2 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	9,757	9,757
Harbour West 4 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	6,042	6,042
Eqarat Al Khaleej	Commercial entity	Risk weighted	3,588	1,426
Surooh LTD	Commercial entity	Risk weighted	6,520	2,994
True Horse Real Estate L.L.C.	Commercial entity	Risk weighted (look through approach)	5,090	1,500

2.5 Disclosure template for main feature of regulatory capital instruments

1.	Issuer	Khaleeji Commercial Bank B.S.C
2.	Unique identifier	KHCB
3.	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	<i>Regulatory treatment</i>	
4.	Transitional CBB rules	Common Equity Tier 1
5.	Post-transitional CBB rules	Common Equity Tier 1
6.	Eligible at solo/group/group & solo	Group and solo
7.	Instrument type (types to be specified by each jurisdiction)	Equity Shares
8.	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	BD 105 million
9.	Par value of instrument	BD 0.100
10.	Accounting classification	Shareholders' Equity
11.	Original date of issuance	Various
12.	Perpetual or dated	Perpetual
13.	Original maturity date	No Maturity
14.	Issuer call subject to prior supervisory approval	No
15.	Optional call date, contingent call dates and redemption amount	Not applicable
16.	Subsequent call dates, if applicable	Not applicable
	<i>Coupons / dividends</i>	
17.	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
18.	Coupon rate and any related index	Not applicable
19.	Existence of a dividend stopper	Not applicable
20.	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21.	Existence of step up or other incentive to redeem	No
22.	Noncumulative or cumulative	Non-cumulative
23.	Convertible or non-convertible	Non-convertible
24.	If convertible, conversion trigger (s)	Not applicable
25.	If convertible, fully or partially	Not applicable
26.	If convertible, conversion rate	Not applicable
27.	If convertible, mandatory or optional conversion	Not applicable
28.	If convertible, specify instrument type convertible into	Not applicable
29.	If convertible, specify issuer of instrument it converts into	Not applicable
30.	Write-down feature	No
31.	If write-down, write-down trigger(s)	Not applicable
32.	If write-down, full or partial	Not applicable
33.	If write-down, permanent or temporary	Not applicable
34.	If temporary write-down, description of write-up mechanism	Not applicable
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36.	Non-compliant transitioned features	No
37.	If yes, specify non-compliant features	Not applicable

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2.6 Capital structure, minimum capital requirements and capital adequacy

Following is the break-up of capital structure as at 30 June 2018:

BD 000's	
Eligible capital	30 June 2018
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	105,000
Statutory reserve	8,195
Less: Employee stock incentive program funded by the bank (outstanding)	(10)
Retained earnings	(1,417)
Current interim cumulative net profit	1,410
Unrealized gains on available for sale financial instruments	-
Total CET1 capital prior to the regulatory adjustments	113,78
Less: Investment in own shares	(10,232)
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	(2,286)
Total Common Equity Tier 1 capital after the regulatory adjustments	100,624
Other Capital	
AT1	-
General financing loss provision – (Tier 2)	7,475
Total available AT1 & T2 Capital	7,475
Total Capital	108,099

	30 June 2018
Credit risk weight exposures	597,942
Market risk weight exposures	8,138
Operational risk weight exposures	61,121
Total risk weighted exposures	667,200

Capital adequacy ratio (CET1 and T1)	15.08%
Capital adequacy ratio (Total capital)	16.20%

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

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Break-up of capital requirement in accordance with the capital adequacy module of the CBB for the period ended 30 June 2018 is as follows (in BD 000's):

Exposure classification	Exposure ^[1]			Risk weighted assets ^[2]			Capital requirement @ 12.5%		
	Self – Financed	IAH	Total	Self – Financed	IAH	Total	Self – Financed	IAH	Total
▪ Cash and collection items	7,895	-	7,895	-	-	-	-	-	-
▪ Sovereigns	7,546	111,673	119,219	-	-	-	-	-	-
▪ Other sovereigns PSEs	-	19,952	19,952	-	4,487	4,487	-	561	561
▪ Banks	-	38,889	38,889	-	4,721	4,721	-	590	590
▪ Corporates	153,908	135,769	289,677	170,505	40,731	211,236	21,313	5,091	26,404
▪ Past due facilities	-	-	-	-	-	-	-	-	-
▪ Investments in equities	60,520	-	60,520	83,135	-	83,135	10,392	-	10,392
▪ Investment in sukuks	22,411	-	22,411	91,902	-	91,902	11,488	-	11,488
▪ Holdings of real estate	59,045	-	59,045	200,243	-	200,243	25,030	-	25,030
▪ Other assets	2,219	-	2,219	2,219	-	2,219	277	-	277
Credit Risk	313,544	306,283	619,827	548,004	49,939	597,943	68,500	6,242	74,742
Market Risk	8,138	-	8,138	8,138	-	8,138	1,017	-	1,017
Operational Risk	61,121	-	61,121	61,121	-	61,121	7,640	-	7,640
Total	382,803	306,283	689,086	617,263	49,939	667,201	77,157	6,242	83,400

^[1] Represents unsecured portion of the credit exposure after deducting credit risk mitgant.

^[2] 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).

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 2018 is as follows:

	Average ^[1] Exposure	Gross Exposure		
		Self – Financed	IAH	Total
Cash and bank balances	46,469	15,396	31,679	47,075
Placement with financial institutions	35,319	-	25,597	25,597
Financing assets ^[2]	337,243	205,078	148,606	353,684
Investment in sukuk	116,637	64	122,176	122,400
Investment in equity securities	51,515	50,841	-	55,500
Assets acquired for leasing(including lease rental receivables) ^[2]	102,983	103,222	-	103,222
Investments in associates	4,598	4,593	-	4,623
Investment property	18,519	18,519	-	18,519
Development property	6,003	-	-	-
Other assets, including property and equipment	18,925	20,233	-	20,233
Total funded Credit Exposure	738,211	417,946	328,058	750,693
Financial guarantees ^[3]	17,337	7,383	-	16,376
Undrawn commitments to extend finance ^[3]	36,603	10,654	-	32,889
Total unfunded Credit Exposure	53,940	18,037	-	49,265

^[1] Represents quarterly average balances for the six month period ended 30 June 2018.

^[2] Gross of ECL Stage 1 and Stage 2 provision.

^[3] Represents unfunded exposures amounts after considering their credit conversion factors.

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Risk Management Disclosures for the six months ended 30 June 2018

3.2 Concentration of credit risk

3.2.1 Geographic distribution

The geographical exposure profile as at 30 June 2018 was as follows:

BD 000's

30 June 2018	GCC Countries	Europe	USA	Asia	Australia	Total
Assets						
Cash and bank balances	35,781	864	10,421	10	-	47,076
Placement with financial institutions	25,593	-	-	-	-	25,593
Financing assets	327,958	15,080	-	-	-	343,038
Investment in sukuk	122,237	-	-	-	-	122,237
Investment in equity securities	29,251	-	-	17,922	3,668	50,841
Assets acquired for leasing (including lease rentals receivable)	103,222	-	-	-	-	103,222
Investment in associates	4,593	-	-	-	-	4,593
Investment property	18,519	-	-	-	-	18,519
Development property	6,003	-	-	-	-	6,003
Other assets	11,631	15	-	689	-	12,335
Property and equipment	7,797	-	-	-	-	7,797
Total funded exposures	692,585	15,959	10,421	18,621	3,668	741,254
Guarantees	16,376	-	-	-	-	16,376
Undrawn financing facilities	32,644	245	-	-	-	32,889
Total unfunded exposures	49,020	245	-	-	-	49,265

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 2018 was as follows:

BD 000's

30 June 2018	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	47,076	-	-	47,076
Placements with financial institutions	25,593	-	-	25,593
Financing assets ^[1]	11,000	94,083	237,955	343,038
Investment in sukuk	-	64	122,173	122,237
Investment in equity securities	13,148	34,024	3,669	50,841
Assets acquired for leasing (including lease rentals receivable)	-	103,159	63	103,222
Investment in associates	-	4,593	-	4,593
Investment property	-	18,519	-	18,519
Development property	-	6,003	-	6,003
Other assets	999	2,874	8,462	12,335
Property and equipment	-	6,740	1,057	7,797
Total funded exposure	97,816	270,059	373,379	741,254
Guarantees	513	5,499	10,364	16,376
Undrawn financing facilities	-	10,415	22,474	32,889
Total unfunded exposures	513	15,914	32,838	49,265

^[1] Financing asset exposures have been classified into industry sectors based on the purpose of financing.

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3.2.3 Transactions with related counterparties

Related counterparties are those entities which are related to the Bank through significant shareholding, control, or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties, the Bank strictly follows the guidelines issued by CBB for this purpose. Transactions with related parties during the six months period ended 30 June 2018 and outstanding balances pertaining to related parties are as follows:

BD 000's

30 June 2018	Associates	Directors/Key management personnel & Sharia board members	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	150	5,708	-	5,858
Investment in equity securities	-	-	2,284	24,201	26,485
Other assets	4,710	-	-	1,116	5,826
Liabilities					
Customers' current accounts	-	-	10,550	-	10,550
Equity of investment account holders	68	142	694	1,552	2,456
	520	2,258	17,030	503	20,311

BD 000's

30 June 2018	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	67	185	-	252
	(17)	-	-	-	(17)
Expenses					
Return to investment account holders	7	30	114	3	154
Staff cost	-	577	-	-	577
Other expenses	-	-	-	26	26

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 2018:

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	38,320	35.45%	11,339
Investment in financial entities	Investment in financial entities <10%	13,148	12.16%	2,857*

* In line with the transitional provisions of CA module 80% of the exposure exceeding materiality threshold (BD 2,286 thousand) has been considered for regulatory capital adjustment.

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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 2018:

Counterparties	Gross BD '000	Provision BD '000	Net BD '000
Counterparty # 1	9,239	-	9,239

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):

Maturity Scale	< 1 M	1 - 3 M	3 - 6 M	6M - 1Y	1 - 3Y	3 - 5Y	5 - 10Y	10 - 20Y	Over 20Y	Total
Credit portfolio:										
Murabaha	26,227	49,609	26,794	71,571	113,640	20,968	22,796	57	-	331,662
Musharaka	94	43	314	2,543	1,385	-	-	-	-	4,379
Mudaraba	1	3	4	62	233	235	510	-	-	1,048
Wakala	2,280	-	-	705	2,539	-	-	-	-	5,524
Istisna	-	-	7	13	66	88	251	-	-	425
Ijarah	2,020	2,068	3,115	5,732	30,485	17,180	18,110	19,700	4,812	103,222
Total	30,622	51,723	30,234	80,626	148,348	38,471	41,667	19,757	4,812	446,260
Investment in sukuk- banking book	-	-	283	64	-	3,119	109,834	8,937	-	122,237
Total	-	-	283	64	-	3,119	109,834	8,937	-	122,237
Grand Total	30,622	51,723	30,517	80,690	148,348	41,590	151,501	28,694	4,812	568,497

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	50,841
Dividend income	1,274
Realized loss on sale of investments during the period	-
Unrealized loss on investment securities and included in CET	-

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

BD 000's

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital requirement @ 12.5%	
	Self-financed*	IAH	Self-financed	IAH	Self-financed	IAH
Unlisted	13,444	-	20,166	-	2,521	-
Investments in unlisted real estate companies	27,771	-	111,084	-	13,886	-
Other exposure with excess of large exposure limits	7,340	-	58,720	-	7,340	-
Capital deduction	2,286	-	-	-	-	-
Total	50,841	-	189,970	-	23,747	-

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

	BD 000's				
	GCC Countries	Europe	Asia	USA	Total
Impaired and non-performing					
3 months to 1 year	64,033	64	-	-	64,097
1 year to 3 years	10,359	-	-	-	10,359
More than 3 years	4,945	-	-	-	4,945
	79,337	64	-	-	79,401
Less: Stage 3 ECL allowance					
At 1 January 2018	8,900	-	-	-	8,900
Transfer to Stage 3	2,374	-	-	-	2,374
Charge during the period*	2,717	-	-	-	2,717
Write off during the year	-	-	-	-	-
At 30 June 2018	13,991	-	-	-	13,991
Carrying amount	65,346	64	-	-	65,410
Past due but not impaired:					
Up to 3 months	156,200	8,423	6	-	164,629
3 months to 1 year	3,232	-	-	-	3,232
More than 1 year	-	-	-	-	-
	159,432	8,423	6	-	167,861
Stage 1 and Stage 2 ECL allowance*	8,458	247	-	-	8,705

	BD 000's			
	Banks and financial institutions	Real estate	Others	Total
Impaired:				
3 months to 1 year	-	26,308	37,789	64,097
1 year to 3 years	-	4,714	5,645	10,359
More than 3 years	-	4,732	213	4,945
	-	35,754	43,647	79,401
Less: Stage 3 ECL allowance				
At 1 January 2018	-	2,356	6,544	8,900
Transfer to Stage 3	-	996	1,378	2,374
Charge during the period*	-	612	2,105	2,717
Write off during the year	-	-	-	-
At 30 June 2018	-	3,964	10,027	13,991
Carrying amount	-	31,790	33,620	65,410
Past due but not impaired:				
Up to 3 months	11,260	61,161	92,207	164,629
3 months to 1 year	-	1,494	1,739	3,233
More than 1 year	-	-	-	-
	11,260	62,655	93,946	167,861
Stage 1 and Stage 2 ECL allowance*	260	1,082	7,363	8,705

* Charge during the period includes write backs of BD 817 for the six months ended 30 June 2018.

* Stage 1 and Stage 2 ECL is allocated based on exposure excluding impaired exposures on which stage 3 ECL is maintained.

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3.5 Renegotiated facilities

Exposures classified as neither past due nor impaired financing facilities include facilities renegotiated during the period ended 30 June 2018 amounting to BD 5,149 thousand that otherwise might have become past due in future as per their original repayment terms. The renegotiated terms usually require settlement of profits accrued till the restructuring date and / or part of the principal and / or obtaining of additional collateral coverage.

3.6 Legal action and write off of exposures

The Bank has policies for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. As at 30 June 2018, the Bank was involved in 183 litigations for recovery of dues from clients amounting to BD 32 million. In addition, there were 5 claims brought by 5 of the clients against the Bank of BD 385K which the Bank is defending. The Bank has made adequate provisions for any loss that may arise from such litigations.

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 no written-off deals for the six months period ended 30 June 2018.

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 2018, an amount of BD 453 thousand was transferred to Charity and Zakah fund, out of which BD 11 thousand is related to non-Islamic income earned on 8 transactions.

3.8 Credit risk mitigation

The position of collateral cover for all credit exposures categorized on the basis of the type of security as on 30 June 2018 is given in the table below:

BD 000's

Collateral Type	Murabaha	Musharaka	Mudaraba	Wakala	Istisna	Ijara	Value of collateral ^[1]	Gross Exposure ^[2]	% of cover	% of Total
Real Estate	223,607	16,905	195	3,527	455	133,375	378,065	265,820	142%	90%
Listed Securities	-	-	-	-	-	-	-	-	0%	0%
Unlisted Securities	-	-	-	-	-	-	-	-	0%	0%
Bank Guarantee	-	-	-	-	-	-	-	-	0%	0%
Cash	-	-	-	-	-	-	-	-	-	-
Collateral	33,303	-	-	-	-	98	33,402	54,339	61%	8%
Unsecured	-	-	-	-	-	-	-	126,660	0%	0%
Others	8,032	-	-	-	-	-	8,032	22,137	36%	2%
Total	264,942	16,905	195	3,527	455	133,473	419,499	468,956	89%	100%

^[1] 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.

^[2] The amounts are gross of Stage 1 and Stage 2 ECL BD 8,705 thousand and Stage 3 ECL BD 13,991 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 2018, the Bank had no repossessed real estate collateral.

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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	196,191	146,116	210,383	39,983	26,298	4,998
Ijara assets (including lease rentals receivable)	103,222	-	-	-	-	-
Musharaka	4,380	-	4,380	-	548	-
Mudharabah	1,048	-	1,048	-	131	-
Wakala	3,460	2,065	3,460	620	433	78
Istisna	-	425	-	128	-	16
Total	308,301	148,606	219,271	40,731	27,410	5,092

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 2018 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	2,659	2,659	651
Commodity risk	-	-	-
Total (A)	2,659	2,659	651
Risk Weighted Assets (A x 12.5)	8,138	33,238	8,138
Capital requirement @ 12.5%	1,017	4,155	1,017

* Represents 30% of the exposure since the sukuk investments are allocated from IAH pool.

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 2018 is as given below:

BD 000's

Average gross income for 3 years (A)
 Operational Risk Weighted Assets B = (A x 15% x 12.5)
 Capital requirement (B x 12.5%)

32,598
61,121
4,890

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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.

Maturity profile of assets and liabilities based on residual contractual maturity or expected maturity as at 30 June 2018 is as follows:

BD 000's

30 June 2017	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	36,497	2,580	6,287	1,712	-	47,076
Placements with financial institutions	24,544	1,049	-	-	-	25,593
Financing assets ¹	78,258	27,119	74,894	117,864	83,419	381,554
Investment in sukuk	73,349	-	-	48,888	-	122,237
Investment in equity securities	-	-	-	50,841	-	50,841
Assets acquired for leasing ² (including lease rental receivables)	4,088	3,115	5,732	30,485	105,069	148,489
Investment in associates	-	-	925	1,981	1,686	4,592
Investment properties	-	-	-	-	18,519	18,519
Development property	-	-	-	-	6,003	6,003
Other assets	10,969	357	93	917	-	12,336
Property and equipment	-	-	-	-	7,797	7,797
Total assets	227,705	34,220	87,931	252,688	222,493	825,037

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	90,672	11,854	9,486	-	-	112,012
Placements from non-financial institutions and individuals	28,734	14,225	36,118	-	1,713	80,790
Medium-Term Borrowing	-	-	-	41,343	-	41,343
Customers' current accounts ³	40,917	9,287	5,561	3,258	6,145	65,168
Other liabilities	2,133	729	618	5,091	-	8,571
Total liabilities	162,456	36,095	51,783	49,692	7,858	307,884
Equity of Investment Account Holders³	135,369	33,367	49,011	18,941	91,361	328,049
Restricted Investment accounts	-	-	-	10,776	-	10,776
Commitments	25,081	6,016	10,082	8,085	-	49,264

¹ Represents gross contractual cash inflow including profits not yet accrued BD 38,512 thousand.

² Represents gross contractual cash inflow including profits not yet accrues BD 45,265 thousand.

³ 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:

	June 2018	2017	2016	2015	2014
Interbank assets to interbank liabilities	33.82%	47.02%	162.20%	115.60%	176.87%
Liquid assets to total assets	19.70%	22.19%	27.30%	22.75%	25.23%
Liquid assets to total deposits	30.80%	35.12%	35.94%	30.65%	34.69%
Net liquid assets to total deposits	7.17%	10.07%	25.78%	20.96%	23.03%

Figures in %

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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 2018 is as follows:

BD 000's

30 June 2018	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	24,544	1,049	-	-	-	25,593
Financing assets	47,978	11,275	52,302	56,631	174,852	343,038
Assets acquired for leasing (including lease rental receivables)	-	-	60	7,928	95,234	103,222
Investments securities (sukuk)	-	283	-	-	121,954	122,237
Total profit rate sensitive assets	72,522	12,607	52,362	64,559	392,040	594,090
Liabilities						
Placements from financial institutions	90,672	11,854	9,486	-	-	112,012
Placements from non-financial institutions and individuals	15,322	9,163	28,842	27,465	-	80,792
Medium-Term Borrowing	-	-	-	41,343	-	41,343
Customers' current accounts	1,445	-	-	-	-	1,445
Equity of investment account holders	101,918	54,367	144,193	27,570	-	328,049
Total profit rate sensitive liabilities	209,357	75,384	182,521	96,378	-	563,641
Profit rate gap	(136,835)	(62,778)	(130,160)	(31,819)	392,043	30,450

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) is as follows:

	100bp parallel increase/ decrease	50bp increase/ decrease
At 30 June 2018	± 305	± 152
At 31 December 2017	± 196	± 98

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) is as follows:

	200bp parallel increase/ decrease
At 30 June 2018	± 609
At 31 December 2017	± 391

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 2018, 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 2018	2017	2016	2015	2014
Return on average equity	2.45%	0.71%	4.77%	7.48%	3.00%
Return on average assets	0.36%	0.11%	0.77%	1.27%	0.53%
Finance income to finance expense	155.60%	221.37%	375.08%	231.02%	147.77%
Cost-to-Income-Ratio*	64.59%	60.80%	44.31%	53.64%	156.56%

* 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 2018	2017	2016	2015	2014
Allocated income to IAH	5,806	14,884	16,286	16,933	16,286
Distributed profit *	4,059	7,447	7,156	7,382	7,156
Mudarib fees	1,747	7,437	9,130	9,551	9,130
As at 30 June					
IAH ^[1]	340,921	383,561	380,975	378,596	380,975
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

^[1] Represents average balance

* Includes contribution towards deposit protection scheme

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				
	June 2018	2017	2016	2015	2014	June 2018	2017	2016	2015	2014
1 Month ^[2]	636	959	834	1,009	1,304	15.7	12.9	11.6	13.7	14.7
3 Months	110	297	405	350	380	2.7	4.0	5.7	4.7	4.3
6 Months	219	1,012	1,346	1,330	1,455	5.4	13.6	18.8	18.0	16.5
12 Months	1,813	3,024	3,039	3,667	4,179	44.7	40.6	42.5	49.7	47.3
18 Months	3	6	8	2	1	0.1	0.1	0.1	-	-
24 Month	50	239	25	5	75	1.2	3.2	0.4	0.1	0.8
36 Month	128	3	-	-	-	3.1	-	-	-	-
VIP Mudaraba	1,100	1,907	1,499	1,019	1,447	27.1	25.6	20.9	13.8	16.4
PER and IRR expenses	-	-	-	-	-	-	-	-	-	-
Total	4,059	7,447	7,156	7,382	8,841	100.0	100.0	100.0	100.0	100.0

^[2] Includes saving account and call mudaraba

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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
June 2018	3.41	-	-	1.03	2.38
2017	3.88	-	-	1.94	1.94
2016	4.27	-	-	2.40	1.88
2015	1.95	-	-	2.57	1.99
2014	3.82	-	-	1.19	2.63

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

(Annualised rates)

Type of deposit	June 2018	2017	2016	2015	2014
1 month Mudharaba ^[3]	1.05%	0.64%	0.64%	0.78%	1.15%
3 months Mudharaba	2.25%	1.79%	1.55%	1.75%	2.19%
6 months Mudharaba	2.77%	3.07%	2.85%	2.69%	3.08%
12 months Mudharaba	3.24%	2.81%	2.62%	2.75%	3.39%
18 months Mudharaba	2.92%	2.73%	2.67%	2.80%	3.30%
24 months Mudharaba	2.97%	3.49%	3.01%	2.91%	4.92%
36 Months Mudharaba	4.92%	3.39%	-	-	-
VIP Mudharaba	2.94%	2.39%	2.32%	2.00%	3.49%

^[3] 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 2018:

Particular	Allocation at 1 January 2018	Movement	Allocation at 30 June 2018	Proportion of total assets (%)	% of funding by IAH as at 30 June 2018
Cash and bank balances	41,921	(10,242)	31,677	9.66	67.29
Placements with financial institutions	33,969	(8,376)	25,593	7.80	100.00
Financing assets:	170,729	(22,123)	148,606	45.30	42.02
-Murabaha	170,729	(22,548)	148,181	45.17	41.89
-Istisna	-	425	425	0.13	0.13
Investment securities – Sukuk	113,199	8,974	122,173	37.24	99.95
Total	359,818	(31,767)	328,049		

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

	June 2018	2017	2016	2015	2014
Average mudarib share as a percentage of total income allocated to IAH	54.89%	41.86%	53.57%	55.68%	40.26%
Average mudarib share contractually agreed with IAH	61.60%	58.80%	64.80%	62.81%	52.44%
Average mudarib fees sacrificed by the Bank	6.71%	16.94%	11.23%	7.13%	12.18%

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Risk Management Disclosures for the six months ended 30 June 2018

9.2 Restricted Investment Accounts (RIA's)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2018	2017	2016	2015	2014
RIA 1 - Safana	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, the Bank made an offer to buy back < 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.	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-
RIA 5 - North Gate	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. During the period, the Bank has bought back 4,040,000 shares (50%) from its investors at BD 4,242,000 at a profit of 5%.	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-

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

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2018	2017	2016	2015	2014
RIA 6 - Locata	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 2014, 479 shares were bought back from its investors.	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-