

KHALEEJI BANK B.S.C

PUBLIC DISCLOSURES

(Based on CBB guidelines)

30 June 2023

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 2022, and the condensed consolidated interim financial information for the six months period ended 30 June 2023.

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Executive Summary

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

All figures presented in this section are reported in BD thousands and are as of and for the period ended 30 June 2023 unless otherwise stated.

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

At 30 June 2023, Bank’s CET1 and T1 capital and total capital adequacy ratios were 15.40 percent, 21.96 percent and 23.07 percent, respectively.

The Group is carrying out group restructuring program which involves spinning off of its infrastructure and real estate assets, please refer to note 11 of the condensed consolidated interim financial information for the six months period ended 30 June 2023.

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.

On 25 June 2023, as part of the overall group restructuring initiatives, the Bank rebranded its commercial name from "Khaleeji Commercial Bank B.S.C." to "Khaleeji Bank B.S.C." As a result, the trade symbol also changed from "KHCB" to "KHALEEJI".

2 Capital Management and Capital Adequacy Ratio

2.1 Capital management

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

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2.2 Statement of Financial position under the regulatory scope of consolidation

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

	Statement of Financial position as in published financial statements	Statement of Financial position as per regulatory reporting	Reference
ASSETS			
CASH AND BANK BALANCES	127,075	127,073	
OF WHICH ECL (STAGE 1&2)	-	-	a
OF WHICH CASH AND BANK BALANCES TO SUBSIDIARY (COMMERCIAL ENTITY)	2	-	
PLACEMENTS WITH FINANCIAL INSTITUTIONS	46,816	46,817	
OF WHICH ECL (STAGE 1&2)	(1)	-	b
FINANCING ASSETS	328,210	337,028	
OF WHICH ECL (STAGE 1&2)	(8,818)	-	c
OF WHICH FINANCING TO SUBSIDIARY (COMMERCIAL ENTITY)	-	-	
INVESTMENT IN SUKUK	546,390	546,641	
OF WHICH ECL (STAGE 1&2)	(251)	-	d
IJARAH ASSETS	210,641	211,658	
OF WHICH ECL (STAGE 1&2)	(1,017)	-	e
ASSETS HELD-FOR-SALE	4,341	4,341	
OF WHICH ASSETS HELD-FOR-SALE OF SUBSIDIARY (COMMERCIAL ENTITY)	-	-	
INVESTMENT SECURITIES	70,270	122,357	
OF WHICH INVESTMENT SECURITIES TO SUBSIDIARY (COMMERCIAL ENTITY)	(52,087)	-	
OF WHICH ECL (STAGE 1&2)	-	-	f
OF WHICH RELATED TO INSIGNIFICANT INVESTMENTS IN FINANCIAL ENTITIES	-	-	
OF WHICH CAPITAL ADJUSTMENTS RELATED TO INVESTMENT IN FINANCIAL ENTITIES WHERE OWNERSHIP IS < 10% OF ISSUED COMMON SHARE CAPITAL (AMOUNT ABOVE 10% CET1A)	-	-	g
OF WHICH RELATED TO OTHER INVESTMENTS	70,270	122,357	
INVESTMENT IN REAL ESTATE	86,101	26,461	
OF WHICH INVESTMENT IN REAL ESTATE OF SUBSIDIARY (COMMERCIAL ENTITY)	59,640	-	
EQUITY ACCOUNTED INVESTEEES	25,173	25,173	
OF WHICH EQUITY ACCOUNTED INVESTEEES OF SUBSIDIARY (COMMERCIAL ENTITY)	-	-	
OTHER ASSETS	25,241	25,230	
OF WHICH RECEIVABLE FROM SUBSIDIARY (COMMERCIAL ENTITY)	11	-	
PROPERTY AND EQUIPMENT	3,428	3,428	
TOTAL ASSETS	1,473,686	1,476,207	
LIABILITIES			
PLACEMENTS FROM FINANCIAL INSTITUTIONS	295,468	295,468	
PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS	247,838	247,838	
TERM BORROWING	176,302	176,302	
CUSTOMERS' CURRENT ACCOUNTS	86,543	87,438	
OF WHICH ACCOUNT OF SUBSIDIARY (COMMERCIAL ENTITY)	(895)	-	
OTHER LIABILITIES	20,581	20,837	
OF WHICH ECL (STAGE 1&2)	35	-	h
OF WHICH PAYABLES OF SUBSIDIARY (COMMERCIAL ENTITY)	(291)	-	
TOTAL LIABILITIES	826,732	827,883	
EQUITY OF INVESTMENT ACCOUNT HOLDERS	488,496	488,496	
OF WHICH ACCOUNTS OF SUBSIDIARY (COMMERCIAL ENTITY)	-	-	
OWNERS' EQUITY			
SHARE CAPITAL	84,783	84,783	i
SUBORDINATED MUDARABA (AT 1)	47,222	47,222	
STATUTORY RESERVE	11,510	11,510	j
TREASURY SHARES	(6,254)	(6,254)	k
INVESTMENT FAIR VALUE RESERVE	(7,005)	(7,005)	l
RETAINED EARNINGS	19,567	19,450	
OF WHICH RETAINED EARNINGS OF SUBSIDIARY (COMMERCIAL ENTITY)	115	-	
ADD: MODIFICATION LOSS NET OF GOVERNMENT GRANT AND ECL ADD BACK*	-	10,083	
LESS: AMORTIZATION OF MODIFICATION LOSS NET OF GOVERNMENT GRANT AND ECL ADD BACK*	-	(1,680)	
RETAINED EARNINGS AFTER THE ABOVE ADJUSTMENTS	19,567	27,853	m
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	149,823	149,706	
ECL (STAGE 1&2)	-	10,122	a+b+c+d+e+f-h
NON-CONTROLLING INTEREST	8,635	-	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY	1,473,686	1,476,207	

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2.2 Statement of Financial position under the regulatory scope of consolidation (continued)

* As per the CBB circular OG/226/2020 the aggregate of modification loss and ECL provision, amount must be deducted on an annual basis from CET1 in equal proportions over a three-year period from 1 January 2022 to 31 December 2024. Further, as per the CBB circular OG/417 /2021 the benefit of amortization of modification loss was extended until 30 June 2022. Further, CBB in its circular ODG/28/2022, communicated that the amortization of modification loss and 2020 ECL (management overlay) must be amortized starting from 1 January 2023. During the period, out of the modification loss of BD 10,083, an amount BD 1,680 thousand representing modification loss net of government subsidy was deducted from CET1 for the period ended 30 June 2023.

2.3 Composition of Capital

Composition of Capital as at 30 June 2023			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 plus related stock surplus less treasury shares	78,529	i+k
2.	Retained earnings	39,363	j+m
3.	Accumulated other comprehensive income (and other reserves)	(7,005)	l
4.	<i>Not applicable</i>		
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	110,887	
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.	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14.	<i>Not applicable</i>		
15.	Defined-benefit pension fund net assets	-	
16.	Investments in own shares	-	
17.	Reciprocal cross-holdings in common equity	-	
18.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19.	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	g
20.	Mortgage servicing rights (amount above 10% threshold)	-	
21.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22.	Amount exceeding the 15% threshold	-	
23.	of which: significant investments in the common stock of financials	-	
24.	of which: mortgage servicing rights	-	
25.	of which: deferred tax assets arising from temporary differences	-	
26.	CBB specific regulatory adjustments	-	
27.	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28.	Total regulatory adjustments to Common equity Tier 1	-	
29.	Common Equity Tier 1 capital (CET1)	110,887	
Additional Tier 1 capital: instruments			
30.	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	47,222	
31.	of which: classified as equity under applicable accounting standards	47,222	
32.	of which: classified as liabilities under applicable accounting standards	-	
33.	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	
34.	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35.	of which: instruments issued by subsidiaries subject to phase out	-	
36.	Additional Tier 1 capital before regulatory adjustments	47,222	
Additional Tier 1 capital: regulatory adjustments			

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Composition of Capital as at 30 June 2023		Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
37.	Investments in own Additional Tier 1 instruments	-
38.	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40.	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41.	CBB specific regulatory adjustments	-
42.	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43.	Total regulatory adjustments to Additional Tier 1 capital	-
44.	Additional Tier 1 capital (AT1)	47,222
45.	Tier 1 capital (T1 = CET1 + AT1)	158,109
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.	Provisions	7,977
51.	Tier 2 capital before regulatory adjustments	7,977
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)	7,977
59.	Total capital (TC = T1 + T2)	166,086
60.	Total risk weighted assets	719,897
Capital ratios and buffers		
61.	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.40%
62.	Tier 1 (as a percentage of risk weighted assets)	21.96%
63.	Total capital (as a percentage of risk weighted assets)	23.07%
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.	of which: capital conservation buffer requirement	2.5%
66.	of which: bank specific countercyclical buffer requirement	N/A
67.	of which: D-SIB buffer requirement	N/A
68.	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	15.40%
National minima including CCB (where different from Basel III)		
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%
Amounts below the thresholds for deduction (before risk weighting)		
72.	Non-significant investments in the capital of other financials	-
73.	Significant investments in the common stock of financials	-
74.	Mortgage servicing rights (net of related tax liability)	-
75.	Deferred tax assets arising from temporary differences (net of related tax liability)	-
76.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	10,122

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Composition of Capital as at 30 June 2023			Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
77.	Cap on inclusion of provisions in Tier 2 under standardized approach	7,977	
78.	N/A	-	
79.	N/A	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
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 financial information as at 30 June 2023 (Amount in BD 000's)	
			Total assets	Total equity
Surooh LTD	Commercial entity	Risk weighted	3,404	2,104
HH Hotel Properties W.L.L.	Commercial entity	Risk weighted	60,247	59,995
KHCB Tier 1 Sukuk Limited	Trust	Risk weighted	67,481	67,477

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2.5 Disclosure template for main feature of regulatory capital instruments

1.	Issuer	Khaleeji Bank B.S.C	KHCB Tier 1 Sukuk Limited
2.	Unique identifier	KHALEEJI	NA
3.	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain	English law, Cayman Islands Law
	Regulatory treatment		
4.	Transitional CBB rules	Common Equity Tier 1	Additional Tier 1
5.	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
6.	Eligible at solo/group/group & solo	Group and solo	Group and solo
7.	Instrument type (types to be specified by each jurisdiction)	Equity Shares	Subordinated Mudaraba
8.	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 85 million	BD 47 million
9.	Par value of instrument	BD 0.100	USD 200,000 and integral multiples of USD 1,000 in excess thereof
10.	Accounting classification	Shareholders' Equity	Shareholders' Equity
11.	Original date of issuance	Various	30-Jun-20
12.	Perpetual or dated	Perpetual	Perpetual
13.	Original maturity date	No Maturity	No Maturity
14.	Issuer call subject to prior supervisory approval	No	Yes
15.	Optional call date, contingent call dates and redemption amount	Not applicable	30-Jun-25
16.	Subsequent call dates, if applicable	Not applicable	After the First Call Date, subject to the CBB approval
	Coupons / dividends		
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	KHALEEJI
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

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2.5 Disclosure template for main feature of regulatory capital instruments (continued)

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

2.6 Capital structure, minimum capital requirements and capital adequacy

Following is the break-up of capital structure as at 30 June 2023:

BD 000's	
Eligible capital	30 June 2023
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	84,783
Less: Treasury Shares	6,254
Statutory reserve	11,510
Retained earnings	20,902
Current interim cumulative net profit	6,951
Other reserve	(7,005)
Total CET1 capital prior to the regulatory adjustments	110,887
Less: Investment in own shares	-
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	-
Total Common Equity Tier 1 capital after the regulatory adjustments	110,887
Other Capital	
AT1	47,222
Total Tier 1 Capital	158,109
Expected credit losses (ECL) Stage 1 & 2 – (Tier 2)	7,977
Total Available T2 Capital	7,977
Total Capital	166,086

30 June 2023	
Credit risk weight exposures	638,178
Market risk weight exposures	8,573
Operational risk weight exposures	73,146
Total risk weighted exposures	719,897
Capital adequacy ratio (CET1)	15.40%
Capital adequacy ratio (T1)	21.96%
Capital adequacy ratio (Total capital)	23.07%

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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2.6 Capital structure, minimum capital requirements and capital adequacy (continued)

Break-up of capital requirement in accordance with the capital adequacy module of the CBB for the period ended 30 June 2023 is as follows (in BD 000's):

Exposure classification	Exposure			Risk weighted assets ^[1]			Capital requirement @ 12.5%		
	Self-Financed ^[2]	IAH ^[3]	Total	Self – Financed	IAH	Total	Self – Financed	IAH	Total
▪ Cash and collection items	4,107	-	4,107	-	-	-	-	-	-
▪ Sovereigns	405,098	28,920	434,018	-	-	-	-	-	-
▪ Claims on PSEs	96,802	-	96,802	22,532	-	22,532	2,817	-	2,817
▪ Banks	125,886	-	125,886	50,605	-	50,605	6,326	-	6,326
▪ Corporates	64,238	330,582	394,820	55,533	189,510	245,043	6,941	23,689	30,630
▪ Retail	3,440	29,697	33,137	2,580	6,682	9,262	323	835	1,158
▪ Mortgage	104,325	2,110	106,435	36,514	221	36,735	4,564	28	4,592
▪ Past due facilities	15,702	-	15,702	20,923	-	20,923	2,615	-	2,615
▪ Investments in equities/sukuk/Funds	28,496	15,186	43,682	42,744	6,834	49,578	5,343	854	6,197
▪ Holdings of real estate	74,637	29,667	104,304	168,098	25,016	193,114	21,012	3,127	24,139
▪ Other assets	10,386	-	10,386	10,386	-	10,386	1,298	-	1,298
Credit Risk	933,117	436,162	1,369,279	409,915	228,263	638,178	51,239	28,533	79,772
Market Risk	8,573	-	8,573	8,573	-	8,573	1,072	-	1,072
Operational Risk	73,146	-	73,146	73,146	-	73,146	9,143	-	9,143
Total	1,014,836	436,162	1,450,998	491,634	228,263	719,897	61,454	28,533	89,987

^[1] For capital adequacy computations, 100% of the RWAs are reckoned for self-financed assets while only 30% of BD 760,877 is considered for assets funded through equity of investment account holders (IAH).

^[2] Net of credit risk mitigants of BD 54,592 thousand.

^[3] Net of credit risk mitigants of BD 52,336 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 2023 is as follows: BD000's

	Average ^[1] Exposure	Gross Exposure		
		Self – Financed	IAH	Total
Cash and bank balances ^[2]	145,159	98,155	28,920	127,075
Placement with financial institutions ^[2]	39,899	46,816	-	46,816
Investment in sukuk ^[2]	553,683	463,554	82,836	546,390
Financing assets ^[2]	320,080	36,130	292,080	328,210
Ijarah assets ^[2]	206,753	171,419	39,222	210,641
Investment securities	51,849	43,181	27,089	70,270
Assets held-for-sale	4,341	4,341	-	4,341
Investment in Real estate	91,337	68,460	17,641	86,101
Equity accounted investees	24,539	25,173	-	25,173
Other assets	26,477	24,533	708	25,241
Property and equipment	3,448	3,428	-	3,428
Total funded Credit Exposure	1,467,565	985,190	488,496	1,473,686
Financial guarantees	15,214	15,222	-	15,222
Undrawn financing facilities	40,411	47,805	-	47,805
Total unfunded Credit Exposure	55,626	63,027	-	63,027

^[1] Represents quarterly average balances for the six-month period ended 30 June 2023.

^[2] Gross of ECL Stage 1 and Stage 2 provision of BD 10,087 thousand.

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3.2 Concentration of credit risk

3.2.1 Geographic distribution

The geographical exposure profile as at 30 June 2023 was as follows:

BD 000's

30 June 2023	GCC Countries	Europe	USA	Asia	Australia	Total
Assets						
Cash and bank balances	112,419	1,037	13,598	21	-	127,075
Placement with financial institutions	36,632	10,184	-	-	-	46,816
Investment in sukuk	465,669	80,721	-	-	-	546,390
Financing assets	323,299	-	4,911	-	-	328,210
Ijarah assets	210,641	-	-	-	-	210,641
Investment securities	66,175	-	-	-	4,095	70,270
Assets held-for-sale	4,341	-	-	-	-	4,341
Investment in Real Estate	86,101	-	-	-	-	86,101
Equity accounted investees	25,173	-	-	-	-	25,173
Other assets	24,550	415	206	69	1	25,241
Property and equipment	3,428	-	-	-	-	3,428
Total funded exposures	1,358,428	92,357	18,715	90	4,096	1,473,686
Guarantees	15,222	-	-	-	-	15,222
Undrawn financing facilities	47,805	-	-	-	-	47,805
Total unfunded exposures	63,027	-	-	-	-	63,027

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 2023 was as follows:

BD 000's

30 June 2023	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	127,075	-	-	127,075
Placement with financial institutions	46,816	-	-	46,816
Investment in sukuk	-	73,633	472,757	546,390
Financing assets	1,033	96,335	230,842	328,210
Ijarah assets	-	181,034	29,607	210,641
Investment securities	15,186	17,794	37,290	70,270
Assets held-for-sale	-	4,341	-	4,341
Investment in Real Estate	-	86,101	-	86,101
Equity accounted investees	-	25,173	-	25,173
Other assets	547	6,305	18,389	25,241
Property and equipment	-	-	3,428	3,428
Total funded exposure	190,657	490,716	792,313	1,473,686
Guarantees	-	7,185	8,037	15,222
Undrawn financing facilities	-	12,736	35,069	47,805
Total unfunded exposures	-	19,921	43,106	63,027

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 2023 and outstanding balances pertaining to related parties, please refer to note 24 of the condensed consolidated interim financial information for the six months period ended 30 June 2023. All transactions are done at commercial terms.

3.2.4 Exposures exceeding materiality thresholds

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

Further, the exposures in excess of limits prescribed by Credit Risk Management Module (“CM Module”) (single obligor limit of 15% of total capital and aggregate limit for connected counterparty exposure of 25% of total capital) are subject to risk weight of 800%. For investment in a financial entity where ownership is < 10% of the issued common capital, 60% of the amount exceeding 10% of CET1(a) is subject to deduction from CET1(a). The following table summarizes the exposures exceeding regulatory limits as of 30 June 2023:

BD 000's				
Counterparty	Exposure type	Exposure	Limit as a percentage	Exposure in excess of the limits
Exposure to Controller	Financing	8,125	0%	8,125
Single obligor limits	Investment securities	57,334	15%	32,421

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 2023:

Counterparties	Gross BD '000	Provision BD '000	Net BD '000
Counterparty # 1	4,175	3,348	827

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

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

Maturity Scale	< 1 M	1 - 3 M	3 - 6 M	6M - 1Y	1 - 3Y	3 - 5Y	5 - 10Y	10 - 20Y	Over 20Y	No fixed maturity	Total
Credit portfolio:											
Murabaha	73,415	9,064	14,510	33,312	121,051	29,499	35,973	3,748	617	-	321,189
Mudaraba	5	10	117	227	1,499	5,163	-	-	-	-	7,021
Ijarah	4,621	3,123	6,954	14,240	81,684	28,364	33,997	29,342	8,316	-	210,641
Total	78,041	12,197	21,581	47,779	204,234	63,026	69,970	33,090	8,933	-	538,851
Investment in sukuk – banking book	-	10,257	9,294	16,214	284,754	68,427	100,110	-	-	57,334	546,390
Total	-	10,257	9,294	16,214	284,754	68,427	100,110	-	-	57,334	546,390
Grand Total	78,041	22,454	30,875	63,993	488,988	131,453	170,080	33,090	8,933	57,334	1,085,241

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	64,353
Gain on sale of equities securities	422
Income from equity investments, net	352
Fair value gain through profit & loss	88
Fair value loss through equity	(167)

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3.3 Equity risk in banking book (continued)

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

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital requirement @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
	Unlisted	6,376	-	9,564	-	1,196
Investments in unlisted real estate companies	5,891	11,903	23,564	14,283	2,945	1,786
Investments in unrated funds – unlisted	-	15,186	-	6,834	-	854
Other holding of real estate	52,086	-	104,172	-	13,022	-
Total	64,353	27,089	137,300	21,117	17,163	2,640

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

	BD 000's		
	GCC Countries	Europe	Total
Credit Impaired:			
3 months to 1 year	20,964	-	20,964
1 year to 3 years	4,473	-	4,473
More than 3 years	9,074	-	9,074
	34,511	-	34,511
Less: Stage 3 impairment allowance:			
At 1 January 2023	12,864	-	12,864
Net Transfer	493	-	493
Charge during the period	366	-	366
Write off during the period	-	-	-
Disposals	-	-	-
	13,723	-	13,723
Carrying amount	20,788	-	20,788
Past due but not credit impaired:			
Up to 3 months	124,465	-	124,465
3 months to 1 year	29,774	4,912	34,686
More than 1 year	-	-	-
	154,239	4,912	159,151
Stage 1 and Stage 2 ECL Allowance			
At 1 January 2023	9,690	1	9,691
Net Transfer	(493)	-	(493)
Net Charge / (reversal) during the period	637	-	637
Stage 1 and Stage 2 impairment allowance	9,834	1	9,835

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

	Banks and financial institutions	Real estate	Others	Total
Credit Impaired:				
3 months to 1 year	906	13,100	6,958	20,964
1 year to 3 years	-	2,260	2,213	4,473
More than 3 years	-	5,340	3,734	9,074
	906	20,700	12,905	34,511
Less: Stage 3 impairment allowance:				
At 1 January 2023	603	3,841	8,420	12,864
Net Transfer	-	597	(104)	493
Charge during the period	-	549	(183)	366
Write off during the period	-	-	-	-
Disposals	-	-	-	-
	603	4,987	8,133	13,723
Carrying amount	303	15,713	4,772	20,788
Past due but not credit impaired:				
Up to 3 months	-	62,021	62,444	124,465
3 months to 1 year	-	16,133	18,553	34,686
More than 1 year	-	-	-	-
	-	78,154	80,997	159,151
Stage 1 and Stage 2 ECL Allowance				
At 1 January 2023		2,668	7,023	9,691
Net Transfer		(596)	103	(493)
Net Charge / (reversal) during the period		1,360	(723)	637
Stage 1 and Stage 2 impairment allowance	-	3,432	6,403	9,835

3.5 Renegotiated facilities

During the period, facilities of BD 15,767 thousand were renegotiated representing 2.9% of the total outstanding facilities, out of which BD 3,668 thousand are classified as neither past due nor impaired as of 30 June 2023. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. The Bank carried out an assessment of the renegotiated facilities. The renegotiated terms improved or restored the Bank's ability to collect profit and principal.

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 2023, the Bank did not have any material legal contingency from pending legal actions. Based on management estimates there is no potential liability arising from these pending legal actions.

The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means. The Bank has written-off financing facilities amounting to BD Nil thousand during the six months period ended 30 June 2023.

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 2023, an amount of BD 18 thousand was thus transferred to Charity and Zakah fund. As at 30 June, there was no material Shari'a violation that lead to a major impact on Bank's Shari'a governance framework, financial, reputation and invalidation of transactions.

3.8 Credit risk mitigation

The position of collateral cover for all credit exposures categorized on the basis of the type of security as on 30 June 2023 is given in the table below:

Collateral Type	BD 000's									
	Murabaha	Musharaka	Mudaraba	Wakala	Istisna	Ijarah	Value of collateral ^[1]	Gross Exposure ^[2]	% of cover	% of Total
Real Estate	304,441	-	6,305	-	-	246,678	557,424	383,568	145%	94%
Listed Securities	-	-	-	-	-	-	-	-	0%	0%
Unlisted Securities	-	-	-	-	-	-	-	-	0%	0%
Bank Guarantee	-	-	-	-	-	-	-	-	0%	0%
Cash Collateral	28,966	-	-	-	-	3,554	32,520	45,432	72%	5%
Unsecured	-	-	-	-	-	-	-	128,840	0%	0%
Others	2,661	-	-	-	-	-	2,661	4,567	58%	1%
Total	336,068	-	6,305	-	-	250,232	592,605	562,407	105%	100%

^[1] Represents collateral values after haircut 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 9,835 thousand and Stage 3 ECL BD 13,721 thousand.

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

3.9 Regulatory capital requirements by type of financing contracts

Financing contracts	BD 000's					
	Exposure		Credit Risk Weighted Assets		Capital Requirement @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Murabaha	38,439	292,080	19,722	89,847	2,466	11,231
Ijarah assets	172,436	39,222	4,193	7,376	524	922
Musharaka	-	-	-	-	-	-
Mudharabah	6,419	-	6,419	-	802	-
Wakala	90	-	90	-	11	-
Total	217,384	331,302	30,424	97,223	3,803	12,153

*The balance constitutes net of ECL stage 3

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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 2023 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	686	686	610
Commodity risk	-	-	-
Total (A)	686	686	610
Risk Weighted Assets (A x 12.5)	8,575	8,575	7,625
Capital requirement @ 12.5%	1,072	1,072	953

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 2023 is as given below:

	BD 000's
Average gross income for 3 years (A)	39,011
Operational Risk Weighted Assets B = (A x 15% x 12.5)	73,146
Capital requirement (B x 12.5%)	9,143

6 Other Risks

6.1 Liquidity risk

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

Maturity profile of assets and liabilities based on residual contractual maturity or expected maturity as at 30 June 2023 is as follows:

	BD 000's						
30 June 2023	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
Assets							
Cash and bank balances	98,155	-	-	-	-	28,920	127,075
Placements with financial institutions	36,631	10,185	-	-	-	-	46,816
Investment in sukuk	353,628	-	-	97,116	38,312	57,334	546,390
Financing assets	30,171	11,830	61,735	104,781	119,693	-	328,210
Ijarah assets	5,061	3,838	8,052	55,081	138,609	-	210,641
Investment securities	-	-	-	15,186	55,084	-	70,270
Assets held-for-sale	4,341	-	-	-	-	-	4,341
Investment in real estate	-	-	-	-	86,101	-	86,101
Equity accounted investees	-	-	-	-	25,173	-	25,173
Other assets	7,714	-	-	17,527	-	-	25,241
Property and equipment	-	-	-	-	-	3,428	3,428
Total assets	535,701	25,853	69,787	289,691	462,972	89,682	1,473,686

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6.1 Liquidity Risk (continued)

	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
Liabilities							
Placements from financial institutions	191,814	80,013	17,233	6,408	-	-	295,468
Placements from non-financial institutions and individuals ¹	22,766	53,196	56,878	1,870	113,128	-	247,838
Term financing from financial institutions ¹	-	-	-	176,302	-	-	176,302
Customers' current accounts ¹	6,032	10,645	-	5,824	64,042	-	86,543
Other liabilities	13,555	2,096	2,009	2,921	-	-	20,581
Total liabilities	234,167	145,950	76,120	193,325	177,170	-	826,732
Equity of Investment Account Holders¹	30,516	14,450	26,448	9,876	407,206	-	488,496
Restricted Investment accounts	-	-	-	1,533	-	-	1,533
Commitments	6,623	600	11,884	39,222	4,698	-	63,027

¹Allocated 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 2023	2022	2021	2020	2019
Inter-bank assets to inter-bank liabilities	42.60%	60.86%	59.12%	64.11%	84.82%
Liquid assets to total assets	35.66%	34.32%	27.61%	24.41%	38.83%
Liquid assets to total deposits	63.86%	56.14%	41.20%	35.66%	51.79%
Net liquid assets to total deposits	27.95%	28.59%	24.54%	24.22%	33.70%

Figures in %

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 2023 is as follows:

	Total weighted value
	30 June 2023
Available stable funding (ASF)	779,033
Required stable funding (RSF)	732,778
NSFR %	106.31%
Minimum required by CBB	100%

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6.1 Liquidity Risk (continued)

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.

	30 June 2023
Stock of HQLA	250,596
Net cashflows	130,771
LCR %	191.63%
Minimum required by CBB*	100%

6.2 Profit rate risk in the banking book

A summary of the Bank's profit rate gap position at 30 June 2023 is as follows:

BD 000's

30 June 2023	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	36,631	10,185	-	-	-	46,816
Financing assets	57,104	4,427	14,463	59,908	192,308	328,210
Ijarah assets	230	6	334	23,365	186,706	210,641
Investment in sukuk	29,249	9,378	76,411	230,394	200,958	546,390
Investment securities	-	-	-	-	30,914	30,914
Total profit rate sensitive assets	123,214	23,996	91,208	313,667	610,886	1,162,971
Liabilities						
Placements from financial institutions	191,814	80,013	17,233	6,408	-	295,468
Placements from non-financial institutions and individuals	25,617	62,741	102,622	56,858	-	247,838
Term financing from financial institutions	-	-	-	176,302	-	176,302
Customers' current accounts	1,496	-	-	-	-	1,496
Equity of investment account holders	255,712	46,066	144,765	41,953	-	488,496
Total profit rate sensitive liabilities	474,639	188,820	264,620	281,521	-	1,209,600
Profit rate gap	(351,424)	(164,824)	(173,412)	32,146	610,886	(46,628)

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:

At 30 June 2023	100bp parallel increase/ decrease	50bp increase/ decrease
At 31 December 2022	± 466	± 233
	± 484	± 242

6.2 Profit Rate Risk in the Banking Book (continued)

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:

At 30 June 2023

At 31 December 2022

200bp parallel increase/ decrease

± 933

± 969

The following table summarises the effect on value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 30 June 2023:

	Effect on value of Asset BD'000	Effect on value of Liability BD'000	Effect on value of Economic Capital BD'000
Upward rate shocks:	23,259	(24,192)	(933)
Downward rate shocks:	(23,259)	24,192	933

6.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank manages such risk through natural hedges to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit markets transactions (primarily interbank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the Banks Risk Management Department. As at 30 June 2023, the Bank did not have any open position in foreign currency risk management instruments.

6.4 Concentration risk

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

6.5 Reputational risk

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

6.6 Profit rate risk

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

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

6.7 Other risks

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

7 Financial Performance

Following are basic quantitative indicators of the financial performance:

	(Annualized rates)				
	June 2023	2022	2021	2020	2019
Return on average equity*	9.12%	9.24%	7.21%	9.14%	(14.99)%
Return on average assets	1.18%	1.20%	1.03%	0.86%	(1.62)%
Finance income to finance expense	72.29%	110.39%	117.49%	119.25%	119.57%
Cost-to-Income-Ratio**	46.05%	45.43%	41.99%	45.92%	72.58%

* for the purpose of this ratio calculation, equity includes additional tier 1 capital.

** Cost has been considered excluding impairment allowances.

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8 Product Disclosures

8.1 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 2023	2022	2021	2020	2019
Allocated income to IAH	13,482	29,862	25,939	21,574	23,544
Distributed profit *	10,324	14,345	11,955	12,285	15,087
Mudarib fees	3,158	15,517	13,985	9,289	8,457
As at 30 June					
IAH ^[1]	537,847	568,986	462,999	435,886	467,268
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

^[1] Represents monthly average balance

* Includes contribution towards deposit protection scheme

Ratio of financing of the IAH by type of IAH contracts as at 30 June 2023:

Type of IAH contracts

1 Month Mudharaba ¹
3 Months Mudharaba
6 Months Mudharaba
12 Months Mudharaba
18 Months Mudharaba
24 Months Mudharaba
36 Months Mudharaba
VIP Mudharaba
Total

Ratio of financing	
	42.0%
	1.7%
	4.9%
	17.6%
	0.2%
	5.9%
	0.2%
	27.5%
	100.0%

¹ Includes saving account, Al-Wafer account and call mudharaba accounts.

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

Mudaraba Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
	1 Month ^[1]	3,362	5,267	2,712	2,170	1,657	32.6	36.7	22.7	17.7
3 Months	381	597	852	633	763	3.7	4.2	7.1	5.1	5.1
6 Months	550	550	601	656	658	5.3	3.8	5.0	5.3	4.4
12 Months	1,737	2,653	3,024	3,797	4,592	16.8	18.5	25.3	30.9	30.4
18 Months	22	13	6	9	6	0.2	0.1	0.1	0.1	0.0
24 Month	998	1,508	1,131	1,312	1,078	9.7	10.5	9.5	10.7	7.1
36 Month	27	22	19	106	514	0.3	0.2	0.2	0.9	3.4
VIP Mudaraba	3,247	3,735	3,610	3,552	5,819	31.4	26.0	30.2	28.9	38.6
Wakala	-	-	2,712	50	-	-	-	-	0.4	-
Total	10,324	14,345	14,667	12,285	15,087	100.0	100.0	100.0	100.0	100.0

^[1] Includes saving account, Al-Wafer account, e-trade account, salary account, and call mudharaba accounts

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8.1 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
2023	5.01	-	-	1.17	3.84
2022	5.25	-	-	2.73	2.52
2021	5.60	-	-	3.02	2.58
2020	4.95	-	-	2.13	2.82
2019	5.04	-	-	1.81	3.23

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

(Annualised rates)

Type of deposit	2023	2022	2021	2020	2019
1 month Mudharaba ^[1]	2.42%	1.80%	1.42%	1.32%	1.03%
3 months Mudharaba	4.81%	2.77%	2.80%	3.28%	3.66%
6 months Mudharaba	5.11%	2.71%	2.93%	3.45%	3.69%
12 months Mudharaba	4.43%	3.02%	3.27%	3.71%	3.86%
18 months Mudharaba	3.96%	3.23%	3.39%	3.70%	3.44%
24 months Mudharaba	5.41%	4.27%	3.98%	5.88%	5.48%
36 Months Mudharaba	4.30%	3.38%	3.74%	2.10%	5.22%
VIP Mudharaba	5.10%	3.15%	3.40%	4.18%	4.94%
Wakala	-	-	-	0.96%	-

^[1] Includes saving account, Al-Wafer account, e-trade account, and call mudharaba accounts.

Market benchmark rates:

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

IAH account by type of assets:

The following table summarizes the movement in type of assets in which the IAH funds are invested and allocated among various types of assets for the year ended 30 June 2023:

Particular	Allocation at 1 January 2023	Movement	Allocation at 30 June 2023	Proportion of total assets (%)	% of funding by IAH as at 30 June 2023
Cash and bank balances	120,873	(91,953)	28,920	5.92%	22.76%
Placements with financial institutions	62,631	(62,631)	-	0.00%	0.00%
Financing assets:	132,332	159,748	292,080	59.79%	88.99%
-Murabaha	132,332	159,748	292,080	59.79%	88.99%
Ijara Assets	-	39,222	39,222	8.03%	18.62%
Investment in Sukuk	289,309	(206,473)	82,836	16.96%	15.16%
Investment securities	-	27,089	27,089	5.55%	22.14%
Investment in real estate	-	17,641	17,641	3.61%	66.76%
Other assets	-	708	708	0.14%	2.81%
Total	605,145	(116,649)	488,496		

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8.1 Equity of investment account holders (IAH's) (continued)

Percentage of Counterparty Type to Total Financing:

The following table shows percentage of counterparty type to total financing for the year ended 30 June 2023:

Gross financing Assets*	Percentage of Counterparty Type to Total Financing					
	Self Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Murabaha	38,439	11.6%	292,080	88.4%	330,519	100.00%
Corporate	37,190	12.6%	257,547	87.4%	294,737	100.00%
Retail	1,249	3.5%	34,533	96.5%	35,782	100.00%
Mudharaba	6,419	100.0%	-	0%	6,419	100.00%
Corporate	6,419	100.0%	-	0%	6,419	100.00%
Retail	-	0.0%	-	0%	-	0.00%
Wakala	90	100.00%	-	0%	90	100.00%
Corporate	90	100.00%	-	0%	90	100.00%
Retail	-	0.0%	-	0%	-	0.00%
Total	44,948	13.3%	292,080	86.7%	337,028	100.00%

Gross Ijarah Assets*	Percentage of Counterparty Type to Total Financing					
	Self Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Corporate	71,853	87.8%	10,024	12.2%	81,877	100.00%
Retail	100,583	77.5%	29,198	22.5%	129,781	100.00%
Total	172,436	81.5%	39,222	18.5%	211,658	100.00%
ECL Stage 1 and 2	(9,835)	100.0%	-	0%	(9,835)	100.00%
Total Financing Assets and Ijarah Assets	207,549	38.5%	331,302	61.5%	538,851	100.00%
*Net of expected credit loss (Stage 3) of BD 10,377 thousands.						
**Net of expected credit loss (Stage 3) of BD 3,344 thousands.						

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

	June 2023	2022	2021	2020	2019
Average mudarib share as a percentage of total income allocated to IAH	29.30%	45.06%	53.73%	60.72%	46.56%
Average mudarib share contractually agreed with IAH	68.17%	68.56%	63.70%	63.89%	59.38%
Average mudarib fees sacrificed by the Bank	38.87%	23.50%	9.97%	3.17%	12.82%

For details of assets that the Bank has pledged as collateral as of 30 June 2023, please refer to note 7 of the condensed consolidated interim financial information for the six months period ended 30 June 2023.

8.2 Restricted Investment Accounts (RIA's)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2023	2022	2021	2020	2019
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 < BD 20,000 of each investors funds in RIA 1 at par. This offer was formalized in a letter to investors dated 25 May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.</p> <p>KHCB and NS12 (special purpose vehicle incorporated by the Bank on behalf of investors with the principle purpose of holding plots of lands in the Nurana Project) recently appointed Key Point to work out an in-kind exit scheme for the RIA investors by offering the 19 plots. Scheme documents has been received from Key Point and approved by KHCB and NS 12 management to be circulated to investors.</p> <p>Approved Scheme Documents have been circulated by Key Point to all investors and followed by a workshop conducted at KHCB offices on the 24th August 2016, to explain and answer any queries or information needed to exercise the Plots Application Forms. Last date of returned Application Forms was 7th September 2016, along with the Opening Date which was held at 24th Floor, KHCB Offices managed and monitored by Key Point and witnessed By KHCB employs; the result was 6 plots were allotted out of 19 plots. The in-kind exit scheme has been completed and an open auction held on 22nd November, 2016 to allow maximum opportunities to the Investors to re-participate once again on the remaining plots. KPMG was engaged by KHCB to audit the whole In-kind exit process.</p> <p>Following the 3 allotment rounds of which RIA 1 investors participated, 6 plots have been allocated.</p> <p>Total revise fund BD 5,176,246 which included KHCB and total remaining NS 12 BD 6,979,665 as at 31 December 2020. The Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration therefore RIA investors have received an offer the exit the fund.</p> <p>As of 30 June 2023, the Group has acquired shares in RIA-1 amount BD 2.22mn, which was part of the assets transferred to Infracorp.</p>	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-

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8.2 Restricted Investment Accounts (RIA's) (continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2023	2022	2021	2020	2019
RIA 5 - North Gate	<p>A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraq). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works.</p> <p>During Q1 2015, the Bank effected a buy-back option to all RIA investors for up to an amount of BD 30,000 plus 5% premium for all investors. RIA investors holding BD 30,000 and below was exited in full. A detailed letter was sent to all RIA investors in this regard. The offer was made valid up to 15 June 2015 AND during Q3 2015 the Bank paid 5.62% as partial redemption to the remaining investors.</p> <p>Moreover, during December 2018 dividend declared amount of BD 259,500 to all RIA investors and it was paid by following quarter.</p> <p>The Board of directors of KHCB, in its meeting dated 6 May 2021 approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration therefore RIA investors have received an offer the exit the fund.</p> <p>As of 30 June 2023, the Group has acquired shares in RIA-1 amount BD 2.22mn, which was part of the assets transferred to Infracorp.</p>	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-