

KHALEEJI COMMERCIAL BANK BSC

RISK MANAGEMENT DISCLOSURES

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

30 June 2015

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 2014, and the condensed consolidated interim financial information for the six months ended 30 June 2015.

TABLE OF CONTENTS

	Page
Executive Summary.....	3
1 Group Structure.....	4
2 Capital Management and Capital Adequacy Ratio.....	4
2.1 Capital management.....	4
2.2 Capital structure, minimum capital requirements and capital adequacy.....	4
3 Credit Risk.....	5
3.1 Levels of exposure.....	5
3.2 Concentration of credit risk.....	6
3.2.1 Geographic distribution.....	6
3.2.2 Industry/ sector-wise distribution.....	6
3.2.3 Transactions with related counterparties.....	7
3.2.4 Exposures exceeding materiality thresholds.....	7
3.2.5 Exposures in highly leveraged counterparties.....	7
3.2.6 Residual contractual maturity of the credit portfolio and investment in sukuks.....	8
3.3 Equity risk in banking book.....	8
3.4 Geographical and sector-wise break up of impairment allowances and impaired/past due accounts.....	9
3.5 Renegotiated facilities.....	9
3.6 Legal Action and write off of exposures.....	10
3.7 Penalties for delayed payments.....	10
3.8 Credit risk mitigation.....	10
3.9 Regulatory capital requirements by type of financing contracts.....	11
4 Market Risk.....	11
4.1 Regulatory capital allocation against market rate risk.....	11
5 Operational Risk.....	11
5.1 Regulatory capital allocation against operational risk.....	11
6 Other Risks.....	11
6.1 Liquidity risk.....	11
6.2 Profit rate risk in the banking book.....	13
6.3 Counterparty credit risk.....	14
6.4 Concentration risk.....	14
6.5 Reputational risk.....	14
6.6 Displaced commercial risk.....	14
6.7 Other risks.....	14
7 Compliance Disclosure.....	14
8 Financial Performance	15
9 Product Disclosures.....	15
9.1 Equity of Investment Account Holders (IAH's).....	15
9.2 Restricted Investment Accounts (RIA's).....	17

Khaleeji Commercial Bank BSC

Risk Management Disclosures for the six months ended 30 June 2015

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 2015 unless otherwise stated.

Khaleeji Commercial Bank BSC (the "Bank") has adopted the Standardised 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 2014.

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 assets as at 30 June 2015 amounted to BD 606,977 thousand. Credit risk accounted for 92 percent, operational risk 6 percent, and market risk 2 percent of the total risk weighted assets. Tier I and total regulatory capital were BD 104,401 thousand and BD 108,473 thousand, respectively, as at 30 June 2015.

At 30 June 2015, Bank's CET1 and T1 capital and total capital adequacy ratios were 17.20 percent and 17.87 percent, respectively.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

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 recognises 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 Capital structure, minimum capital requirements and capital adequacy

Following is the break-up of capital structure as at 30 June 2015:

BD 000's

Eligible capital	30 June 2015
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	100,000
Statutory reserve	6,730
Retained earnings	2,659
Current interim cumulative net profit	4,057
Unrealized gains on available for sale financial instruments	125
Total CET1 capital prior to the regulatory adjustments	113,571
Less: Investment in own shares	(7,402)
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	(1,768)
Total Common Equity Tier 1 capital after the regulatory adjustments	104,401
Other Capital	
AT1	-
General financing loss provision – (Tier 2)	4,072
Total available AT1 & T2 Capital	4,072
Total Capital	108,473

	30 June 2015
Credit risk weight exposures	560,317
Market risk weight exposures	14,001
Operational risk weight exposures	32,659
Total risk weighted exposures	606,977

Capital adequacy ratio (CET1 and T1)	17.20%
Capital adequacy ratio (Total capital)	17.87%

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

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

Break-up of capital requirement in accordance with the capital adequacy module of the CBB for the period ended 30 June 2015 is as follows (in BD 000's):

Exposure classification	Exposure			Risk weighted assets*			Capital requirement @ 12.5%		
	Self – Financed	IAH	Total	Self – Financed	IAH	Total	Self – Financed	IAH	Total
Cash and collection items	4,986	-	4,986	-	-	-	-	-	-
Sovereigns	16,834	61,574	78,408	-	-	-	-	-	-
Bahraini PSEs	-	2,614	2,614	-	-	-	-	-	-
Banks	-	62,035	62,035	-	5,659	5,659	-	707	707
Corporates	149,055	233,041	382,096	126,586	50,135	176,721	15,823	6,267	22,090
Past due facilities	26,286	-	26,286	35,892	-	35,892	4,487	-	4,487
Investments in equities	35,777	-	35,777	107,684	-	107,684	13,461	-	13,461
Investment in sukuku	-	21,799	21,799	-	45,789	45,789	-	5,724	5,724
Holdings of real estate	56,127	-	56,127	186,522	-	186,522	23,315	-	23,315
Other assets	2,050	-	2,050	2,050	-	2,050	256	-	256
Credit Risk	291,115	381,063	672,178	458,734	101,583	560,317	57,342	12,698	70,040
Market Risk	13,863	463	14,326	13,863	131	14,001	1,733	17	1,750
Operational Risk	32,659	-	32,659	32,659	-	32,659	4,082	-	4,082
Total	337,637	381,526	719,163	505,256	101,721	606,977	63,157	12,715	75,872

*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 2015 is as follows:

	Average ^[1] Exposure	Gross Exposure		
		Self – Financed	IAH	Total
Cash and bank balances	43,373	21,566	29,227	50,793
Placement with financial institutions	58,419	-	52,835	52,835
Financing assets ^[3]	294,508	77,100	231,039	308,139
Investment in sukuk	73,622	-	68,358	68,358
Investment in equity securities	68,246	68,377	-	68,377
Assets acquired for leasing(including lease rental receivables) ^[3]	51,058	54,870	-	54,870
Investments in associates	2,604	2,604	-	2,604
Investment property	18,987	18,987	-	18,987
Development property	7,127	6,360	-	6,360
Other assets, including property and equipment	18,431	18,914	-	18,914
Total funded Credit Exposure	636,375	268,778	381,459	650,237
Financial guarantees ²	6,793	8,121	-	8,121
Undrawn commitments to extend finance ²	19,522	24,227	-	24,227
Total unfunded Credit Exposure	26,315	32,348	-	32,348

^[1] Represents quarterly average balances for the six month period ended 30 June 2015.

^[2] Represents unfunded exposures amounts after considering their credit conversion factors.

^[3] Gross of collective provision.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

3.2 Concentration of credit risk

3.2.1 Geographic distribution

The geographical exposure profile as at 30 June 2015 was as follows:

BD 000's

30 June 2015	GCC Countries	Europe	USA	Asia	Australia	Total
Assets						
Cash and bank balances	48,956	1,668	110	59	-	50,793
Placement with financial institutions	52,835	-	-	-	-	52,835
Financing assets	283,005	13,467	-	8,037	-	304,509
Investment in sukuk	66,469	-	-	1,889	-	68,358
Investment in equity securities	40,109	-	-	24,350	3,918	68,377
Assets acquired for leasing (including lease rentals receivable)	54,428	-	-	-	-	54,428
Investment in associates	2,604	-	-	-	-	2,604
Investment property	18,987	-	-	-	-	18,987
Development property	6,360	-	-	-	-	6,360
Other assets	9,223	914	-	572	-	10,709
Property and equipment	8,205	-	-	-	-	8,205
Total funded exposures	591,181	16,049	110	34,907	3,918	646,165
Guarantees	20,006	-	-	-	-	20,006
Undrawn financing facilities	63,982	521	-	-	-	64,503
Total unfunded exposures	83,988	521	-	-	-	84,509

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 2015 was as follows:

BD 000's

30 June 2015	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	50,793	-	-	50,793
Placements with financial institutions	52,835	-	-	52,835
Financing assets ^[1]	28,355	83,874	192,280	304,509
Investment in sukuk	396	1,819	66,143	68,358
Investment in equity securities	19,031	38,440	10,906	68,377
Assets acquired for leasing (including lease rentals receivable)	251	54,177	-	54,428
Investment in associates	-	2,604	-	2,604
Investment property	-	18,987	-	18,987
Development property	-	6,360	-	6,360
Other assets	-	2,722	7,987	10,709
Property and equipment	-	6,972	1,233	8,205
Total funded exposure	151,661	215,955	278,549	646,165
Guarantees	-	2,621	17,385	20,006
Undrawn financing facilities	-	11,826	52,677	64,503
Total unfunded exposures	-	14,447	70,062	84,509

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

Khaleeji Commercial Bank BSC

Risk Management Disclosures for the six months ended 30 June 2015

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 2015 and outstanding balances pertaining to related parties are as follows:

	BD 000's				
30 June 2015	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	334	-	-	3,852	4,186
Investment in equity securities	-	-	2,284	24,498	26,782
Investment in associates	2,604	-	-	-	2,604
Other assets	117	-	-	2,104	2,221
Liabilities					
Customers' current accounts	117	-	275	1,315	1,707
Equity of investment account holders	109	-	1,317	8,377	9,803

	BD 000's				
30 June 2015	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	27	-	-	101	128
Expenses					
Return to investment account holders	1	-	1	59	61
Staff cost	-	548	-	-	548
Other expenses	-	-	-	17	17

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%. The following table summarises the exposures exceeding regulatory limits as of 30 June 2015:

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	35,754	32.96%	8,636
Investment in financial entities	Investment in financial entities <10%	19,456	18%	8,839*

* In line with the transitional provisions of CA module 20% of the exposure exceeding materiality threshold (BD 1,768) has been considered for regulatory capital adjustment.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

3.2.5 Exposures in highly leveraged counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24 (e).

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

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	12,421	20,598	15,397	17,437	40,306	74,458	63,202	-	-	243,819
Musharaka	502	3,046	-	1,565	19,574	1,770	484	-	-	26,941
Mudaraba	-	-	-	-	-	-	-	513	-	513
Wakala	6,140	4,426	6,605	62	615	15,268	-	-	-	33,116
Istisna	-	-	-	120	-	-	-	-	-	120
Ijarah	-	-	264	267	525	1,599	10,075	32,258	9,440	54,428
Total	19,063	28,070	22,266	19,451	61,020	93,095	73,761	32,771	9,440	358,937
Investment in sukuk- banking book										
	1,701	-	-	1,880	2,014	4,987	53,985	3,791	-	68,358
Total	1,701	-	-	1,880	2,014	4,987	53,985	3,791	-	68,358
Grand Total	20,764	28,070	22,266	21,331	63,034	98,082	127,746	36,562	9,440	427,295

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	68,377
Dividend income	537
Revaluation gain during the period	326

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
Listed equity investment	3,179	-	3,179	-	397	-
Unlisted equity investment	24,044	-	36,067	-	4,508	-
Real estate investment	32,060	-	128,242	-	16,030	-
Other investments with excess amounts over 15%	7,326	-	58,607	-	7,326	-
Total	66,609	-	226,095	-	28,262	-

* The figures are net of regulatory adjustments of BD 1,768 thousand relating to investment in financial entities where the Bank does not own > 10% of issued capital.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

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:					
3 months to 1 year	9,154	-	-	-	9,154
1 year to 3 years	1,264	-	-	-	1,264
More than 3 years	10,032	-	-	-	10,032
	20,450	-	-	-	20,450
Allowance for impairment:					
At 1 January 2015	10,192	-	-	-	10,192
Charge during the period	575	-	-	-	575
Write back during the year	(49)	-	-	-	(49)
Write off during the year	(625)	-	-	-	(625)
At 30 June 2015	10,093	-	-	-	10,093
Carrying amount	10,357	-	-	-	10,357
Past due but not impaired, including substandard:					
Up to 3 months	37,232	707	7	-	37,946
3 months to 1 year	8,207	-	-	-	8,207
More than 1 year	517	-	-	-	517
	45,956	707	7	-	46,670
Collective allowance *	4,010	62	-	-	4,072

BD 000's

	Banks and financial institutions	Real estate	Others	Total
Impaired:				
3 months to 1 year	1,279	5,536	2,339	9,154
1 year to 3 years	-	-	1,264	1,264
More than 3 years	-	5,000	5,032	10,032
	1,279	10,536	8,635	20,450
Allowance for impairment:				
At 1 January 2015	1,175	3,796	5,221	10,192
Charge during the period	-	-	575	575
Write back during the year	-	-	(49)	(49)
Write off during the year	(408)	-	(217)	(625)
At 30 June 2015	767	3,796	5,530	10,093
Carrying amount	512	6,740	3,105	10,357
Past due but not impaired, including substandard:				
Up to 3 months	8,586	11,373	17,987	37,946
3 months to 1 year	-	5,976	2,231	8,207
More than 1 year	-	-	517	517
	8,586	17,349	20,735	46,670
Collective allowance *	749	1,514	1,809	4,072

* Collective impairment allowance is allocated based on gross exposure excluding impaired exposures on which specific provision is maintained.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

3.5 Renegotiated facilities

Exposures classified as neither past due nor impaired financing facilities include facilities renegotiated during the period ended 30 June 2015 amounting to BD 11,069 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 date on the facility 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 2015, the Bank was involved in twenty-two litigations for recovery of dues from clients amounting to BD 7 million. In addition, there were five claims brought by five of the clients against the Bank of BD 3 million 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 written off an amount of BD 408 thousands and BD 217 thousands pertaining to one corporate finance client and twelve individual clients respectively in the six months period ended 30 June 2015.

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 2015, an amount of BD 34 thousands was transferred to Charity and Zakah fund.

3.8 Credit risk mitigation

The position of collateral cover for all credit exposures categorized on the basis of the type of security as on 30 June 2015 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	149,937	58,033	314	6,126	2,688	99,812	316,910	182,897	172%	87%
Listed securities	542	-	-	-	-	-	542	338	160%	0%
Bank guarantee	15,954	-	-	-	-	-	15,954	8,477	188%	4%
Cash collateral	26,981	-	-	616	-	-	27,597	50,479	55%	7%
Others	5,814	-	-	-	-	-	5,814	4,953	117%	2%
Unsecured	-	-	-	-	-	-	-	125,958	0%	0%
Total	199,228	58,033	314	6,742	2,688	99,812	366,817	373,102	99%	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 collective impairment allowance of BD 4,072 thousand and specific allowance of BD 10,093 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 2015, the Bank repossessed and sold collateral of BD 9 thousand.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

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	47,215	198,612	33,224	39,807	4,153	4,976
Ijara assets (including lease receivable)	54,428	-	1,019	-	127	-
Musharaka	26,255	-	31,113	-	3,889	-
Wakala	-	32,308	-	9,692	-	1,212
Istisna	-	119	-	36	-	5
Total	127,898	231,039	65,356	49,535	8,169	6,193

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 2015 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*	11	253	11
Foreign exchange risk	1,109	1,151	1,109
Commodity risk	-	-	-
Total (A)	1,120	1,404	1,120
Risk Weighted Assets (A x 12.5)	14,001	17,550	14,001
Capital requirement @ 12.5%	1,750	2,194	1,750

* 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 2015 is as given below:

BD 000's

Average gross income for 3 years (A)	17,418
Operational Risk Weighted Assets B = (A x 15% x 12.5)	32,659
Capital requirement (B x 12.5%)	4,082

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.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

Maturity profile of assets and liabilities based on residual contractual maturity or expected maturity as at 30 June 2015 is as follows:

BD 000's

30 June 2015	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	50,793	-	-	-	-	50,793
Placements with financial institutions	52,835	-	-	-	-	52,835
Financing assets	47,888	22,356	19,568	61,304	153,393	304,509
Investment in sukuk	68,358	-	-	-	-	68,358
Investment in equity securities	-	-	3,770	64,607	-	68,377
Assets acquired for leasing (including lease rental receivables)	-	262	264	520	53,382	54,428
Investment in associates	-	-	-	938	1,666	2,604
Investment properties	-	-	-	-	18,987	18,987
Development property	-	-	-	-	6,360	6,360
Other assets	1,575	-	231	8,903	-	10,709
Property and equipment	-	-	-	-	8,205	8,205
Total assets	221,449	22,618	23,833	136,272	241,993	646,165

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	39,005	1,213	-	-	-	40,218
Placements from non-financial institutions and individuals	23,090	5,308	5,756	15,466	825	50,445
Customers' current accounts*	44,347	5,622	2,335	3,847	-	56,151
Other liabilities	2,069	523	1,155	4,789	-	8,536
Total liabilities	108,511	12,666	9,246	24,102	825	155,350
Equity of Investment Account Holders*	146,238	71,247	34,898	129,076	-	381,459
Restricted Investment accounts	4,060	-	4,715	9,306	-	18,081
Commitments	24,408	17,548	30,579	9,523	2,451	84,509

* The bank follows behavioral approach to compute expected maturity profile of customer current accounts and equity of Investment account holders.

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

	June 2015	2014	2013	2012	2011
Interbank assets to interbank liabilities	159.22	176.87	222.39	95.70	189.43
Liquid assets to total assets	26.62	25.23	27.80	19.81	27.06
Liquid assets to total deposits	35.24	34.69	38.46	33.33	43.65
Net liquid assets to total deposits	27.00	27.50	27.50	9.25	27.27

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

6.2 Profit rate risk in the banking book

A summary of the Bank's profit rate gap position at 30 June 2015 is as follows:

BD 000's

30 June 2015	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	52,835	-	-	-	-	52,835
Financing assets	47,888	22,356	19,568	61,304	153,393	304,509
Assets acquired for leasing (including lease rental receivables)	-	262	264	520	53,382	54,428
Investments securities (sukuks)	1,700	-	1,880	2,013	62,765	68,358
Total profit rate sensitive assets	102,423	22,618	21,712	63,837	269,540	480,130
Liabilities						
Placements from financial institutions	39,005	1,213	-	-	-	40,218
Placements from non-financial institutions and individuals	23,090	5,308	5,756	15,466	825	50,445
Customers' current accounts *	1,249	-	-	-	-	1,249
Equity of investment account holders*	146,238	71,247	34,898	129,076	-	381,459
Total profit rate sensitive liabilities	209,582	77,768	40,654	144,542	825	473,371
Profit rate gap	(107,159)	(55,150)	(18,942)	(80,705)	268,715	6,759

* The bank follows behavioral approach to compute expected maturity profile of customer current accounts and equity of Investment account holders.

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.

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 balance sheet position) is as follows:

	50 bp increase/ decrease	100 bp parallel increase/ decrease
At 31 June 2015	± 34	± 68
At 31 December 2014	± 127	± 254

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 2015, 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 was one penalty imposed by the CBB due to unclear account with BRCB.

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

8 Financial Performance

Following are basic quantitative indicators of the financial performance:

(Annualised rates)

	June 2015	2014	2013	2012	2011
Return on average equity	4.17%	3.00%	(16.06)%	0.64%	0.44%
Return on average assets	0.71%	0.53%	(3.69)%	0.18%	0.13%
Finance income to finance expense	218.59%	147.77%	147.77%	201.89%	208.06%
Cost-to-Income-Ratio*	51.58%	156.56%	156.56%	84.54%	72.11%

* 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 2015	2014	2013	2012	2011
Allocated income to IAH	8,164	12,843	13,315	9,923	9,022
Distributed profit *	3,718	8,841	8,719	6,297	6,629
Mudarib fees	4,446	4,002	4,596	3,626	2,393
As at 30 June					
IAH ^[1]	369,706	336,010	260,609	193,245	183,915
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 2015	2014	2013	2012	2011	June 2015	2014	2013	2012	2011
1 Month ^[2]	610	1,304	1,488	1,629	1,824	16.4	14.7	17.1	25.9	27.5
3 Months	159	380	680	655	1,489	4.3	4.3	7.8	10.4	22.5
6 Months	664	1,455	1,100	474	764	17.9	16.5	12.6	7.5	11.5
12 Months	1,838	4,179	3,606	2,998	2,014	49.4	47.3	41.4	47.6	30.4
18 Months	1	1	-	-	-	0.0	0.0	-	-	-
24 Month	3	75	228	30	-	0.1	0.8	2.6	0.5	-
VIP Mudaraba	443	1,447	1,617	511	707	11.9	16.4	18.5	8.1	10.7
PER and IRR expenses	-	-	-	-	(169)	-	-	-	-	(2.6)
Total	3,718	8,841	8,719	6,297	6,629	100.0	100.0	100.0	100.0	100.0

^[2] Includes saving account and call mudaraba

Khaleeji Commercial Bank BSC

Risk Management Disclosures for the six months ended 30 June 2015

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 2015	2.21	-	-	1.20	1.01
2014	3.82	-	-	1.19	2.63
2013	5.11	-	-	1.76	3.35
2012	5.13	-	-	1.88	3.26
2011	4.99	-	-	1.22	3.69

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

(Annualised rates)

Type of deposit	June 2015	2014	2013	2012	2011
1 month Mudharaba ^[3]	0.91%	1.15%	1.12%	2.25%	2.51%
3 months Mudharaba	1.77%	2.19%	2.98%	3.08%	4.25%
6 months Mudharaba	2.72%	3.08%	3.64%	3.55%	4.52%
12 months Mudharaba	2.83%	3.39%	4.27%	4.46%	5.01%
18 months Mudharaba	3.13%	3.30%	-	-	-
24 months Mudharaba	3.39%	4.92%	5.07%	5.07%	-
VIP Mudharaba	2.24%	3.49%	4.09%	2.79%	3.67%

^[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 summarises 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 2015:

Particular	Allocation at 1 January 2015	Movement	Allocation at 30 June 2015	Proportion of total assets (%)
Cash and bank balances	29,674	(447)	29,227	57.5%
Placements with financial institutions	76,006	(23,171)	52,835	100.0%
Financing assets ^[4]	197,276	33,763	231,039	75.0%
Investment securities - Sukuk	35,978	32,380	68,358	100.0%
Total	338,934	42,525	381,459	

^[4] Includes Murabaha, Wakala, and Istisna contracts.

Khaleeji Commercial Bank BSC

Risk Management Disclosures for the six months ended 30 June 2015

9.2 Restricted Investment Accounts (RIA's)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2015	2014	2013	2012	2011
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 4 - Janayan	A restricted investment product designed to invest in growth and income generating real estate assets in the GCC and MENA regions. To date, RIA 4 has made distributions and redemptions to investors amounting to approximately 33.66% of investors' initial capital. These distributed funds were in the form of yields amounting to ≈ 21.17% in addition to 12.49% redemption of capital.	2007	44.33%	Quarterly	-	-	-	-	-

Khaleeji Commercial Bank BSC
Risk Management Disclosures for the six months ended 30 June 2015

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2015	2014	2013	2012	2011
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	-	-	-	-	-
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	-	-	-	-	-