

KHALEEJI COMMERCIAL BANK BSC

RISK MANAGEMENT DISCLOSURES

(based on Basel 2 and IFSB guidelines)

30 June 2009

These disclosures have been prepared in accordance with the Public Disclosure Module (“PD”), Section PD-1.3: Disclosures in Annual Reports, 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 2008, and the Interim financial information for the six months ended 30 June 2009.

Khaleeji Commercial Bank
Risk and Capital Management Disclosures

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Executive Summary

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. 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 alongwith the half yearly financial statements.

All figures presented in this section are reported in BD thousands and are as of 30 June 2009 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 a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on risk components and capital adequacy.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 2 framework.

The Banks total risk weighted assets as at 30 June 2009 amounted to BD 402,458. Credit risk accounted for 85 per cent, operational risk 14 per cent, and market risk 1 per cent of the total risk weighted assets. Tier I and total regulatory capital were BD 122,839 and BD 131,583 respectively as at 30 June 2009.

At 30 June 2009, Bank's Tier I and total adequacy ratios were 30.52per cent and 32.69 per cent respectively.

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1 Group Structure

The Bank operates under a retail banking license granted by the Central Bank of Bahrain (“CBB”) on 20 October 2003. The Bank does not have significant operating subsidiaries. The subsidiaries set-up are primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB capital computation guidelines and are risk weighted as investments for capital adequacy 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 investor, creditor and market confidence and to sustain the future development of business. 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

During the period, the paid up capital of the Bank increased from BD 100,000 thousand to BD 104,924 thousand as a result of issue of bonus shares (five shares for every hundred shares held) for 2008 amounting to BD 4,924 thousand. Following is the break-up of capital structure as at 30 June 2009:

	BD 000’s
Net Available Capital	30 June 2009
Issued and fully paid ordinary shares	104,924
Less: Treasury shares	(4,999)
Less: ESOP shares	(2,385)
Statutory reserve	5,988
Share premium	581
Others reserves	659
Retained earning	18,071
Tier 1 Capital	122,839
Net profit for the current period	7,121
Profit equalisation reserve	929
Investment risk reserve	694
Tier 2	8,744
Net Available Capital	131,583

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Risk Weighted Assets	30 June 2009
Credit Risk Weight Exposures	341,400
Market Risk Weight Exposures	4,363
Operational Risk Weight Exposures	56,695
Total Risk Weighted Assets	402,458

Capital Adequacy Ratio (Tier 1)	30.52%
Capital Adequacy Ratio (Total Capital)	32.69%

Break up of capital requirement in accordance with the Capital Adequacy Module of the CBB for the year ended 30 June 2009:

BD 000's

Exposure classification	Exposure			Risk weighted assets			Capital requirement		
	Self – Financed	URIA	Total	Self – Financed	URIA	Total	Self – Financed	URIA	Total
Cash and collection items	1,170	-	1,170	-	-	-	-	-	-
Sovereigns	9,333	15,160	24,493	-	-	-	-	-	-
Banks	141,815	-	141,815	43,760	-	43,760	5,251	-	5,251
Corporates	85,127	146,628	231,755	85,127	43,988	129,115	10,215	5,279	15,494
Investments in equities/sukuk	5,812	27,677	33,489	8,640	12,455	21,095	1,037	1,495	2,532
Holdings of real estate	70,882	-	70,882	141,764	-	141,764	17,012	-	17,012
Other assets	5,666	-	5,666	5,666	-	5,666	680	-	680
Credit Risk	319,805	189,465	509,270	284,957	56,443	341,400	34,195	6,774	40,969
Market Risk	349	-	349	4,363	-	4,363	524	-	524
Operational Risk	-	-	56,695	-	-	56,695	-	-	6,803
Total	320,154	189,465	566,314	289,320	56,443	402,458	34,719	6,774	48,296

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3 Credit Risk

3.1 Growth in Exposure levels

Gross credit exposure along with average credit exposure broken down under different exposure classes as at 30 June 2009 is as follows.

BD'000's

	Average Exposure ^[1]	Gross Exposure		
		Self	URIA	Total
Bank Balances	29,935	47,538	-	47,538
Placement with Banks/FIs	116,239	103,402	-	103,402
Islamic Financing Assets	158,001	17,254	146,628	163,882
Investments in equity securities	57,987	63,826	-	63,826
Assets Acquired for Leasing	22,997	22,258	-	22,258
Investment in Sukuks	45,322	-	42,837	42,837
Investments in Associates	6,476	6,522	-	6,522
Asset held for sale	5,655	5,655	-	5,655
Other assets	35,125	42,423	-	42,423
Total On Balance Sheet Credit Exposure	477,738	308,878	189,465	498,343
Guarantees	4,237	3,893	-	3,893
Undrawn financing facilities	11,454	10,849	-	10,849
Commitments to Invest	2,712	1,727	-	1,727
Commitments to underwrite	15,080	-	-	-
Total Off Balance Sheet Credit Exposure	33,483	16,469	-	16,469

[1] Average exposure for the year has been computed based on quarterly average balances for the six months period ended 30 June 2009.

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3.2 Concentration of credit risk

3.2.1 Geographic distribution

The geographical exposure profile as at 30 June 2009 was as follows:

BD'000's

	GCC countries	Europe	USA	Asia	Aust-ralia	Africa	Total
Assets							
Bank balances	12,919	4,256	30,363	-	-	-	47,538
Placements with financial institutions	95,546	5,970	-	1,886	-	-	103,402
Islamic financing assets	156,322	5,217	2,343	-	-	-	163,882
Investment securities	75,668	4,096	-	25,014	-	1,885	106,663
Assets acquired for leasing	22,258	-	-	-	-	-	22,258
Investment in associates	6,522	-	-	-	-	-	6,522
Asset held for sale	-	-	-	-	5,655	-	5,655
Other assets	2,624	-	-	27,358	-	12,441	42,423
Total funded exposures	371,859	19,539	32,706	54,258	5,655	14,326	498,343
Undrawn financing facilities	10,677	172	-	-	-	-	10,849
Commitment to invest	-	-	-	1,727	-	-	1,727
Guarantees	3,893	-	-	-	-	-	3,893
Total unfunded exposures	14,570	172		1,727	-	-	16,469

3.2.2 Industry/ sector wise distribution of exposure

The industry sector wise exposure is as follows:

BD'000's

	Banks and financial institutions	Real estate	Others	Total
Assets				
Bank balances	47,538	-	-	47,538
Placements with financial institutions	103,402	-	-	103,402
Islamic financing assets	9,213	91,625	63,044	163,882
Investments securities	28,694	66,998	10,971	106,663
Assets acquired for leasing	3,005	12,612	6,641	22,258
Investment in associates	-	6,522	-	6,522
Asset held for sale	-	-	5,655	5,655
Other assets	208	40,564*	1,651	42,423
Total funded exposures	192,060	218,321	87,962	498,343

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	Banks and financial institutions	Real estate	Others	Total
Off-balance sheet items				
Undrawn financing facilities		6,717	4,132	10,849
Commitment to invest		1,727	-	1,727
Guarantees		-	3,893	3,893
Total unfunded exposures		8,444	8,025	16,469

*Includes receivable from an associate and which is fully backed by cash deposit. This exposure has since been adjusted.

3.2.3 Transactions with related parties

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties, and all such transactions have been done at an arms length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain for the purpose.

Transactions with related parties during the six months period ended 30 June 2009 and balances outstanding pertaining to related parties as at 30 June 2009 is as follows:

	BD 000's
Transactions	30 June 2009
Income from investment banking services	11,645
Placement, management and arrangement fees	573
Income from placements with financial institutions	25
Share of profits from associate companies	136
Income from investment securities	164
Income from Islamic assets and assets acquired on leasing	222
Financing expense	119
Return unrestricted investment accounts	497
Balances	30 June 2009
Placements with financial institutions	14,545
Islamic financing assets	9,479
Investment in associates	6,522
Investment securities	43,792
Placements from financial and other institutions	15,836
Unrestricted investment accounts	52,976
Customers' current accounts	19,447
Other assets	28,014

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3.2.4 Exposures in excess of 15% of capital base

Single exposures in excess of 15 % of the Bank's capital base on individual counterparties require prior approval of CBB except where exempted under para CM 4.5 of the rule book. The Bank does not have any such 'large exposures' that are not exempted and which therefore require prior approval of CBB.

Exposures exceeding single exposure limits as of 30 June 2009

	Amount in BD 000's
Banks	
Bank A	30,363
Bank B	22,680
Bank C	18,868
Total	71,911
Non-Banks	
Counterparty A	42,345
Total	42,345
Grand Total	114,256

3.2.5 Exposures in highly leveraged counterparties

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

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3.2.6 Residual contractual maturity of the credit portfolio

The Bank's policy allows exposures up to a maximum period of 7 years. However, most of the Bank's exposures are limited to an original maturity of 5 years. 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 residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in Sukuks is given in the table below.

Maturity Scale	<1 M	1 - 3 M	3 - 6 M	6M - 1 Y	1 - 3 Y	> 3 Y	Total
Credit portfolio*							
Murabaha	15,193	7,943	12,933	18,168	37,741	44,120	136,098
Musharaka	-	-	1,582	10,471	11,451	181	23,685
Wakala	2,171	-	-	-	-	218	2,389
Istisna	-	-	-	-	-	1,710	1,710
Ijarah	678	-	-	-	9,412	12,168	22,258
Total	18,042	7,943	14,515	28,639	58,604	58,397	186,140
Investments in sukuks	4,300	4,350	4,160	1,885	11,913	16,229	42,837
Total	4,300	4,350	4,160	1,885	11,913	16,229	42,837
Grand Total	22,342	12,293	18,675	30,524	70,517	74,626	228,977

* Credit Portfolio includes Islamic Financing Assets and Assets acquired for Leasing

3.3 Equity risk in banking book

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, majority investments in commercial entities and associate investments in non-financial entities.

BD 000's

Information on equity investments	
Privately held	63,669
Quoted in an active market	157
Realised gain/ (loss) during the period	-
Unrealised gain/ (loss) in equity	(12)

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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 charge	
	Self financed	URIA	Self financed	URIA	Self financed	URIA
Quoted equity investment	157	-	157	-	19	-
Unquoted equity investment	5,655	-	8,483	-	679	-
Investments in managed funds	-	-	-	-	-	-
Real estate investments	*70,882	-	141,764	-	8,506	-
Total	76,694	-	150,404	-	9,204	-

* Includes commitments to Invest

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3.4 Past dues, impaired accounts, provisions

¶ Exposure which were past due or impaired as of 30 June 2009:

BD 000's

30 June 2009	Placements with financial institutions	Islamic financing assets	Assets acquired for leasing	Investment securities-Sukuks	Other assets	Total
<u>Impaired</u>						
Grade 9: Impaired Allowance for impairment	-	9,833	-	-	-	9,833
<u>Impaired comprises:</u>						
6 to 12 months	-	(5,686)	-	-	-	(5,686)
Carrying amount	-	4,147	-	-	-	4,147
<u>Past Due but not impaired</u>						
Grade 1-6 Low-Fair Risk	-	2,004	-	-	-	2,004
Grade 7-8 Watch list	-	14,380	-	-	-	14,380
Unrated	-	-	-	-	-	-
<u>Past due comprises:</u>						
upto 3 months	-	7,563	-	-	-	7,563
3 to 6 months	-	8,811	-	-	-	8,811
6 to 12 months	-	10	-	-	-	10
1 to 3 years	-	-	-	-	-	-
Over 3 years	-	-	-	-	-	-
Carrying amount	-	16,384	-	-	-	16,384
<u>Neither past due nor impaired</u>						
Grade 1-6 Low-Fair Risk	103,402	138,304	22,258	42,837	-	306,801
Grade 7,8: Watch list	-	6,621	-	-	-	6,621
Unrated	-	-	-	-	42,423	42,423
Carrying amount	103,402	144,925	22,258	42,837	42,423	355,845
<i>Less:</i>						
Collective impairment provisions	-	(1,576)	-	-	-	(1,576)
Total	103,402	163,882	22,258	42,837	42,423	374,802

During the year 2009, the Bank has undertaken a detailed assessment of its credit portfolio and has considered specific impairment allowances where necessary. However, in view of the current market conditions, the Bank has maintained a portfolio provision at a level of approximately 1% of its Islamic financing assets. The portfolio provision is primarily for the Bank's exposure in the GCC markets. The Bank is in the process of developing a detailed risk and ratings based model

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to identify and maintain collective provision on portfolio basis going forward. During the period, the Bank has recognised impairment provision

3.5 Geographical and sector-wise break-up of impaired/past due accounts

	GCC countries	Europe	USA	Asia	Aust-ralia	Africa	Total
Impaired	3,156	-	6,677	-	-	-	9,833
Allowance for impairment	(1,349)	-	(4,337)	-	-	-	(5,686)
Carrying amount	1,807		2,341	-	-	-	4,147
Past Due but not impaired	16,384	-	-	-	-	-	16,384

	Banks and financial institutions	Real estate	Others	Total
Impaired	-	6,677	3,156	9,833
Allowance for impairment		(4,337)	(1,349)	(5,686)
Carrying amount		2,341	1,807	4,147
Past Due but not impaired	3,557	6,115	6,712	16,384

3.6 Restructured/renegotiated credit facilities

Exposures classified as neither past due nor impaired financing facilities include facilities renegotiated during the period ended 30 June 2009 amounting to BD 20,904 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. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD.

3.7 Legal Action and Write off of exposures

The Bank has policies for initiation and prosecution of legal action when all other avenues for recovery of dues from a customer has exhausted. No such legal action has been initiated so far.

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. However the Bank has so far not written off any such dues or exposures.

3.8 Penalties for Delayed Payments

The Bank has a policy of creating a contribution for Zakah and Charity fund for any non-Islamic income earned. During the six months period ended 30 June 2009 BD one thousand of non-Islamic income was transferred to Zakah & Charity fund.

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3.9 Credit Risk Mitigation

The position of collateral cover for all credit exposures categorised on the basis of the type of security as on 30th June 2009 is given in the table below.

BD 000's

Collateral Type	Murabaha	Musharaka	Wakala	Istisna	Ijarah	Total Gross Exposure	Value of Collateral ^[1]	%age of cover	%age of total
Real Estate Listed Securities	68,271	12,391	2,389	1,710	15,666	100,427	216,683	216	73
Unlisted Securities	3,156	1,896	-	-	-	5,052	1,604	32	1
Bank Guarantee	8,566	-	-	-	-	8,566	16,067	188	5
Cash Collateral	10,437	7,656	-	-	-	18,093	39,042	216	13
Unsecured	6,600	-	-	-	-	6,600	6,600	100	2
Others	34,884	-	-	-	1,787	36,671	-	-	-
	4,184	1,742	-	-	4,805	10,731	17,870	167	6
Total	136,098	23,685	2,389	1,710	22,258	186,140	236,182	160	100

^[1] (Represents the last valuation carried out based on the Bank's valuation policy)

The Bank does not carry out any on balance sheet or off balance sheet netting for the securities held. The Bank has not claimed any capital relief for Credit Risk Mitigation under Section CA 4 of the Capital Adequacy module of CBB rule book and hence all exposures are risk weighted at their gross values.

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 six months period ended 30 June 2009 there has been no such instance.

3.10 Regulatory Capital Requirements by type of Islamic financing contracts

BHD 000's

Islamic financing contracts	Exposures		Credit Risk Weighted Assets		Capital requirement	
	Self	URIA	Self	URIA	Self	URIA
Murabaha	14,865	121,232	14,865	36,370	1,784	4,364
Istisna'a receivable	-	1,710	-	513	-	62
Ijarah assets	22,258	-	22,258	-	2,671	-
Musharaka	-	23,686	-	7,106	-	853
Wakala	2,389	-	2,389	-	287	-
Total	39,512	146,628	39,512	43,989	4,742	5,279

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4 Market Risk

4.1 Regulatory Capital Allocation against Market Rate Risk

Table below shows the capital requirements for each category of the market risk as at year end along with the maximum and minimum values during the period:

BHD 000's

	As at 30 June	Max	Min
Equity position risk	-	-	-
market risk on trading positions in sukuk	-	-	-
Foreign exchange risk	524	648	524
Commodity risk	-	-	-
Total	524	648	524

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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 2009 is as given below:

	BHD 000's
Average gross income for 3 years	30,237
Operational Risk Weighted Assets	56,695
Capital requirement	6,803

6 Other risks

6.1 Liquidity Risk

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

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Maturity profile of assets and liabilities as at 30 June 2009 is as follows:

31 March 2009	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	48,708	-	-	-	-	48,708
Placements with financial institutions	103,402	-	-	-	-	103,402
Islamic financing assets	25,307	14,515	28,639	49,192	46,229	163,882
Investment securities	23,903	4,160	20,910	38,761	18,929	106,663
Assets acquired for leasing	678	-	-	9,412	12,168	22,258
Investment in associates	-	2,572	3,950	-	-	6,522
Asset held for sale	5,655	-	-	-	-	5,655
Other assets	42,123	-	-	-	300	42,423
Equipment	-	-	-	-	4,949	4,949
Total assets	249,775	21,248	53,499	97,364	82,576	504,462
Liabilities						
Placements with financial institutions and others	85,394	-	11,440	-	-	96,834
Customer current account	78,354	-	-	-	-	78,354
Other liabilities	8,226	-	-	-	-	8,226
Total liabilities	171,974	-	11,440	-	-	183,414
Unrestricted Investment accounts	145,505	-	45,583	-	-	191,088
Restricted Investment accounts	-	-	38,992	-	8,100	47,092
Commitments	6,369	2,792	3,414	3,894	-	16,469

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The following are the key liquidity ratios which reflect the liquidity position of the Bank:

	Figures in %	
	30 June 2009	31 December 2008
Interbank assets to interbank liabilities	106.78	436.50
Liquid assets to total assets	32.69	37.04
Liquid assets to total deposits	61.21	60.39
Net liquid assets to total deposits	25.27	49.79

6.2 Profit rate risk in the banking book

A summary of the Bank's profit rate gap position at 30 June 2009 is as follows:

	BHD 000's					
	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	103,402	-	-	-	-	103,402
Islamic Financing assets	36,234	19,287	35,788	28,965	43,608	163,882
Assets acquired for leasing	12,033	9,498	-	410	317	22,258
Investments securities (sukuks)	27,467	9,715	-	-	5,655	42,837
Total profit rate sensitive assets	179,137	38,500	35,788	29,375	49,580	332,379
Liabilities						
Placements from financial institutions and others	85,394	-	11,440	-	-	96,834
Unrestricted investments accounts	145,504	-	45,583	-	-	191,087
Total profit rate sensitive liabilities	230,898	-	57,023	-	-	287,922
Profit rate gap	(51,762)	38,500	(21,235)	29,375	49,580	44,458

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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:

At 31 June 2009

At 31 December 2008

200 bp parallel increase/ decrease
± 890
± 1,980

6.3 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 Unrestricted Investment Accounts. This can be due to the return on such assets being lower than that of competitors. The Bank undertakes quarterly review of its assets and liabilities portfolios to identify, monitor and address potential risks that may arise from such mismatch. Please refer to the section on URIA for further details.

6.4 Other risks

Other risks include strategic risk, fiduciary risks, and regulation 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 internally allocates additional capital for such risks under its ICAAP.

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7 Unrestricted Investment Accounts (URIAs)

The detail of income distribution to URIA holders is given below.

	BHD 000's				
	30 June 2009	2008	2007	2006	2005
Allocated Income to URIA	5,613	9,107	3,012	917	279
Distributed Profit	4,213	7,050	2,446	628	207
Mudarib Fees	898	2,057	566	299	72
<i>As at period end</i>					
Average URIA ^[1]	181,318	128,814	38,405	12,083	4,857
Profit Equalisation Reserve (PER)	929	649	206	60	14
Investment Risk Reserve (IRR)	694	473	134	43	9
Profit Equalisation Reserve-to-URIA	0.51%	0.50%	0.54%	0.50%	0.29%
Investment Risk Reserve-to-URIA	0.38%	0.37%	0.35%	0.36%	0.18%

[1] Represents average balance.

Ratio of profit distributed by type of URIA (based on tenor)

Tenor	Profit Paid amount in BD					Ratio of profit paid as a percentage of total				
	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
1 Month Mudharaba	2,288	3,346	1,576	335	108	48.6	47.5	64.4	53.4	52.1
3 Months Mudharaba	728	1,314	148	78	39	15.4	18.6	6.1	12.4	19.0
6 Months Mudharaba	316	373	71	26	9	6.7	5.3	2.9	4.1	4.4
12 Months Mudharaba	505	690	106	45	27	10.7	9.8	4.3	7.1	13.3
VIP Mudharaba	375	545	309	64	-	8.0	7.7	12.6	10.2	0
PER and IRR Expense	502	782	236	81	23	10.6	11.1	9.7	12.8	11.2
Total	4,714	7,050	2,446	628	206	100.0	100.0	100.0	100.0	100.0

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Year	Avg. profit earned from URIA assets (%age of asset)	PER set aside as a %age of URIA assets	IRR set aside as a %age of URIA assets	Mudharib fees as a %age of URIA assets	Profit paid as a %age of URIA assets
HY ended 30 June					
2009	6.32	0.15	0.12	0.50	2.6
2008	7.07	0.34	0.26	1.60	4.87
2007	7.84	0.38	0.24	1.47	5.75
2006	7.59	0.38	0.29	2.39	4.53
2005	5.74	0.29	0.18	1.48	3.80

Market Bench mark rates:

The Bank refers to the a group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to bench mark the rate of return on URIA.

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7.1 Restricted Investment Accounts (RIAs)

RIA Name	Details	Launch Date	Projected Returns	Return Frequency	Returns annualised				
					Period ended 30 June 2009	2008	2007	2006	2005
Al Hareth French Property Fund	An investment product designed to deliver attractive return from income producing properties in France, which is currently yielding 9.5% p.a. exceeding the 9% promised to investors. Approximate capital redemption of 30% was completed in April 2007. The product generated a capital gain of 6% on the redeemed portion.	2005	9%	Annual	7%	9.5%	9.5%	9.5%	4.4%
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 product has a three year term with the distribution expected upon exit in May 2010	2007	61.78% over three years	Bullet payment on maturity	-	-	-	-	-
RIA-2 Hajer Tower	A restricted investment structure designed to acquire the 21 st floor of Al-Hajer Tower in the Holy City of Mecca. The exit of this product was completed in June 2008 with the expected return of 14.90% been met.	2007	14.90%	Bullet payment on maturity	-	14.9%	-	-	-
RIA-3 Aramis	Participation in Murabaha backed by a promissory issued by a guarantor SPV with BBB+ rating. KHCB offered this as a short-term investment to investors with 3 month term on a renewal option and successfully exited all investors from this project during quarter ended 31 March 2008	2007	3 month USD Libor+187 bps per quarter	Quarterly	-	7.50%	7.72%	6.34%	-

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RIA 4 Janayen	A restricted Mudarabah Product designed to invest in income generating property mainly designed for labour Accommodation. Total cash yield on portfolio is currently in the region of 11% p.a. with quarterly distributions of 2.75% which is over the quarterly distribution rate of 2.50% (projected from April 2008 onwards) specified in the offering documents. Janayen is expected to exit on completion of 30 months in January 2010.	2007	2.5% per quarter	Quarterly	8.5%	10.65%	-	-	-
RIA-5 North Gate	A Restricted Mudharabah product which owns a 6.0% stake in Shaden Real Estate Investment WLL which will in turn through its subsidiaries, hold a parcel of reclaimed land and measuring approximately 3.875 million sq. meter located in Al Hidd, Muharraq. The mixed-use plot will be sold to end-users subsequent to the completion of infrastructure works. The distribution is expected to be in a bullet payment.	2008	90.66% over 3 years	Bullet return at maturity	-	-	-	-	-