# BAHRAIN ISLAMIC BANK B.S.C.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

# 31 MARCH 2021

## CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
**For the three months ended 31 March 2021**

**CONTENTS**

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**Independent auditors' report on review of condensed consolidated interim financial information**

The Board of Directors
Bahrain Islamic Bank B.S.C.
Manama
Kingdom of Bahrain

26 April 2021

**Introduction**
We have reviewed the accompanying 31 March 2021 condensed consolidated interim financial information of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2021;
- the condensed consolidated income statement for the three-month period ended 31 March 2021;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2021;
- the condensed consolidated statement of changes in owners' equity for the three-month period ended 31 March 2021;
- the condensed consolidated statement of sources and uses of good faith qard fund for the three-month period ended 31 March 2021;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the three-month period ended 31 March 2021; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the basis of preparation as stated in note 2 of this condensed consolidated interim financial information. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

**Scope of review**
We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**
Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2021 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation as stated in note 2 of this condensed consolidated interim financial information.

**Other Matter**
Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the Central Bank of Bahrain vide its circular OG/124/2020 dated 30 March 2020 had exempted all public shareholding companies and locally incorporated banks from preparation and publication of condensed consolidated interim financial information for the three-month period ended 31 March 2020. We have not reviewed the comparative information for the three-month period ended 31 March 2020 presented in this condensed consolidated interim financial information which has been extracted from management accounts of the Group and, we do not express any review conclusion on them.

KPMG

Bahrain Islamic Bank B.S.C.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

| | Note | ***31 March 2021 BD'000 (reviewed)*** | *31 December 2020 BD'000 (audited)* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks and Central Bank | | **53,620** | 50,362 |
| Placements with financial institutions | | **71,621** | 44,442 |
| Financing assets | 9 | **571,630** | 571,513 |
| Investment securities | 10 | **252,026** | 276,608 |
| Ijarah Muntahia Bittamleek | 11 | **198,509** | 191,365 |
| Ijarah rental receivables | 11 | **28,419** | 20,677 |
| Investment in associates | | **18,291** | 19,024 |
| Investment in real estate | 12 | **16,226** | 16,226 |
| Property and equipment | | **13,820** | 14,047 |
| Other assets | 13 | **7,662** | 7,317 |
| **TOTAL ASSETS** | | **1,231,824** | 1,211,581 |
| **LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY** | | | |
| **Liabilities** | | | |
| Placements from financial institutions | | **120,727** | 147,893 |
| Placements from non-financial institutions and individuals | | **237,442** | 261,002 |
| Borrowings from financial institutions | 14 | **19,022** | - |
| Customers' current accounts | | **202,484** | 188,742 |
| Other liabilities | 15 | **39,961** | 23,642 |
| **Total Liabilities** | | **619,636** | 621,279 |
| **Equity of Investment Accountholders** | | | |
| Financial institutions | | **37,944** | 33,986 |
| Non-financial institutions and individuals | | **474,132** | 460,274 |
| **Total Equity of Investment Accountholders** | 16 | **512,076** | 494,260 |
| **Owners' Equity** | | | |
| Share capital | | **106,406** | 106,406 |
| Treasury shares | | **(892)** | (892) |
| Shares under employee share incentive scheme | | **(175)** | (257) |
| Share premium | | **206** | 206 |
| Reserves | | **(5,433)** | (9,421) |
| **Total Owners' Equity** | | **100,112** | 96,042 |
| **TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY** | | **1,231,824** | 1,211,581 |

The condensed consolidated interim financial information comprising of pages 2 to 26 was approved by the Board of Directors on 26 April 2021 and signed on its behalf by:

| Dr. Esam Abdulla Fakhro<br>Chairman | Khalid Yousif Abdul Rahman<br>Vice Chairman | Hassan Amin Jarrar<br>Chief Executive Officer |
|---|---|---|

The accompanying notes 1 to 24 form part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2021

| | Note | Three months ended 31 March<br>**2021**<br>**BD'000**<br>**(reviewed)** | <br>2020<br>BD'000<br>(unreviewed) |
|---|---|---|---|
| **INCOME** | | | |
| Income from financing | | **10,676** | 10,530 |
| Income from investment in Sukuk | 17 | **3,713** | 2,877 |
| **Total income from jointly financed assets** | | **14,389** | 13,407 |
| Return on equity of investment accountholders | | **(6,718)** | (4,243) |
| Group's share as Mudarib | | **5,789** | 3,101 |
| Net return on equity of investment accountholders | | **(929)** | (1,142) |
| **Group's share of income from jointly financed assets (both as mudarib and investor)** | | **13,460** | 12,265 |
| Expense on placements from financial institutions | | **(797)** | (1,442) |
| Expense on placements from non-financial institutions and individuals | | **(1,994)** | (2,329) |
| Expense on borrowings from financial institutions | | **(22)** | (149) |
| Fee and commission income, net | | **1,390** | 1,301 |
| Income from investment securities | | **-** | 846 |
| Income from investment in real estate, net | | **48** | (349) |
| Share of results of associates, net | | **(443)** | (4) |
| Other income, net | | **328** | 463 |
| **Total income** | | **11,970** | 10,602 |
| **EXPENSES** | | | |
| Staff costs | | **3,256** | 3,369 |
| Depreciation and amortization | | **379** | 357 |
| Other expenses | | **2,299** | 2,009 |
| **Total expenses** | | **5,934** | 5,735 |
| **Profit before impairment allowances** | | **6,036** | 4,867 |
| Impairment allowance, net | 18 | **(1,724)** | (1,752) |
| **PROFIT FOR THE PERIOD** | | **4,312** | 3,115 |
| **BASIC AND DILUTED EARNINGS PER SHARE (fils)** | | **4.10** | 2.96 |

Dr. Esam Abdulla Fakhro
Chairman

Khalid Yousif Abdul Rahman
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

The accompanying notes 1 to 24 form part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March 2021

| | *Three months ended 31 March* | |
|---|---|---|
| | ***2021*** | *2020* |
| | ***BD'000*** | *BD'000* |
| | ***(reviewed)*** | *(unreviewed)* |
| **OPERATING ACTIVITIES** | | |
| Profit for the period | **4,312** | 3,115 |
| Adjustments for non-cash items: | | |
| Depreciation | **316** | 357 |
| Fair value movement on investment in real estate | **-** | 287 |
| Impairment allowance, net | **1,724** | 1,752 |
| Amortization of right-of-use asset | **63** | - |
| Amortization of gain on sale of investment in real estate | **(5)** | (5) |
| Gain on sale of investment securities | **(489)** | (836) |
| Loss on sale of investment in real estate | **-** | 52 |
| Loss on foreign exchange revaluation | **-** | 115 |
| Share of results of associates, net | **443** | 4 |
| Operating profit before changes in operating assets and liabilities | **6,364** | 4,841 |
| Working capital adjustments: | | |
| Mandatory reserve with Central Bank of Bahrain | **(45)** | 14,515 |
| Financing assets | **(1,492)** | 33,621 |
| Ijarah Muntahia Bittamleek | **(14,940)** | (14,587) |
| Other assets | **(412)** | 911 |
| Customers' current accounts | **13,742** | 38,675 |
| Other liabilities | **16,108** | 2,758 |
| Placements from financial institutions | **(27,324)** | 21,319 |
| Placements from non-financial institutions and individuals | **(23,560)** | 25,504 |
| Equity of investment accountholders | **17,816** | (33,130) |
| **Net cash (used in) / from operating activities** | **(13,743)** | 94,427 |
| **INVESTING ACTIVITIES** | | |
| Disposal of investment in real estate | **-** | 130 |
| Purchase of property and equipment | **(89)** | (612) |
| Purchase of investment securities | **(3,419)** | (17,182) |
| Proceeds from disposal of investment securities | **28,245** | 9,101 |
| Redemption of investment in associates | **291** | 3,135 |
| **Net cash from / (used in) investing activities** | **25,028** | (5,428) |
| **FINANCING ACTIVITIES** | | |
| Borrowings from financial institutions | **19,022** | (11) |
| Lease liability paid | **(74)** | - |
| Dividends paid | **-** | (1) |
| **Net cash from / (used in) financing activities** | **18,948** | (12) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **30,233** | 88,987 |
| Cash and cash equivalents at 1 January | **68,580** | 99,670 |
| **CASH AND CASH EQUIVALENTS AT 31 March** | **98,813** | 188,657 |
| Cash and cash equivalents comprise of: | | |
| Cash on hand | **17,785** | 15,009 |
| Balances with CBB, excluding mandatory reserve deposits | **244** | 1,635 |
| Balances with banks and other financial institutions excluding restricted balances | **9,163** | 5,539 |
| Placements with financial institutions with original maturities less than 90 days | **71,621** | 166,474 |
| | **98,813** | 188,657 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the three months ended 31 March 2021

| | | | | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2021 - reviewed | *Share capital BD'000* | *Treasury shares BD'000* | *Shares under employee share incentive scheme BD'000* | *Share premium BD'000* | *Statutory reserve BD'000* | *Real estate fair value reserve BD'000* | *Investment securities fair value reserve BD'000* | *(Accumulated losses) / Retained earnings BD'000* | *Total reserves BD'000* | *Total owners' equity BD'000* |
| **Balance at 1 January 2021** | **106,406** | **(892)** | **(257)** | **206** | **4,736** | **2,178** | **1,696** | **(18,031)** | **(9,421)** | **96,042** |
| Profit for the period | - | - | - | - | - | - | - | 4,312 | 4,312 | 4,312 |
| Zakah approved | - | - | - | - | - | - | - | (122) | (122) | (122) |
| Donations approved | - | - | - | - | - | - | - | (250) | (250) | (250) |
| Shares allocated to staff during the period | - | - | 82 | - | - | - | - | - | - | 82 |
| Net movement in investment securities fair value reserve | - | - | - | - | - | - | 48 | - | 48 | 48 |
| **Balance at 31 March 2021** | **106,406** | **(892)** | **(175)** | **206** | **4,736** | **2,178** | **1,744** | **(14,091)** | **(5,433)** | **100,112** |
| 2020 - unreviewed | | | | | | | | | | |
| Balance at 1 January 2020 | 106,406 | (892) | (281) | 180 | 4,736 | 2,049 | 718 | 8,007 | 15,510 | 120,923 |
| Profit for the period | - | - | - | - | - | - | - | 3,115 | 3,115 | 3,115 |
| Modification loss | - | - | - | - | - | - | - | (14,711) | (14,711) | (14,711) |
| Net movement in investment securities fair value reserve | - | - | - | - | - | - | (513) | - | (513) | (513) |
| Balance at 31 March 2020 | 106,406 | (892) | (281) | 180 | 4,736 | 2,049 | 205 | (3,589) | 3,401 | 108,814 |

The accompanying notes 1 to 24 form part of this condensed consolidated interim financial information.

Bahrain Islamic Bank B.S.C.

# CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the three months ended 31 March 2021

| | *Qard Hasan receivables BD'000* | *Funds available for Qard Hasan BD'000* | *Total BD'000* |
|---|---|---|---|
| **2021 - reviewed** | | | |
| Balance at 1 January 2021 | **79** | **138** | **217** |
| Sources of Qard Fund | | | |
| Repayments | **(8)** | **8** | **-** |
| Total sources during the period | **(8)** | **8** | **-** |
| Uses of Qard fund | | | |
| Marriage | **-** | **-** | **-** |
| Others (Waqf) | **5** | **(5)** | **-** |
| Total uses during the period | **5** | **(5)** | **-** |
| **Balance at 31 March 2021** | **76** | **141** | **217** |
| 2020 - unreviewed | | | |
| Balance at 1 January 2020 | 57 | 160 | 217 |
| Sources of Qard Fund | | | |
| Repayments | (6) | 6 | - |
| Total sources during the period | (6) | 6 | - |
| Uses of Qard fund | | | |
| Marriage | 7 | (7) | - |
| Others (Waqf) | 18 | (18) | - |
| Total uses during the period | 25 | (25) | - |
| Balance at 31 March 2020 | 76 | 141 | 217 |

| | ***31 March 2021 BD'000 (reviewed)*** | *31 March 2020 BD'000 (unreviewed)* |
|---|---|---|
| **Sources of Qard fund** | | |
| Contribution by the Bank | **125** | 125 |
| Donation | **3** | 3 |
| Non-Islamic income | **89** | 89 |
| | **217** | 217 |

# CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the three months ended 31 March 2021

| | ***31 March 2021 BD'000 (reviewed)*** | *31 March 2020 BD'000 (unreviewed)* |
|---|---|---|
| **Sources of Zakah and charity funds** | | |
| Undistributed Zakah and charity funds at the beginning of the period | **243** | 401 |
| Non-Islamic income / late payment fee | **21** | 76 |
| Contributions by the Bank for zakah | **122** | - |
| Contributions by the Bank for donations | **250** | - |
| Others | **6** | 8 |
| Total sources of Zakah and charity funds during the period | **642** | 485 |
| **Uses of Zakah and charity funds** | | |
| Philanthropic societies | **-** | 14 |
| Aid to needy families | **48** | 103 |
| Islamic events | **-** | - |
| Others | **-** | 99 |
| Total uses of funds during the period | **48** | 216 |
| **Undistributed Zakah and charity funds at the end of the period** | **594** | 269 |

## 1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

During 2019, one of the significant shareholders, National Bank of Bahrain (NBB) made a voluntary offer to acquire additional issued and paid up ordinary shares of the Bank. NBB is a licensed retail bank regulated by the Central Bank of Bahrain and listed on the Bahrain Bourse. The acquisition offer included a cash or share exchange option at the preference of each shareholder of the Bank. On 22 January 2020, this offer was closed and after settlement with the shareholders of the Bank, NBB's shareholding in the Bank increased from 29.06% as reported at 31 December 2019 to 78.81%. Hence NBB is considered as Parent of the Bank for financial reporting purposes.

*Proposed AT1 issuance*

Further to approval by shareholders in the extraordinary general meeting dated 23 March 2021, the Group is planning to issue perpetual Additional Tier 1 securities with the objective to increase total equity. This issuance is subject to approval from the Central Bank of Bahrain and expected to be complete in Q2 2021.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2020: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate Company W.L.L.

## 2 BASIS OF PREPARATION AND PRESENTATION

The condensed consolidated interim financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to Coronavirus (COVID-19). These rules and regulations require the adoption of all Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note (3) for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in the profit or loss. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note (3) for further details.

The above framework for basis of preparation of the interim financial information is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI standards the group uses guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Accordingly, the condensed consolidated interim financial information of the Group has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting', using 'Financial Accounting Standards as modified by CBB'.

The accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 31 December 2020 were in accordance with FAS as modified by CBB. However, except for the changes due to adoption of new accounting standards as explained in note 4 below, all other accounting policies remain same and have been consistently applied in this condensed consolidated interim financial information. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

The condensed consolidated interim financial information of the Group does not contain all information and disclosures required for the annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements for the year ended 31 December 2020. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2020.

## 3 COVID-19 IMPACT

On 11 March 2020, the COVID-19 outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets, and in particular oil prices, have also experienced great volatility. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the condensed consolidated interim financial information, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

As of 31 March 2021, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR), and Liquidity Coverage Ratio (LCR).

Following are some of the significant concessionary measures which were announced by the CBB in the year 2020:

- For assessment of SICR from stage 1 to stage 2 increase in number of days from 30 to 74 days
- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR and NSFR ratio from 100% to 80%;
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ended 31 December 2020 and ending 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

During the second quarter of 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 14,711 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to BD 554,875 thousand (first deferral - March 2020 to September 2020) as part of its support to impacted customers.

In September 2020 and December 2020, the CBB issued another regulatory directive to extend the concessionary measures, i.e. holiday payments to customers till end of December 2020 and June 2021 respectively. However, customers will be charged profits during this holiday payment extension period, and hence the Group does not expect significant modification loss as a result of the extension. The Group has provided payment holidays on financing exposures amounting to BD 200,435 thousand for the second deferral (September 2020 to December 2020) and BD 218,446 thousand for the third deferral (January 2021 to June 2021). In addition, the existing regulatory concessionary measures issued in 2020 (i.e. reduced levels of LCR, NSFR, SMEs risk weight, cash reserve ratio, cooling-off period for transferring exposures from stage 3 to stage 2, the relaxations concerning the days past due for ECL staging criteria from stage 1 to stage 2 of 74 days) were extended until 31 December 2021.

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

As per the regulatory directive, financial assistance received in the year ended 31 December 2020 amounting to BD 1,814 thousand (representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges) and zero cost funding received from the government and/or regulators in the year ended 31 December 2020, in response to its COVID-19 support measures, was recognized directly in equity.

**4 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group audited consolidated financial statements as at and for the year ended 31 December 2020, except for adoption of following standards and amendments to standards effective from 1 January 2021. Adoption of these standards and amendments did not result in changes to previously reported net profit or equity of the Group, however it has resulted in additional disclosures.

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021

(i) FAS 32 Ijarah

AAOIFI issued FAS 32 "Ijarah" in 2020, this standard is effective for financial periods beginning on or after 1 January 2021. The standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

FAS 32 sets out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee.

The Group has applied FAS 32 "Ijarah" from 1 January 2021. The impact of adoption of this standard is disclosed in (b) below.

*(a) Change in accounting policy*

*Identifying an Ijarah*

At inception of a contract, the Bank assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Bank accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

*Measurement*

For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Bank allocates the consideration in the contract to each Ijarah component on the basis of relative stand-alone price of the Ijarah component and the aggregate estimated stand-alone price of the non-Ijarah components, that may be charged by the lessor, or a similar supplier, to the lessee.

At the commencement date, a lessee shall recognise a right-of-use (usufruct) asset and a net ijarah liability.

i) Right-of-use (usufruct) asset

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:
- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction. As per the group's assessment, at the time of implementation the fair value of right-of-use assets are equal to the net Ijarah liability.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Bank amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

The Bank determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:
• Extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
• Termination options if it is reasonably certain that the Bank will not exercise that option.

The Bank carries out impairment assessment in line with the requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments" to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 "Impairment, Credit Losses and Onerous Commitments".

**4 SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021 (Continued)*

*(i) FAS 32 Ijarah (Continued)*

ii) Net ijarah liability

The net ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability are initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:
• Fixed Ijarah rentals less any incentives receivable;
• Variable Ijarah rentals including supplementary rentals; and
• Payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Advance rentals paid are netted-off with the gross Ijarah liability.

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintanence. As of 31 March 2021, the Bank did not have any contracts with variable or supplementary rentals.

After the commencement date, the Bank measures the net Ijarah liability by:
• Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
• Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
• Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals.

The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Bank recognises the following in the income statement:
• Amortisation of deferred Ijarah cost; and
• Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

*Ijarah contract modifications*

After the commencement date, the Bank accounts for Ijarah contract modifications as follows:
• Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
• Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset.

For modifications not meeting any of the conditions stated above, the Bank considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Bank recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

*Expenses relating to underlying asset*

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are recognised by the Bank in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

*Recognition exemptions and simplified accounting for the lessee*

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and net Ijarah liability for the following:
• Short-term Ijarah; and
• Ijarah for which the underlying asset is of low value.

Short-term Ijarah exemption is applied on a whole class of underlying assets which have similar characteristics and operational utility. However, low-value Ijarah exemption is applied on an individual asset/ Ijarah transaction, and not on group/ combination basis.

**4 SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021 (Continued)*

*(i) FAS 32 Ijarah (Continued)*

*(b) Impact on adoption of FAS 32*

The management of the Bank has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by BD 504 thousand. The lease contracts comprise of ATM sites, branches and car parks.

| | Total Assets BD'000 | Total Liabilities BD'000 |
|---|---|---|
| Closing balance (31 December 2020) | **1,211,581** | **621,279** |
| Impact on adoption: | | |
| Right-of-use asset | **504** | **-** |
| Net Ijarah liability | **-** | **504** |
| **Opening balance under FAS 32 on date of initial application of 1 January 2021** | **1,212,085** | **621,783** |

B. New standards, amendments, and interpretations issued but not yet effective

(i) FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 Wa'ad, Khiyar and Tahawwut in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to shariah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard is effective for the financial reporting periods beginning on or after 1 January 2022.

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:
a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products.

The Group is currently evaluating the impact of adopting this standard.

**5 FINANCIAL RISK MANAGEMENT**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2020.

Credit Risk

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Invention of vaccination for COVID-19, has resulted in positive sentiments across the world, however the Pandemic continues to spread and hence the Government continues to impose restrictions from time to time. The economy continues to be supported by the Governments assistance through its various concessionary measures hence it is difficult to assess the complete impact of the Pandemic on each sector. The main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading.

Considering this evolving situation, the Group continues to take preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. During the period, further payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant Increase in Credit Risk (SICR) on a qualitative basis.

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) (refer to note 6).

## 5 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk and capital management

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. During 2020, the CBB had announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector and most of these measures continue to be in effect. Following are some of the significant measures that has an impact on the liquidity risk and regulatory capital profile of the Group:

• Payment holiday for 6 months to eligible customers;
• Concessionary repo to eligible banks at zero percent;
• Reduction of cash reserve ratio from 5% to 3%;
• Reduction of LCR and NSFR ratio from 100% to 80%;
• Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ended 31 December 2020 and ending 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available lines of funding and to drawdown the existing funding lines as and when necessary to maintain enough liquidity at a reasonable cost of funding. Further information on the regulatory liquidity and capital ratios as at 31 March 2021 have been disclosed in Note 3 and Note 24 to the finanical statements.

NSFR is a measure to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. 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" (refer note 24).

Operational risk management

In response to COVID-19 pandemic, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. While these risks cannot be completely eliminated, the operational risk department has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment. As of 31 March 2021, the Group did not have any significant issues relating to operational risks.

IBOR reform

Phase 2 of the IBOR project relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Group's products and services remain a key area of focus. Management is in the process of planning for a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is expected to be significant in terms of scale and complexity and will impact products, internal systems and processes.

**6 JUDGMENT AND ESTIMATES**

Preparation of the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2020.

Expected credit Losses

Due to the economic uncertainties caused by COVID-19, Group has updated its inputs and assumptions used for the determination of ECL as at 31 March 2021. ECL were estimated based on a range of forecast economic conditions as at that date and considering the uncertainty of the situation, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Furthermore, a comprehensive assessment of all corporate clients has been undertaken covering all relevant factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc. Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn and the qualitative adjustments have been considered accordingly. Given the fact that the client base is primarily based in Bahrain, all Government relief efforts to mitigate the impact of COVID-19 will also have a mitigating impact on ECL assessment. The Group has factored the impact of these efforts into its ongoing ECL assessment.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

During the period, in accordance with CBB instructions the Group has granted payment holidays to its eligible customers by deferring instalments up to six months, this is third in the series of payment holidays granted since March 2020. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. Sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk.

Reasonableness of Forward Looking Information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking "base case" economic scenario which reflects the Group's view of the most likely future macro-economic conditions.

Any changes made to ECL to estimate the overall impact of COVID-19 is subject to high levels of uncertainty as limited forward-looking information is currently available on which to base those changes.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio, applying expert judgement in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on an annual basis, unless there is significant change in credit risk.

Macro-economic variables are checked for correlation with the probability of default and only those variables for which the movement can be rationalised statistically are used. Stress has been applied on existing macro-economic variable in ECL review exercise. Management has used its judgement to determine the relevant macroeconomic variables which were used in the ECL model based on information published by external agencies or government agencies.

**6 JUDGMENT AND ESTIMATES (Continued)**

Probability weights

Management judgement is involved in determining the probability weighting of each scenario considering the risks and uncertainties surrounding the base case scenario.

In light of the current uncertain economic environment, the Group has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the period ended 31 March 2021. In making estimates, the Group assessed a range of possible outcomes by stressing the previous basis (that includes upside, base case and downside scenarios) and changed the downside weightings through to 100%.

The increase in the downturn weighting of the macro economic scenario and the management overlays has resulted in an additional ECL for the Group. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projections.

**7 COMPARATIVE INFORMATION**

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the Central Bank of Bahrain had exempted all public shareholding companies and locally incorporated banks from preparation and publication of their condensed consolidated interim financial information for the three-month period ended 31 March 2020. Accordingly, the comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2020 and comparatives for the condensed consolidated income statement and statements of cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund have been extracted from the management accounts of the Group for the three month period ended 31 March 2020 and adjusted for accounting policy changes, if any, applied in preparation of the annual consolidated financial statements for the year ended 31 December 2020. Hence, the comparative information included in the current period Income statement, and statements of cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund were not reviewed.

**8 SEASONALITY**

The Bank does not have significant income of seasonal nature. The Other income includes BD Nil thousand (2020: BD 9 thousand) of dividends received from Bank's investments.

## 9 FINANCING ASSETS

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Murabaha | **588,254** | 570,805 |
| Musharaka | **87,818** | 93,239 |
| **Gross financing assets** | **676,072** | 664,044 |
| Deferred profits | **(77,002)** | (66,492) |
| Impairment allowance | **(27,440)** | (26,039) |
| **Net financing assets** | **571,630** | 571,513 |

### 9.1 The movement on impairment allowances is as follows:

| **2021** | ***Stage 1 BD'000*** | ***Stage 2 BD'000*** | ***Stage 3 BD'000*** | ***Total BD'000*** |
|---|---|---|---|---|
| **Gross financing assets** | **551,754** | **63,794** | **60,524** | **676,072** |
| **Less: Deferred profits** | **60,959** | **6,795** | **9,248** | **77,002** |
| **Less: Impairment allowance** | | | | |
| At 1 January 2021 | **2,627** | **5,052** | **18,360** | **26,039** |
| Net movement between stages | **(217)** | **359** | **(142)** | **-** |
| Net charge for the period | **493** | **786** | **122** | **1,401** |
| **Impairment allowance at 31 March 2021** | **2,903** | **6,197** | **18,340** | **27,440** |
| **Net financing assets** | **487,892** | **50,802** | **32,936** | **571,630** |

| 2020 | *Stage 1 BD'000* | *Stage 2 BD'000* | *Stage 3 BD'000* | *Total BD'000* |
|---|---|---|---|---|
| Gross financing assets | 544,058 | 58,524 | 61,462 | 664,044 |
| Less: Deferred profits | 52,576 | 5,064 | 8,852 | 66,492 |
| Less: Impairment allowance | | | | |
| At 1 January 2020 | 1,615 | 1,557 | 26,298 | 29,470 |
| Net movement between stages | 434 | (164) | (270) | - |
| Net charge for the year | 578 | 3,659 | 11,376 | 15,613 |
| Write-off | - | - | (19,044) | (19,044) |
| Impairment allowance at 31 December 2020 | 2,627 | 5,052 | 18,360 | 26,039 |
| Net financing assets | 488,855 | 48,408 | 34,250 | 571,513 |

**10 INVESTMENT SECURITIES**

| | **31 March 2021 BD'000 (Reviewed)** | 31 December 2020 BD'000 (Audited) |
|---|---|---|
| ***i) Debt type instruments**** | | |
| *Quoted Sukuk - carried at amortised cost* | | |
| Gross balance at the beginning of the period | **229,189** | 190,473 |
| Acquisitions | **3,419** | 60,059 |
| Disposals and redemptions | **(27,459)** | (21,343) |
| **Gross balance at the end of the period** | **205,149** | 229,189 |
| Impairment allowance | **(180)** | (236) |
| **Net balance at the end of the period** | **204,969** | 228,953 |
| *Unquoted Sukuk - carried at amortised cost* | | |
| Gross balance at the beginning of the period | **35,495** | 35,534 |
| Acquisitions | **-** | 3,798 |
| Disposals and redemptions | **(297)** | (3,822) |
| Foreign currency translation changes | **23** | (15) |
| **Gross balance at the end of the period** | **35,221** | 35,495 |
| Impairment allowance | **(12,577)** | (12,564) |
| **Net balance at the end of the period** | **22,644** | 22,931 |
| ***ii) Equity type instruments*** | | |
| *Unquoted shares* | **23,977** | 24,288 |
| *Unquoted managed funds* | **436** | 436 |
| **Total net investment securities** | **252,026** | 276,608 |

** As of 31 March 2021, debt type instruments includes Sukuk of BD 20,926 thousand (31 December 2020: BD Nil thousand) pledged against borrowings from financial institutions of BD 19,022 thousand (31 December 2020: BD Nil thousand).*

**11 IJARAH MUNTAHIA BITTAMLEEK & IJARAH RENTAL RECEIVABLES**

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Gross Ijarah Muntahia Bittamleek & Ijarah rental receivables | **229,324** | 214,385 |
| Impairment allowance | **(2,396)** | (2,343) |
| **Ijarah muntahia bittamleek & Ijara rental receivables carrying amount** | **226,928** | 212,042 |

**11.1 The movement on impairment allowances is as follows:**

| **2021** | ***Stage 1 BD'000*** | ***Stage 2 BD'000*** | ***Stage 3 BD'000*** | ***Total BD'000*** |
|---|---|---|---|---|
| **Gross Ijarah Muntahia Bittamleek & Ijarah rental receivables** | **211,242** | **14,110** | **3,972** | **229,324** |
| **Less: Impairment allowance** | | | | |
| At 1 January 2021 | **467** | **601** | **1,275** | **2,343** |
| Net movement between stages | **(2)** | **(17)** | **19** | **-** |
| Net charge for the period | **144** | **(99)** | **8** | **53** |
| **Impairment allowance at 31 March 2021** | **609** | **485** | **1,302** | **2,396** |
| **Ijarah muntahia bittamleek & Ijarah rental receivables carrying amount** | **210,633** | **13,625** | **2,670** | **226,928** |

| 2020 | *Stage 1 BD'000* | *Stage 2 BD'000* | *Stage 3 BD'000* | *Total BD'000* |
|---|---|---|---|---|
| Gross Ijarah Muntahia Bittamleek & Ijarah rental receivables | 196,014 | 14,714 | 3,657 | 214,385 |
| Less: Impairment allowance | | | | |
| At 1 January 2020 | 208 | 2,786 | 11,797 | 14,791 |
| Net movement between stages | 127 | (2,351) | 2,224 | - |
| Net charge for the year | 132 | 166 | 6,418 | 6,716 |
| Write-off | - | - | (19,164) | (19,164) |
| Impairment allowance at 31 December 2020 | 467 | 601 | 1,275 | 2,343 |
| Ijarah muntahia bittamleek & Ijarah rental receivables carrying amount | 195,547 | 14,113 | 2,382 | 212,042 |

## 12 INVESTMENT IN REAL ESTATE

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Lands | **16,226** | 16,226 |
| | **16,226** | 16,226 |

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Movement on investment in real estate: | | |
| Beginning of the period | **16,226** | 18,756 |
| Disposal | **-** | (182) |
| Fair value changes | **-** | (2,348) |
| **End of the period** | **16,226** | 16,226 |

Investment in real estate comprises properties located in the Kingdom of Bahrain and the United Arab Emirates.

## 13 OTHER ASSETS

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Repossessed assets* | **3,992** | 3,992 |
| Receivables | **677** | 632 |
| Staff advances | **1,509** | 1,550 |
| Prepaid expenses | **779** | 485 |
| Right of use asset (13.1) | **441** | - |
| Other | **264** | 658 |
| | **7,662** | 7,317 |

** During the period, repossessed assets were impaired by BD Nil thousand (2020: BD 55 thousand).*

### 13.1 RIGHT OF USE ASSET

| | ***31 March 2021 BD'000 (Reviewed)*** |
|---|---|
| Recognition of right-of-use assets on initial application of FAS 32 | **504** |
| Amortisation charge for the period | **(63)** |
| **Balance as at 31 March** | **441** |

## 14 BORROWINGS FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD 19,022 thousand with Parent (2020: BD Nil) with a tenor of one year secured by pledge over Sukuk of BD 29,926 thousand (2020: BD Nil). The average rate of borrowings is 0.95% (2020: 2.53%) (note 10).

## 15 OTHER LIABILITIES

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Managers' cheques | **8,247** | 8,761 |
| Payable to vendors | **13,035** | 3,647 |
| Accrued expenses | **4,684** | 3,886 |
| Dividends payable | **28** | 28 |
| Zakah and charity fund | **594** | 243 |
| Net Ijarah liability (15.1) | **434** | - |
| Other* | **12,939** | 7,077 |
| | **39,961** | 23,642 |

** Other liabilities includes ECL of BD 110 thousand as of 31 March 2021 (31 December 2020: BD 136 thousand) on commitments.*

## 15.1 NET IJARAH LIABILITY

| | ***31 March 2021 BD'000 (Reviewed)*** |
|---|---|
| Maturity analysis – Gross Ijarah liability | |
| Less than one year | **284** |
| One to five years | **167** |
| Total gross Ijarah liability | **451** |
| Maturity analysis – net Ijarah liability | |
| Less than one year | **257** |
| One to five years | **177** |
| **Total net Ijarah liability** | **434** |

## 16 EQUITY OF INVESTMENT ACCOUNTHOLDERS

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Placements and borrowings from financial institutions – Wakala | **37,944** | 33,986 |
| Placements from non-financial institutions and individuals – Wakala | **58,948** | 53,259 |
| Mudharaba | **415,184** | 407,015 |
| | **512,076** | 494,260 |

## 16 EQUITY OF INVESTMENT ACCOUNT HOLDERS (Continued)

The funds received from Wakala pool and mudharba pool together "IAH" have been commingled and jointly invested with the Group in the following asset classes and reported under equity of investment account holders:

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Cash and balances with banks and Central Bank | **24,001** | 23,786 |
| Placements with financial institutions | **2,310** | 26,022 |
| Financing assets | **270,596** | 245,317 |
| Debt type instruments – Sukuk | **107,746** | 108,119 |
| Ijarah Muntahia Bittamleek and Ijarah rental receivables | **107,423** | 91,016 |
| | **512,076** | 494,260 |

## 17 INCOME FROM INVESTMENT IN SUKUK

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 March 2020 BD'000 (Unreviewed)* |
|---|---|---|
| Profit income on investment in Sukuk | **3,224** | 2,875 |
| Gain on sale of Sukuk | **489** | 2 |
| | **3,713** | 2,877 |

## 18 IMPAIRMENT ALLOWANCE, NET

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 March 2020 BD'000 (Unreviewed)* |
|---|---|---|
| Financing assets (note 9.1) | **1,401** | 1,962 |
| Ijarah rental receivables (note 11.1) | **53** | (182) |
| Investments in Sukuk | **(66)** | (13) |
| Investments at fair value through equity | **359** | - |
| Investment in associates | **-** | - |
| Placements with financial institutions | **3** | - |
| Other assets | **-** | - |
| Commitments | **(26)** | (15) |
| | **1,724** | 1,752 |

## 19 COMMITMENTS AND CONTINGENT LIABILITIES

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

| | ***31 March 2021 BD'000 (Reviewed)*** | *31 December 2020 BD'000 (Audited)* |
|---|---|---|
| Letters of credit and acceptances | **4,522** | 4,792 |
| Guarantees | **43,088** | 44,431 |
| Credit Cards | **37,613** | 37,041 |
| Altamweel Almaren | **24,722** | 28,447 |
| Commitments to finance | **31,644** | 31,826 |
| Operating lease commitments* | **-** | 217 |
| | **141,589** | 146,754 |

* Represents commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

## 20 RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

The significant balances and transactions with related parties at 31 March 2021 were as follows:

| | *31 March 2021 (reviewed)* | | | | |
|---|---|---|---|---|---|
| | ***Shareholders BD'000*** | ***Associates and joint ventures BD'000*** | ***Directors and related entities BD'000*** | ***Senior management BD'000*** | ***Total BD'000*** |
| **Assets** | | | | | |
| Financing assets | - | - | 1,116 | 448 | 1,564 |
| Ijarah Muntahia Bittamleek and Ijarah rental receivables | - | - | 658 | 68 | 726 |
| Investment in associates | - | 18,291 | - | - | 18,291 |
| Other assets | - | - | - | 400 | 400 |
| **Liabilities and Equity of investment accountholders** | | | | | |
| Placements from non-financial institutions and individuals | - | - | 1,054 | - | 1,054 |
| Borrowings from financial institutions | 19,022 | - | - | - | 19,022 |
| Customers' current accounts | - | 1,656 | 1,015 | 90 | 2,761 |
| Other liabilities | 1,887 | - | 243 | - | 2,130 |
| Equity of investment accountholders | - | - | 670 | 2,344 | 3,014 |

| | *31 March 2021 (reviewed)* | | | | |
|---|---|---|---|---|---|
| | ***Shareholders BD'000*** | ***Associates and joint ventures BD'000*** | ***Directors and related entities BD'000*** | ***Senior management BD'000*** | ***Total BD'000*** |
| **Income** | | | | | |
| Income from financing | - | - | 31 | 6 | 37 |
| Share of results of associates, net | - | (443) | - | - | (443) |
| Return on equity of investment accountholders | - | - | - | (23) | (23) |
| Expense on placements from non-financial institutions and individuals | - | - | (11) | - | (11) |
| Expense on borrowings from financial institutions | (22) | - | - | - | (22) |
| **Expenses** | | | | | |
| Staff costs | - | - | - | (426) | (426) |
| Other expenses | - | - | (117) | - | (117) |

| | *31 December 2020 (audited)* | | | | |
|---|---|---|---|---|---|
| | *Shareholders BD'000* | *Associates and joint ventures BD'000* | *Directors and related entities BD'000* | *Senior management BD'000* | *Total BD'000* |
| Assets | | | | | |
| Financing assets | - | - | 905 | 681 | 1,586 |
| Ijarah Muntahia Bittamleek and Ijarah rental receivables | - | - | 689 | 146 | 835 |
| Investment in associates | - | 19,024 | - | - | 19,024 |
| Other assets | - | - | - | 500 | 500 |
| Liabilities and Equity of investment accountholders | | | | | |
| Placements from non-financial institutions and individuals | - | - | 1,054 | 999 | 2,054 |
| Customers' current accounts | - | 2,748 | 697 | 407 | 3,852 |
| Other liabilities | 801 | - | 320 | - | 1,121 |
| Equity of investment accountholders | - | - | 635 | 2,289 | 2,924 |

| | *31 March 2020 (unreviewed)* | | | | |
|---|---|---|---|---|---|
| | *Shareholders BD'000* | *Associates and joint ventures BD'000* | *Directors and related entities BD'000* | *Senior management BD'000* | *Total BD'000* |
| Income | | | | | |
| Income from financing | - | - | 33 | 7 | 40 |
| Share of results of associates, net | - | (4) | - | - | (4) |
| Return on equity of investment accountholders | - | - | - | (18) | (18) |
| Expense on placements from non-financial institutions and individuals | - | - | - | (1) | (1) |
| Expenses | | | | | |
| Staff costs | - | - | - | (421) | (421) |
| Other expenses | - | - | (134) | - | (134) |

Compensation of the key management personnel is as follows:

| | ***Three months ended 31 March*** | |
|---|---|---|
| | ***2021 BD'000*** | *2020 BD'000* |
| Short term employee benefits | **339** | 335 |
| Other long term benefits | **87** | 86 |
| | **426** | 421 |

## 21 FINANCIAL INSTRUMENTS

***Fair value hierarchy***

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different from fair value of these assets. Unquoted shares and unquoted managed funds of BD 24,413 thousand (31 December 2020: BD 24,724 thousand) are treated as Level 3 investments. During the period fair value movement of BD 359 thousand was debited to income statement (31 March 2020: BD Nil thousand) and BD 48 thousand was credited to the fair value reserve (31 March 2020: BD 513 thousand was debited from the fair value reserve). The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| **31 March 2021** | ***Level 1 BD'000*** | ***Level 2 BD'000*** | ***Level 3 BD'000*** | ***Total BD'000*** |
|---|---|---|---|---|
| Unquoted shares | - | - | **23,977** | **23,977** |
| Unquoted managed funds | - | - | **436** | **436** |
| **Total** | - | - | **24,413** | **24,413** |

| 31 December 2020 | *Level 1 BD'000* | *Level 2 BD'000* | *Level 3 BD'000* | *Total BD'000* |
|---|---|---|---|---|
| Unquoted shares | - | - | 24,288 | 24,288 |
| Unquoted managed funds | - | - | 436 | 436 |
| Total | - | - | 24,724 | 24,724 |

**Transfers between Level 1, Level 2 and Level 3**

During the three-months period ended 31 March 2021 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

## 22 SEGMENTAL INFORMATION

For management purposes, the Group is organised into three major business segments;

| | |
|---|---|
| Corporate | Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers. |
| Retail | Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers. |
| Investment | Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties. |

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

## 22 SEGMENTAL INFORMATION (continued)

Segment information is disclosed as follows:

| | *For the three months ended 31 March 2021 (Reviewed)* | | | |
|---|---|---|---|---|
| | ***Corporate BD'000*** | ***Retail BD'000*** | ***Investment BD'000*** | ***Total BD'000*** |
| Total net income | **2,477** | **6,079** | **3,414** | **11,970** |
| Total expenses | **(1,303)** | **(4,098)** | **(533)** | **(5,934)** |
| Impairment allowance, net | **(947)** | **(482)** | **(295)** | **(1,724)** |
| **Profit for the period** | **227** | **1,499** | **2,586** | **4,312** |

**Other information**

| | *31 March 2021 (Reviewed)* | | | |
|---|---|---|---|---|
| | ***Corporate BD'000*** | ***Retail BD'000*** | ***Investment BD'000*** | ***Total BD'000*** |
| Segment assets | **252,498** | **602,897** | **376,429** | **1,231,824** |
| Segment liabilities, and equity | **402,906** | **650,803** | **178,115** | **1,231,824** |

| | *For the three months ended 31 March 2020 (unreviewed)* | | | |
|---|---|---|---|---|
| | *Corporate BD'000* | *Retail BD'000* | *Investment BD'000* | *Total BD'000* |
| Total net income | 2,233 | 5,090 | 3,215 | 10,538 |
| Total expenses | (1,324) | (3,890) | (457) | (5,671) |
| Impairment allowance, net | (1,705) | (60) | 13 | (1,752) |
| Profit / (Loss) for the period | (796) | 1,140 | 2,771 | 3,115 |

Other information

| | *31 December 2020 (Audited)* | | | |
|---|---|---|---|---|
| | *Corporate BD'000* | *Retail BD'000* | *Investment BD'000* | *Total BD'000* |
| Segment assets | 264,426 | 573,484 | 373,671 | 1,211,581 |
| Segment liabilities, and equity | 419,075 | 634,873 | 157,633 | 1,211,581 |

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

## 23 COMPARATIVES

Certain prior period amounts have been regrouped to conform to current period's presentation. Such regrouping did not affect previously reported profit for the period or total equity.

## 24 NET STABLE FUNDING RATIO

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 will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. 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.

The NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines issued by CBB and its effective from 31 December 2019. The minimum NSFR ratio as per CBB is 80%.

**24 NET STABLE FUNDING RATIO (continued)**

The NSFR (as a percentage) as at 31 March 2021 is calculated as follows:

| | Unweighted Values (before applying factors) | | | | BD'000 |
|---|---|---|---|---|---|
| **Item** | **No Specified maturity** | **Less than 6 months** | **More than 6 months and less than one year** | **Over one year** | **Total Weighted Value** |
| **Available Stable Funding (ASF):** | | | | | |
| **Capital:** | | | | | |
| Regulatory Capital | 115,087 | - | - | 12,673 | 127,761 |
| Other Capital Instruments | - | - | - | - | - |
| **Retail Deposits and deposits from small business customers:** | | | | | |
| Stable Deposits | - | 263,285 | 6,092 | 4,177 | 260,086 |
| Less stable deposits | - | 283,412 | 73,138 | 40,409 | 361,305 |
| **Wholesale funding:** | | | | | |
| Operational deposits | - | - | - | - | - |
| Other wholesale funding | - | 338,298 | 81,517 | 1,421 | 170,949 |
| **Other liabilities:** | | | | | |
| NSFR Shari'a-compliant hedging contract liabilities | - | - | - | - | - |
| All other liabilities not included in the above categories | - | 22,694 | - | - | - |
| **Total ASF** | 115,087 | 907,689 | 160,747 | 58,680 | 920,101 |
| **Required Stable Funding (RSF):** | | | | | |
| Total NSFR high-quality liquid assets (HQLA) | 244,861 | - | 20,926 | - | 20,617 |
| Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| **Performing financing and sukuk/ securities:** | | | | | |
| Performing financing to financial institutions secured by Level 1 HQLA | - | - | - | - | - |
| Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions | - | 50,070 | 1,188 | 9,357 | 17,461 |
| Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which: | - | 101,096 | 86,994 | 607,900 | 593,537 |
| - With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines | - | - | - | - | - |
| **Performing residential mortgages, of which:** | | | | | |
| - With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | - | - |
| Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | 3,797 | - | - | 1,899 |
| **Other assets:** | | | | | |
| Physical traded commodities, including gold | - | - | - | - | - |
| Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs | - | - | - | - | - |
| NSFR Shari'a-compliant hedging assets | - | - | - | - | - |
| NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | - | - | - | - | - |
| All other assets not included in the above categories | 116,017 | - | - | - | 116,017 |
| OBS items | 141,589 | - | - | - | 7,079 |
| **Total RSF** | 502,467 | 154,963 | 109,108 | 617,257 | 756,610 |
| **NSFR (%)** | | | | | 121.6% |

**24 NET STABLE FUNDING RATIO (continued)**

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

| Item | No Specified maturity | Less than 6 months | More than 6 months and less than one year | Over one year | BD'000 Total Weighted Value |
|---|---|---|---|---|---|
| | **Unweighted Values (before applying factors)** | | | | |
| **Available Stable Funding (ASF):** | | | | | |
| **Capital:** | | | | | |
| Regulatory Capital | 111,018 | - | - | 11,314 | 122,332 |
| Other Capital Instruments | - | - | - | - | - |
| **Retail Deposits and deposits from small business customers:** | | | | | |
| Stable Deposits | - | 263,413 | 5,374 | 4,396 | 259,743 |
| Less stable deposits | - | 302,625 | 50,734 | 39,875 | 357,899 |
| **Wholesale funding:** | | | | | |
| Operational deposits | - | - | - | - | - |
| Other wholesale funding | - | 371,029 | 53,141 | 1,310 | 168,307 |
| **Other liabilities:** | | | | | |
| NSFR Shari'a-compliant hedging contract liabilities | - | - | - | - | - |
| All other liabilities not included in the above categories | - | 6,350 | - | - | - |
| **Total ASF** | 111,018 | 943,417 | 109,249 | 56,895 | 908,281 |
| **Required Stable Funding (RSF):** | | | | | |
| Total NSFR high-quality liquid assets (HQLA) | 287,942 | - | - | - | 13,097 |
| Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| **Performing financing and sukuk/ securities:** | | | | | |
| Performing financing to financial institutions secured by Level 1 HQLA | - | - | - | - | - |
| Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions | - | 37,300 | 1,098 | 4,610 | 10,754 |
| Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which: | - | 129,860 | 82,875 | 555,127 | 568,825 |
| - With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines | - | - | - | - | - |
| **Performing residential mortgages, of which:** | | | | | |
| - With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | - | - |
| Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | 3,798 | - | - | 1,899 |
| **Other assets:** | | | | | |
| Physical traded commodities, including gold | - | - | - | - | - |
| Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs | - | - | - | - | - |
| NSFR Shari'a-compliant hedging assets | - | - | - | - | - |
| NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | - | - | - | - | - |
| All other assets not included in the above categories | 117,969 | - | - | - | 117,969 |
| OBS items | 146,754 | - | - | - | 7,338 |
| **Total RSF** | 552,665 | 170,958 | 83,973 | 559,737 | 719,882 |
| **NSFR (%)** | | | | | 126.2% |

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

In 2020, the Central Bank of Bahrain (CBB) announced various measures to combat the effects of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measures include the following:

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ended 31 December 2020 and ending 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The aforementioned measures have resulted in the following effects to the Group:

- The CBB mandated 6-month payment holidays requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The CBB subsequently announced a second and third payment holiday programmes effective September 2020 for a period of four months, and January 2021 for a period of six months. The latter two programmes permitted banks to charge profit, and as such, did not result in any additional modification losses to the Group.

- The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures. This has been recognized directly in the Group's equity.

- The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group's fees income.

- The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.

- Decreased consumer spending caused by the economic slow-down resulted in an increase in balances on demand held by the Group, whereas, time deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated series of payment holidays.

- The stressed economic situation resulted in the Group recognizing incremental ECL on its exposures.

A summary of the financial impact of the above effects on the Group as at 31 March 2021 is as follows:

| | Net impact on the Group's consolidated income statement | Net impact on the Group's consolidated financial position | Net impact on the Group's consolidated owners' equity |
|---|---|---|---|
| | *BD'000* | *BD'000* | *BD'000* |
| Average reduction of cash reserve | - | 15,464 | - |
| Concessionary repo at 0% | | 40,741 | - |
| Modification loss | - | - | (14,711) |
| Government grants | - | - | 1,814 |
| Stressed liquidity | (100) | - | - |
| Credit card income | (53) | - | - |
| ECL attributable to COVID-19 | (245) | (2,948) | (2,703) |
| | **(398)** | **53,257** | **(15,600)** |

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 (Reporting of Financial Impact of COVID-19), dated 14 July 2020. This information should not be considered as an indication of the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of the date of preparation of this information. Circumstances may change which may result in this information be out-of-date. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.