

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 slowdown with uncertainties in the economic environment. This included 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 have had a significant knock-on impact on the Bank and its principal subsidiaries and its associates (collectively 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 Central Bank of Bahrain (CBB) announced various measures to combat the effect of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measure include the following:

- Payment holiday for 6 months to eligible customers without any additional profits;
- Concessionary repo to eligible retail banks at zero Percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reductions of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionality from Tier 1 capital on an annual basis for three years ending December 2022, 31 December 2023 and 31 December 2024.

The onset of COVID-19 and the aforementioned measures resulted in the following significant effects to the financial position and operations of the Group:

- The CBB mandated 6-month payment holiday required the retail banking subsidiary of the Group 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 carrying value of the financial assets on the date of modification.
- The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received various forms of financial assistance representing specified reimbursement of a portion of staff costs, waives 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 also included the requirement to suspend minimum payments and service fees on credit card balances and reduction in transaction related charges, this resulted in a significant decline in the Group's fees income from its retail banking operations.
- The strain caused by COVID-19 on the local economy resulted in a slow-down in the sale of new asset management products and booking of new corporate financing assets by the Group. During the three months ended 31 March 2021, financing assets bookings were lower by 52.26% than the same period of the previous year.

- Decreased consumer spending caused by the economic slow-down in the booking of new consumer financing assets by the Bank, whereas, 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 6 months payments holiday. The Group's liquidity ratios and regulatory CAR were impacted but it continues to meet the revised regulatory requirement. The consolidated CAR, LCR and NSFR as of 31 March 2021 was 13.25%, 215% and 97% respectively.
- The stressed economic situation resulted in the Bank recognizing incremental ECL on its financing exposures.
- The overall economic effect of the pandemic was also reflected in the displacement and volatility in global debt and capital markets in Q1 02021 due to which the group had to recognize valuation losses on its Sukuk.

In addition to the above areas of impact, due to the overall economic situation certain strategic business and investment initiatives have been postponed until there is further clarity on the recovery indicators and its impact on the business environment. Overall, for the three-,month period ended 31 March 2021, the Bank achieved a net profit of USD 16.57 million, which is higher than USD 5.08 million in the same period of the previous year, registering a increase of 226 %.

A summary of the significant areas of cumulative financial impact on the Bahrain banking operations described above since March 2020 is as follows:

	Net Impact recognized in the Group's consolidated income statement USD' 000	Net Impact on the Group's consolidate d financial position USD' 000	Net Impact recognized in the Group's consolidated owners' equity USD' 000
Average reduction of cash reserve	-	26,058	-
Concessionary repo at 0% #	(737)	129,676	(737)
Modification loss	-	(25,072)	(25,072)
Modification loss amortization	25,072	25,072	-
ECL attributable to COVID-19	(5,172)	(5,172)	-
Government grants	-	-	4,953
Lower fee income (retail banking)	(830)	-	-

Concessionary repo was only provided in the prior year and no such facilities continue in the current period.

Information reported in the table above only include components or line items in the financial statements where impact was quantifiable and material. Some of the amounts reported above include notional loss of income or incremental costs and hence may not necessarily reconcile with amounts reported in the interim financial information for 31 March 2021.

The above supplementary information is provided to comply with CBB circular number OG/259/2020 (reporting of Financial Impact of COVID-19), dated 14 July 2020 and only covers impact on Bahrain banking operations of the Group. This information should not be considered as indication of the results if 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 date of preparation of this information. Circumstances may change which may result in this information to 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.