

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
Al Baraka Islamic Bank B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 MARCH 2022 (REVIEWED)



Review report on the interim condensed consolidated financial statements to the Board of Directors of Al Baraka Islamic Bank B.S.C. (c)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Al Baraka Islamic Bank B.S.C. (c) (the "Bank") and its subsidiary (together the "Group") as at 31 March 2022 and the related interim consolidated statement of income for the three month period ended 31 March 2022 and the related interim consolidated statements of changes in owners' equity, cash flows and changes in off-balance sheet equity of investment account holders for the three month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the basis of preparation stated in note 2 to these interim condensed consolidated financial statements. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with 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 International Standards on Auditing 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the basis of preparation stated in note 2 to these interim condensed consolidated financial statements.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in blue ink.

PricewaterhouseCoopers M.E Limited

Partner's registration number: 196

Manama, Kingdom of Bahrain


11 May 2022

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022 (Reviewed)

	Notes	Reviewed 31 March 2022 BHD '000	Audited 31 December 2021 BHD '000
ASSETS			
Cash and balances with banks and financial institutions		86,960	117,854
Receivables	3	209,809	182,934
Ijara Muntahia Bittamleek and ijara receivables	4	185,518	173,976
Musharaka	5	120,282	124,040
Investments	6	407,519	419,837
Investments in real estate		3,368	3,592
Investment in joint venture		7,279	7,050
Premises and equipment		20,141	21,248
Goodwill		4,614	4,796
Other assets	7	24,237	24,192
TOTAL ASSETS		1,069,727	1,079,519
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY			
Liabilities			
Current accounts		121,448	133,241
Murabaha and other payables		76,412	91,710
Other liabilities	8	43,921	41,337
Total liabilities		241,781	266,288
Equity of investment accountholders (IAH)		716,246	703,262
Subordinated mudaraba		7,204	7,329
Equity			
Share capital		51,445	51,445
Additional tier-1 capital		41,847	41,847
Reserves		(1,731)	(1,791)
Retained earnings		3,696	1,929
Equity attributable to parent's shareholders		95,257	93,430
Non-controlling interest		9,239	9,210
Total equity		104,496	102,640
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND EQUITY		1,069,727	1,079,519
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		274,682	253,801
CONTINGENCIES AND COMMITMENTS	9	149,830	188,858



Saleh Salman Al Kawari
Chairman



Hamad Abdulla Aloqab
Chief Executive Officer and Board Member


The attached explanatory notes 1 to 20 form part of these interim condensed consolidated financial statements.


Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three month period ended 31 March 2022 (Reviewed)

		<i>Three months ended</i>		
		<i>31 March</i>		
		2022	2021	
Notes		BHD '000	BD '000	
INCOME FROM JOINTLY FINANCED ASSETS				
	Financings	10	8,018	7,491
	Investments	11	2,660	1,420
	Income from jointly financed assets		10,678	8,911
	Return on equity of investment accountholders before Group's share as a Mudarib		(8,817)	(7,671)
	Group's share as a Mudarib		1,954	2,483
	Return on equity of investment accountholders		(6,863)	(5,188)
	Group's share as a Mudarib and Rabalmaal		3,815	3,723
INCOME FROM SELF FINANCED ASSETS				
	Financings	10	804	563
	Share of income / (loss) from investment in joint venture		228	(20)
	Investments	11	3,286	4,248
	Income from self financed assets		4,318	4,791
INCOME FROM BANKING SERVICES AND OTHERS				
	Revenue from banking services	12	1,161	1,307
	Other income	13	463	550
	TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST		9,757	10,371
	Other financing costs		(359)	(538)
	TOTAL OPERATING INCOME		9,398	9,833
OPERATING EXPENSES				
	Staff expenses		(3,177)	(3,349)
	Depreciation		(916)	(539)
	Other operating expenses		(2,757)	(2,866)
	TOTAL OPERATING EXPENSES		(6,850)	(6,754)
	NET OPERATING INCOME		2,548	3,079
	Allowances for impairment - net	14	336	(995)
	NET INCOME BEFORE TAXATION		2,884	2,084
	Taxation		(705)	(542)
	INCOME FOR THE PERIOD		2,179	1,542
Attributable to:				
	Equity shareholders of the Parent's		1,767	1,217
	Non-controlling interest		412	325
			2,179	1,542


Saleh Salma Al Kawari
Chairman


Hamad Abdulla Aloqab
Chief Executive Officer
and Board Member

The attached explanatory notes 1 to 20 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
For the three month period ended 31 March 2022 (Reviewed)

	Equity attributable to shareholders of the Parent										Total equity BHD '000	
	Share capital BHD '000	Perpetual Additional Tier1 capital BHD '000	Statutory BHD '000	General BHD '000	Employee defined benefit plan BHD '000	Cumulative changes in fair value BHD '000	Revaluation of premises and equipment BHD '000	Foreign exchange BHD '000	Retained earnings / (accumulated losses) BHD '000	Equity attributable to parent's shareholders BHD '000		Non-controlling interest BHD '000
Balance at 1 January 2022	51,445	41,847	9,363	3,275	(38)	1,637	178	(16,206)	1,929	93,430	9,210	102,640
Cumulative changes in fair value of investments	-	-	-	-	-	913	-	-	-	913	104	1,017
Foreign currency translation reserve	-	-	-	-	-	-	-	(855)	-	(855)	(488)	(1,343)
Movement in actuarial gain and losses	-	-	-	-	2	-	-	-	-	2	1	3
Income for the period	-	-	-	-	-	-	-	-	1,767	1,767	412	2,179
Balance at 31 March 2022	51,445	41,847	9,363	3,275	(36)	2,550	178	(17,061)	3,696	95,257	9,239	104,496
Balance at 1 January 2021	51,445	41,847	8,984	3,275	(35)	588	-	(13,702)	(1,320)	91,082	9,739	100,821
Cumulative changes in fair value of investments	-	-	-	-	-	(316)	-	-	-	(316)	(35)	(351)
Foreign currency translation reserve	-	-	-	-	-	-	-	1,071	-	1,071	601	1,672
Movement in actuarial gain and losses	-	-	-	-	(3)	-	-	-	-	(3)	(1)	(4)
Income for the period	-	-	-	-	-	-	-	-	1,217	1,217	325	1,542
Balance at 31 March 2021	51,445	41,847	8,984	3,275	(38)	272	-	(12,631)	(103)	93,051	10,629	103,680

The attached explanatory notes 1 to 20 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month period ended 31 March 2022 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	2022	2021
	BHD '000	BHD '000
OPERATING ACTIVITIES		
Net income before taxation	2,884	2,084
Adjustments for :		
Depreciation	916	539
Provision for impairment - net	(336)	995
Gain on sale of premises and equipment	-	(270)
Gain on sale of investments	(385)	(1,391)
Share of (income)/loss from investment in joint venture	(229)	20
Unrealized loss on revaluation of investment properties	-	75
	2,850	2,052
Operating profit before changes in operating assets and liabilities		
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	7,596	88
Receivables	(7,534)	(11,334)
Ijara Muntahia Bittamleek and ijara receivables	(11,570)	(12,689)
Musharaka	3,945	(22,717)
Other assets	(733)	(2,231)
Other liabilities	2,746	1,007
Murabaha and other payables	(15,298)	39,374
Current accounts	(11,791)	(21,678)
Equity of investment accountholders	12,985	13,939
Tax paid	(20)	(268)
Net cash used in operating activities	(16,824)	(14,457)
INVESTING ACTIVITIES		
Purchase of investments	(19,835)	(77,231)
Sale / redemption of investments	33,918	60,188
Net purchase / (sale) of premises and equipment	192	(91)
Net cash generated from/ (used in) investing activities	14,275	(17,134)
FINANCING ACTIVITIES		
Subordinated mudaraba	(125)	(659)
Net cash used in financing activities	(125)	(659)
Foreign currency translation adjustments	(1,161)	1,425
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,835)	(30,825)
Cash and cash equivalents at 1 January	111,586	144,310
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	107,751	113,485
For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprise the following:		
Cash on hand	12,787	13,552
Balances with central banks in unrestricted account	7,549	2,420
Balances with other banks and financial institutions (with original maturity of 3 months or less)	41,718	27,457
Receivables - Commodities and Wakala placement with Financial institutions (with original maturity of 3 months or less)	45,697	70,056
	107,751	113,485

The attached explanatory notes 1 to 20 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the three month period ended 31 March 2022 (Reviewed)

	<i>Balance at 1 January 2022 BHD '000</i>	<i>Net deposits/ withdrawals BHD '000</i>	<i>Gross income BHD '000</i>	<i>Mudarib's/ agency fee BHD '000</i>	<i>Balance at 31 March 2022 BHD '000</i>
Wakala Bi Al-Istithmar					
On balance sheet jointly financed assets	<u>194,036</u>	<u>21,284</u>	<u>1,811</u>	<u>(1,288)</u>	<u>215,843</u>
	194,036	21,284	1,811	(1,288)	215,843
Others					
Receivables	44,161	-	-	-	44,161
Investments	15,604	(926)	-	-	14,678
	59,765	(926)	-	-	58,839
	<u>253,801</u>	<u>20,358</u>	<u>1,811</u>	<u>(1,288)</u>	<u>274,682</u>
Wakala Bi Al-Istithmar					
On balance sheet jointly financed assets	<u>137,282</u>	<u>(6,065)</u>	<u>1,344</u>	<u>(436)</u>	<u>132,125</u>
	137,282	(6,065)	1,344	(436)	132,125
Others					
Receivables	51,407	(848)	-	-	50,559
Investments	8,560	(748)	-	-	7,812
	59,967	(1,596)	-	-	58,371
	<u>197,249</u>	<u>(7,661)</u>	<u>1,344</u>	<u>(436)</u>	<u>190,496</u>

The attached explanatory notes 1 to 20 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Banking license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has five commercial branches in the Kingdom of Bahrain. The Bank is 92% (2020: 92%) owned by Al Baraka Banking Group B.S.C. (the "Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

These interim condensed consolidated financial statements were approved by the Board of Directors on 11 May 2022.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group are prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). 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). In accordance with the AAOIFI framework, for matters not covered by FAS, the Group uses the requirements of the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). This framework is referred to as "FAS issued by AAOIFI".

The interim condensed consolidated financial statements of the Group have been prepared in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting' using FAS issued by AAOIFI.

The accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 31 December 2020 and 2021 were in accordance with FAS as modified by CBB. Since the CBB modifications were specific to the financial year 2020 and no longer apply to both current and comparative periods presented, the Group's interim financial information for the three months ended 31 March 2022 had been prepared in accordance with FAS issued by AAOIFI (without any modifications).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2021. In addition, results for the three months period ended 31 March 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

2.2 Significant accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2021 except for the changes due to adoption of new and amended standards as set out in note 2.5.

2.3 Accounting convention

The interim condensed consolidated financial statements are prepared on a historical cost basis, except for investment in real estate, debt and equity-type instruments through equity, and debt type instruments through profit or loss and land owned by the Bank (classified as premises and equipment) that have been measured at fair value.

The interim condensed consolidated financial statements are presented in United States Dollars, being the reporting currency of the Bank. All values are rounded to nearest US Dollar (US\$) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and that of the subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

2.4 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its following subsidiary, which is consolidated in these interim condensed consolidated financial statements:

	<i>Ownership for 2022 / 2021 incorporation</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>	<i>No. of branches/ offices at 31 March 2022</i>
<i>Held directly by the Bank</i>				
Al Baraka Bank (Pakistan) Limited	59.13%	2004	Pakistan	175

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

Investment in Itqan Capital

The Bank had ownership interest of 83.07% in Itqan Capital ("Itqan"). The Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Itqan to the Parent. The Bank has authorised the Parent to represent it in the shareholders' meetings and to exercise control on Itqan to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and / or under any applicable laws.

The financial statements of Itqan are not consolidated as Itqan is controlled by the Parent pursuant to the terms of the management agreement. Based on the approval of CBB, the Parent consolidates the financial statements of Itqan in its consolidated financial statements which are prepared in accordance with FAS issued by AAOIFI.

Management is in the process of transferring their investment in Itqan to the Parent and has approved a memorandum of understanding in this regard.

2.5 New standards, interpretations and amendments adopted by the Group

During the period, the Group applied the following standards and amendments to standards in preparation of these interim condensed consolidated financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net profit or equity of the Group, however, may result in additional disclosures at year end.

2.5.1 FAS 37 -Financial Reporting by Waqf Institutions

AAOIFI has issued FAS 37 in 2020. The objective of this standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari'ah principles and rules. The implementation of this comprehensive standard is expected, in turn, to contribute towards improving effectiveness and efficiency of operations of Waqfs, maximizing benefits to the beneficiaries and encouraging proper accountability and management.

2.5.2 FAS 38 - Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosure in relation to Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.6 New standards, amendments and interpretations issued but not yet effective

2.6.1 FAS 1 (Revised 2021) - General Presentation and Disclosures in the Financial Statements

AAOIFI has issued revised FAS 1 in 2021. The revised FAS 1 supersedes the earlier FAS 1 General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions and introduces the concepts of quasi-equity, off-balance-sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted. The Group is currently evaluating the impact of the above standards.

2.6.2 FAS 39 - Financial Reporting for Zakah

AAOIFI has issued FAS 39 in 2021. This standard improves upon and supersedes FAS 9 on "Zakah" and aims at setting out the accounting treatment of Zakah in the books of the institutions, including the presentation and disclosure by an Islamic financial institution. The accounting and financial reporting requirements such as recognition, presentation and disclosure requirements of this standard shall apply to institutions that are obliged to pay Zakah on behalf of certain or all stakeholders. Institutions that are not obliged to pay Zakah shall apply the disclosure requirements of this standard for certain or all stakeholders, as relevant. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted. The Group is currently evaluating the impact of the above standards.

2.6.3 FAS 40 - Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all conventional financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. The Group is currently evaluating the impact of the above standards.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

3 RECEIVABLES

	<i>Reviewed</i>			<i>Audited</i>		
	<i>31 March 2022</i>			<i>31 December 2021</i>		
	<i>Self financed BHD '000</i>	<i>Jointly financed BHD '000</i>	<i>Total BHD '000</i>	<i>Self financed BHD '000</i>	<i>Jointly financed BHD '000</i>	<i>Total BHD '000</i>
Commodities and Wakala placement with Financial Institutions	-	45,725	45,725	-	26,243	26,243
Salam financing	-	19,091	19,091	-	20,879	20,879
Istisna'a financing	-	59,295	59,295	-	56,504	56,504
Murabaha financing	424	119,560	119,984	424	113,025	113,449
Bills receivables and other financing	-	5,407	5,407	-	5,380	5,380
Gross receivables	424	249,078	249,502	424	222,031	222,455
Deferred profits	-	(13,904)	(13,904)	-	(10,929)	(10,929)
	424	235,174	235,598	424	211,102	211,526
Less: Allowance for expected credit losses (3.1)	(43)	(25,746)	(25,789)	(5)	(28,587)	(28,592)
Net receivables	381	209,428	209,809	419	182,515	182,934

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

3 RECEIVABLES (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses ("ECL").

	<i>Reviewed</i> 31 March 2022				<i>Audited</i> 31 December 2021			
	<i>Stage 1</i> <i>BHD '000</i>	<i>Stage 2</i> <i>BHD '000</i>	<i>Stage 3</i> <i>BHD '000</i>	<i>Total</i> <i>BHD '000</i>	<i>Stage 1</i> <i>BHD '000</i>	<i>Stage 2</i> <i>BHD '000</i>	<i>Stage 3</i> <i>BHD '000</i>	<i>Total</i> <i>BHD '000</i>
Good (1-4)	114,309	3,892	-	118,201	95,905	7,498	-	103,403
Satisfactory (5-7)	68,865	19,830	-	88,695	41,603	35,189	-	76,792
Default (8-10)	-	-	28,702	28,702	-	-	31,331	31,331
	183,174	23,722	28,702	235,598	137,508	42,687	31,331	211,526

3.1 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

	<i>Reviewed</i> 31 March 2022			
	<i>Stage 1:</i> <i>12-month</i> <i>ECL</i> <i>BHD '000</i>	<i>Stage 2:</i> <i>Lifetime</i> <i>ECL not</i> <i>credit-</i> <i>impaired</i> <i>BHD '000</i>	<i>Stage 3:</i> <i>Lifetime</i> <i>ECL credit-</i> <i>impaired</i> <i>BHD '000</i>	<i>Total</i> <i>BHD '000</i>
Balance at 1 January	782	3,071	24,739	28,592
Changes during the period:				
- transferred to Stage 1: 12 month ECL	16	(16)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1)	8	(7)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(5)	5	-
Net remeasurement of loss allowance	82	25	116	223
Recoveries / write-backs	-	-	(104)	(104)
	97	12	10	119
Amounts written off during the period	-	-	(2,272)	(2,272)
FX translation	(2)	(7)	(641)	(650)
Balance at 31 March	877	3,076	21,836	25,789

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

3 RECEIVABLES (continued)

3.1 Allowances for expected credit losses (continued)

	<i>Audited</i>			<i>Total</i> <i>BHD '000</i>
	<i>31 December 2021</i>			
	<i>Stage 1: 12-month ECL</i> <i>BHD '000</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i> <i>BHD '000</i>	<i>Stage 3: Lifetime ECL credit- impaired</i> <i>BHD '000</i>	
Balance at 1 January	586	5,529	17,686	23,801
Changes during the year:				
- transferred to Stage 1: 12 month ECL	10	(7)	(3)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(75)	531	(456)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(1,559)	1,560	1
Net remeasurement of loss allowance	278	(110)	7,659	7,827
Recoveries / write-backs	-	-	(1,534)	(1,534)
	213	(1,145)	7,226	6,294
Allocation from investment risk reserve	-	-	104	104
Amounts written off during the year	-	(1,292)	(1,177)	(2,469)
Write back of written off	-	-	2,183	2,183
FX translation	(17)	(21)	(1,283)	(1,321)
Balance at 31 December	<u>782</u>	<u>3,071</u>	<u>24,739</u>	<u>28,592</u>

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	<i>Reviewed</i>			<i>Audited</i>		
	<i>31 March 2022</i>			<i>31 December 2021</i>		
	<i>Self financed BHD '000</i>	<i>Jointly financed BHD '000</i>	<i>Total BHD '000</i>	<i>Self financed US '000</i>	<i>Jointly financed US '000</i>	<i>Total US '000</i>
Ijara Muntahia Bittamleek	5,936	162,784	168,720	10,004	151,163	161,167
Ijara income receivables	7,579	12,382	19,961	3,450	12,701	16,151
	<u>13,515</u>	<u>175,166</u>	<u>188,681</u>	<u>13,454</u>	<u>163,864</u>	<u>177,318</u>
Less: Allowance for expected credit losses (4.1)	(85)	(3,078)	(3,163)	(120)	(3,222)	(3,342)
	<u>13,430</u>	<u>172,088</u>	<u>185,518</u>	<u>13,334</u>	<u>160,642</u>	<u>173,976</u>

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

	<i>Reviewed</i>				<i>Audited</i>			
	<i>31 March 2022</i>				<i>31 December 2021</i>			
	<i>Stage 1 BHD '000</i>	<i>Stage 2 BHD '000</i>	<i>Stage 3 BHD '000</i>	<i>Total BHD '000</i>	<i>Stage 1 BHD '000</i>	<i>Stage 2 BHD '000</i>	<i>Stage 3 BHD '000</i>	<i>Total BHD '000</i>
Good (1-4)	179,126	1	-	179,127	166,475	4	-	166,479
Satisfactory (5-7)	1,298	1,884	-	3,182	1,514	2,276	-	3,790
Default (8-10)	-	-	6,372	6,372	-	-	7,049	7,049
	<u>180,424</u>	<u>1,885</u>	<u>6,372</u>	<u>188,681</u>	<u>167,989</u>	<u>2,280</u>	<u>7,049</u>	<u>177,318</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

5 MUSHARAKA

	Reviewed 31 March 2022			Audited 31 December 2021		
	Self financed BHD '000	Jointly financed BHD '000	Total BHD '000	Self financed US '000	Jointly financed US '000	Total US '000
	Musharaka	17,975	105,822	123,797	19,932	107,955
Less: Allowance for expected credit losses (5.1)	-	(3,515)	(3,515)	-	(3,847)	(3,847)
	17,975	102,307	120,282	19,932	104,108	124,040

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

	Reviewed 31 March 2022				Audited 31 December 2021			
	Stage 1 BHD '000	Stage 2 BHD '000	Stage 3 BHD '000	Total BHD '000	Stage 1 BHD '000	Stage 2 BHD '000	Stage 3 BHD '000	Total BHD '000
	Good (1-4)	105,215	3,541	-	108,756	97,270	9,904	-
Satisfactory (5-7)	6,140	4,294	-	10,434	2,273	14,020	-	16,293
Default (8-10)	-	-	4,607	4,607	-	-	4,420	4,420
	111,355	7,835	4,607	123,797	99,543	23,924	4,420	127,887

5.1 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

	Reviewed 31 March 2022			
	Stage 1: 12-month ECL BHD '000	Stage 2: Lifetime ECL not credit- impaired BHD '000	Stage 3: Lifetime ECL credit- impaired BHD '000	Total BHD '000
Balance at 1 January	648	857	2,342	3,847
Changes during the period:				
- transferred to Stage 1: 12 month ECL	113	(113)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(18)	18	-	-
Net remeasurement of loss allowance	29	(51)	93	71
Recoveries / write-backs	-	-	(256)	(256)
Allowances for expected credit losses	124	(146)	(163)	(185)
FX translation	(25)	(32)	(90)	(147)
Balance at 31 March	747	679	2,089	3,515

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

5 MUSHARAKA (continued)

5.1 Allowances for expected credit losses (continued)

	<i>Audited</i>			<i>Total</i>
	<i>31 December 2021</i>			
	<i>Stage 1:</i>	<i>Stage 2:</i>	<i>Stage 3:</i>	
	<i>12-month</i>	<i>Lifetime</i>	<i>Lifetime</i>	
	<i>ECL</i>	<i>ECL not</i>	<i>ECL</i>	
	<i>credit-</i>	<i>credit-</i>	<i>credit-</i>	
	<i>impaired</i>	<i>impaired</i>	<i>impaired</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Balance at 1 January	620	1,035	2,143	3,798
Changes during the year:				
- transferred to Stage 2: Lifetime ECL not credit-impaired	(33)	33	-	-
Net remeasurement of loss allowance	119	(113)	608	614
Recoveries / write-backs	-	-	(207)	(207)
Allowances for expected credit losses	86	(80)	401	407
FX translation	(58)	(98)	(202)	(358)
Balance at 31 December	648	857	2,342	3,847

6 INVESTMENTS

	<i>Reviewed</i>			<i>Audited</i>		
	<i>31 March 2022</i>			<i>31 December 2021</i>		
	<i>Self</i>	<i>Jointly</i>	<i>Total</i>	<i>Self</i>	<i>Jointly</i>	<i>Total</i>
	<i>financed</i>	<i>financed</i>		<i>financed</i>	<i>financed</i>	
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
i) Equity-type instruments at fair value through equity						
Quoted						
Listed equity shares	11,885	122	12,007	11,414	115	11,529
Unquoted						
Unlisted equity shares	23,849	171	24,020	23,849	167	24,016
Managed funds	377	-	377	377	-	377
Real estate funds	617	4,702	5,319	617	4,202	4,819
	36,728	4,995	41,723	36,257	4,484	40,741
Less: Provision for impairment	(1,839)	(153)	(1,992)	(1,959)	(159)	(2,118)
Total equity investments	34,889	4,842	39,731	34,298	4,325	38,623

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

6 INVESTMENTS (continued)

	Reviewed 31 March 2022			Audited 31 December 2021		
	Self financed BHD '000	Jointly financed BHD '000	Total BHD '000	Self financed BHD '000	Jointly financed BHD '000	Total BHD '000
ii) Debt-type instruments at fair value through statement of income						
Quoted						
Sukuk	-	5,378	5,378	-	12,687	12,687
iii) Debt-type instruments at fair value through equity (6.1)						
Quoted						
Sukuk	84,728	63,851	148,579	85,097	61,279	146,376
Unquoted						
Sukuk	-	1,684	1,684	-	1,323	1,323
	84,728	65,535	150,263	85,097	62,602	147,699
iv) Debt-type instruments at amortised cost (6.1)						
Quoted						
Sukuk	124,176	62,821	186,997	124,282	63,227	187,509
Unquoted						
Sukuk	1,202	24,074	25,276	5,745	27,742	33,487
	125,378	86,895	212,273	130,027	90,969	220,996
Less: Allowance for expected credit losses (6.2)	(92)	(34)	(126)	(124)	(44)	(168)
Total debt-type investments	210,014	157,774	367,788	215,000	166,214	381,214
Total investments	244,903	162,616	407,519	249,298	170,539	419,837

Within unquoted investments which are held at fair value through equity are investments amounting to BHD 26.5 million (2021: BHD 27.8 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to BHD 212.2 million (2021: BHD 220.8 million) have a fair value amounting to BHD 209.4 million (2021: BHD 220.5 million).

Investments stated at a carrying amount of BHD 181.9 million (2021: BHD 187.0 million) are placed in custody of a financial institution to secure a financing line.

6.1 Debt-type instruments at amortised cost and fair value through equity

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

	Reviewed 31 March 2022				Audited 31 December 2021			
	Stage 1 BHD '000	Stage 2 BHD '000	Stage 3 BHD '000	Total BHD '000	Stage 1 BHD '000	Stage 2 BHD '000	Stage 3 BHD '000	Total BHD '000
Good (1-4)	155,052	-	-	155,052	157,462	-	-	157,462
Satisfactory (5-7)	207,484	-	-	207,484	211,233	-	-	211,233
	362,536	-	-	362,536	368,695	-	-	368,695

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

7 OTHER ASSETS (continued)

7.1 The net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on recent financial projections prepared, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

8 OTHER LIABILITIES

	<i>Reviewed</i> 31 March 2022 <i>BHD '000</i>	<i>Audited</i> 31 December 2021 <i>BHD '000</i>
Margins received	8,189	8,149
Accounts payable	10,387	11,517
Bills payable	12,827	10,236
Security deposit against Ijara Muntahia Bittamleek	273	343
Provision for employees benefits	3,539	3,737
Allowance for expected credit losses-unfunded facilities	103	271
Charity fund	178	235
Operating Ijarah liability	3,925	4,262
Others	4,500	2,587
	43,921	41,337

9 CONTINGENCIES AND COMMITMENTS

	<i>Reviewed</i> 31 March 2022 <i>BHD '000</i>	<i>Audited</i> 31 December 2021 <i>BHD '000</i>
Letters of credit	33,674	40,718
Guarantees	44,633	41,026
Foreign exchange contracts	64,822	98,943
Acceptances	4,806	6,201
Taxation	1,886	1,960
Others	9	10
	149,830	188,858

10 INCOME FROM FINANCING

	<i>Three months ended</i> 31 March	
	2022 <i>BHD '000</i>	2021 <i>BHD '000</i>
Income from receivables	3,016	3,004
Income from musharaka	3,439	3,297
Income from ijarah muntahia bittamleek	2,367	1,753
	8,822	8,054
	<i>Three months ended</i> 31 March	
	2022 <i>BHD '000</i>	2021 <i>BHD '000</i>
Income from jointly financed financing assets	8,018	7,491
Income from self financed financing assets	804	563
	8,822	8,054

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

11 INCOME FROM INVESTMENTS

	<i>Three months ended</i>	
	<i>31 March</i>	
	2022	2021
	BHD '000	BHD '000
Yield, coupon or return on investments	5,483	4,017
Gain on sale of investments	385	1,391
Dividend income	37	331
Unrealized loss on revaluation of investment properties	-	(75)
Income from properties	41	4
	5,946	5,668
Income from jointly financed investments	2,660	1,420
Income from self financed investments	3,286	4,248
	5,946	5,668

12 REVENUE FROM BANKING SERVICES

	<i>Three months ended</i>	
	<i>31 March</i>	
	2022	2021
	BHD '000	BHD '000
Fees and commissions	712	828
Letters of credit and acceptances	302	412
Guarantees	147	67
	1,161	1,307

13 OTHER INCOME

	<i>Three months ended</i>	
	<i>31 March</i>	
	2022	2021
	BHD '000	BHD '000
Foreign exchange gain - net	370	472
Others	93	78
	463	550

14 ALLOWANCES FOR IMPAIRMENT - NET

	<i>Three months ended</i>	
	<i>31 March</i>	
	2022	2021
	BHD '000	BHD '000
(Charge) / reversal against:		
Receivables	(119)	(1,148)
Ijara Muntahia Bittamleek and ijara receivables	(28)	322
Musharaka	185	(277)
Investments - debt type	42	26
Investments - equity type	97	79
Off balance sheet items	159	3
	336	(995)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

15 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries represent operations in Pakistan.

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's interim condensed consolidated financial statements. Transactions between segments are conducted at estimated market rates.

The segmental results of the Group were as follows:

	<i>Middle East</i>		<i>Other Asian Countries</i>		<i>Total</i>	
	<i>31 March 2022</i>	<i>31 December 2021</i>	<i>31 March 2022</i>	<i>31 December 2021</i>	<i>31 March 2022</i>	<i>31 December 2021</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Assets	626,592	614,908	443,135	464,611	1,069,727	1,079,519
Liabilities, equity of investment accountholders and Subordinated debts	556,482	546,765	408,749	430,114	965,231	976,879
	<i>Middle East</i>		<i>Other Asian Countries</i>		<i>Total</i>	
	<i>Three months ended 31 March</i>		<i>Three months ended 31 March</i>		<i>Three months ended 31 March</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Total operating income	5,003	4,607	4,395	5,226	9,398	9,833
Total expenses	(3,613)	(3,459)	(3,237)	(3,295)	(6,850)	(6,754)
Allowance for impairment - net	(218)	(402)	554	(593)	336	(995)
Taxation	-	-	(705)	(542)	(705)	(542)
Net income for the period	1,172	746	1,007	796	2,179	1,542

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

16 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group, Shari'a supervisory board and external auditors.

The significant balances with related parties were as follows:

	<i>Parent and Other</i>		<i>Other Related Parties</i>		<i>Total</i>	
	31 March	<i>31 December</i>	31 March	<i>31 December</i>	31 March	<i>31 December</i>
	2022	<i>2021</i>	2022	<i>2021</i>	2022	<i>2021</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Assets:						
Cash and balances with banks and financial institutions	3	2	66	340	69	342
Receivables	-	-	457	2,052	457	2,052
Musharaka	-	-	743	540	743	540
Investments	9,320	8,603	33,494	33,234	42,814	41,837
Other assets	5,512	3,355	2,469	202	7,981	3,557
	14,835	11,960	37,229	36,368	52,064	48,328
Liabilities:						
Current accounts	1,490	2,221	1,756	1,126	3,246	3,347
Other liabilities	2	2	507	665	509	667
	1,492	2,223	2,263	1,791	3,755	4,014
Equity of investment accountholders	5,522	13,695	8,494	7,152	14,016	20,847
OFF-BALANCE SHEET ITEMS:						
Equity of investment accountholders	14,677	11,625	44,161	47,479	58,839	59,104
Contingencies and commitments	754	1	1,688	11,655	2,442	11,656

The transactions with the related parties included in the interim consolidated statement of income are as follows:

	<i>Parent and Other</i>		<i>Other Related Parties</i>		<i>Total</i>	
	31 March	<i>31 March</i>	31 March	<i>31 March</i>	31 March	<i>31 March</i>
	2022	<i>2021</i>	2022	<i>2021</i>	2022	<i>2021</i>
	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>	<i>BHD '000</i>
Income						
Income from jointly financed sales	-	-	8	37	8	37
Income from jointly financed, other financings and investments	-	-	3	11	3	11
Other income	30	30	2	-	32	30
	30	30	13	48	43	78
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	-	-	60	600	60	600
Other expenses	33	33	406	302	439	334
	33	33	466	902	499	934

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

16 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of key management personnel is as follows:

	<i>Three months ended 31 March</i>	
	2021	2020
	BHD '000	BHD '000
Salaries	668	394
Other benefits	375	186
	1,043	580

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

Al Baraka Islamic Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

18 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 March 2022 is 199.86%.

The NSFR (as a percentage) must be calculated as follows:

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value BHD '000
	No specified maturity BHD '000	Less than 6 months BHD '000	More than 6 months and less than one year BHD '000	Over one year BHD '000	
Available Stable Funding (ASF):					
Capital:	74,280	-	-	6,124	80,404
Regulatory capital	74,280	-	-	-	74,280
Other capital instruments	-	-	-	6,124	6,124
Retail deposits and deposits from small business customers:		347,148	13,919	3,950	332,609
Stable deposits	-	72,936	147	-	69,474
Less stable deposits	-	274,212	13,772	3,950	263,135
Wholesale funding:	-	429,620	71,500	17,229	143,097
Operational deposits	-	-	-	-	-
Other wholesale funding	-	429,620	71,500	17,229	143,097
Other liabilities:	-	-	-	46,107	46,107
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	46,107	46,107
Total ASF	74,280	776,768	85,419	73,410	602,217
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	303,409	-	9,113	-	23,810
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	-	81,235	-	12,761	24,947

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

18 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	101,267	19,229	315,677	60,248
With a risk weight of less than or equal to 35% as per the CBB 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	-	-	-	65,418	42,522
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	22,620	13,507
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	62,018	-	-	-	62,018
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	64,925	-	-	-	64,925
OBS items	186,982	-	-	-	9,349
Total RSF	617,334	182,502	28,342	416,476	301,326
NSFR (%)					199.86%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

19 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 2021. Changes due to COVID-19 are as follows:

Credit Risk

The spread of COVID-19 pandemic has very vast and pervasive impacts almost on all segments of society and economy. Although it is still difficult to assess the degree of impact faced by each sector, the main industries impacted are hospitality, manufacturing, tourism, leisure, airlines transportation, retailers, contracting, real estate and wholesale trading. Further, the multiple waves of pandemic and fiscal burden created as result of fiscal stimulus initiatives introduced by governments remained barriers in achieving the broad based recoveries.

Considering this evolving situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of regulatory authorities. 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). The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL). In this regards, the ECL were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, 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.

Liquidity Risk

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. The CBB has announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector. Following are some of the significant measures that had an impact on the liquidity risk and regulatory capital profile of the Group:

- Payment holidays to eligible customers;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR and NSFR ratio from 100% to 80%; and
- 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 ending 31 December 2020 and 31 December 2021 and thereby 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2022 (Reviewed)

19 FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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.

Operational risk

In response to COVID-19 outbreak, 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. The operational risk department has carried out a comprehensive review of the existing control environment which includes controls over effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes and the use of internal audit to prevent and detect risks. 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 2022, the Group did not have any significant issues relating to operational risks.

20 COMPARATIVE FIGURES

In these Group's interim condensed consolidated financial statements, investments amounting to BHD 147 million at 31 December 2021 were reclassified from "Debt type investments carried at amortized cost" to "Debt type investment carried at fair value through equity" in order to comply with FAS 33 "Investments in Sukuk, Shares and Similar Instruments" which became effective from 1 January 2020. This reclassification did not materially impact previously reported net income or owner's equity