AL SALAM BANK BAHRAIN BSC
UNREVIEWED SUPPLEMENTARY DISCLOSURES FOR THE HALF YEAR ENDED 30 JUNE 2020

In line with the Central Bank of Bahrain ("CBB") directions per circular OG/259/2020 of 14 July 2020 that aims to maintain transparency amidst the current financial implications of Coronavirus (COVID-19) outbreak, the Bank has provided additional supplementary information on the impact of COVID 19 on its financial statements and the results of its operations.

On 11 March 2020, the COVID-19 outbreak was declared as a pandemic by the World Health Organization ("WHO") and has rapidly evolved globally. This has resulted in an economic slowdown with uncertainties in the economic environment across the globe. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities all over the world have taken various steps to contain the spread of COVID-19 including implementation of travel restrictions as well as lockdown and quarantine measures. The pandemic as well as the resulting measures have had a significant knock-on impact on Al Salam Bank and its principal subsidiaries (collectively the "Group") and its associates. 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 CBB announced various measures to combat the effects of COVID-19 on the banking sector in the Kingdom of Bahrain. These were aimed to ease liquidity in the economy as well as to assist banks in complying with regulatory requirements.

These measures included the following:

- Payment holiday of 6 months to eligible and approved 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") from 100% to 80%.
- Capital relief by allowing the aggregate of modification loss and incremental expected credit losses ("ECL") from March to December 2020 to be added back to Tier 1 capital for the two financial years ending 31 December 2020 and 31 December 2021 and deducted proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The aforesaid measures have resulted in the following effects on 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 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 the modification.
- The mandated 6-month payments holiday included the requirement to suspend minimum payments, service fees and outstanding credit card balances. In addition, COVID-19 also resulted in lower transaction volumes and related fees. This resulted in a significant decline in the Group's fee income.
- The Government of the Kingdom of Bahrain have announced various economic stimulus program ("packages") to support business in these challenging times. The Bank received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges as well as zero cost funding received from the Government and/or the regulators in response to its COVID-19 support measures. This has been recognized directly in the Group's equity as per the instructions of the CBB.
- The Group also maintained a lower cash reserve due to reduction in cash reserve ratio to 3%.

- Due to the stressed liquidity scenario in the market, the Bank also had to incur higher funding costs for sourcing new deposits and foreign exchange.
- The strain caused by COVID-19 on the local economy resulted in a slowdown in the growth rate of new financing assets. During the 6 months ended 30 June 2020, growth rate of financing assets booked were 16% lower than the same period of previous year. In addition, the stressed economic situation resulted in an incremental ECL provision on its exposures during the first half of 2020.
- Decreased consumer spending caused by the economic slowdown resulted in increase in balances on demand held by the Group.
- The Group continues to meet the regulatory requirement of capital adequacy ratio ("CAR"), LCR and NSFR. The consolidated CAR, LCR and NSFR as at 30 June 2020 stands at 27.44%, 97.43%,99.32% respectively.

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 period, the Bank achieved a net profit of BD 7.1 million, which is lower than BD 12.3 million in the same period of the previous year, registering a drop of 42%.

A summary of the financial impact of the above effects is as follows:

	Net impact on the Group		
Amounts in BD '000	**Consolidated Income statement**	**Consolidated financial position**	**Consolidated Owners equity**
Modification loss	-	-	(24,768)
Modification loss amortization	16,512	16,512	-
Lower Credit card fee	(131)	-	-
Government grants	-	-	1,848
Concessionary repo @ 0%	-	121,613	-
Average reduction of cash reserve	-	75,235	-
Stressed liquidity	(337)	-	-
ECL attributable to COVID -19	(3,452)	(3,452)	-

Information reported in the table above only include areas or line items where impact was quantifiable and material. Some of the amounts reported above include notional loss of income or an incremental cost measure and hence may not necessarily reconcile with amounts reported in the interim financial information for 30 June 2020.

The information provided in this supplementary disclosure should not be considered as an indication for 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 assessment is as at and for the six-month period ended 30 June 2020 and only considers significant areas of impact. Circumstances may change which will result in this information being 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 of external auditors.

Yousif Ebrahim
Chief Financial Officer

Date 12th August 2020