# BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

## Half Yearly Quantitative Public Disclosures

## At 30 June 2022

## Bahrain Commercial Facilities Company BSC

### Half Yearly Quantitative Public Disclosures
### for the six months period ended 30 June 2022

### Executive Summary

The financial information presented in this report are in addition to information presented in the condensed consolidated financial information for the six months period ended 30 June 2022

This financial information includes additional quantitative disclosures at 30 June 2022 which were provided in the audited annual financial statements at 31 December 2021, in order to comply with the Public Disclosure Module of the Central Bank of Bahrain (CBB).

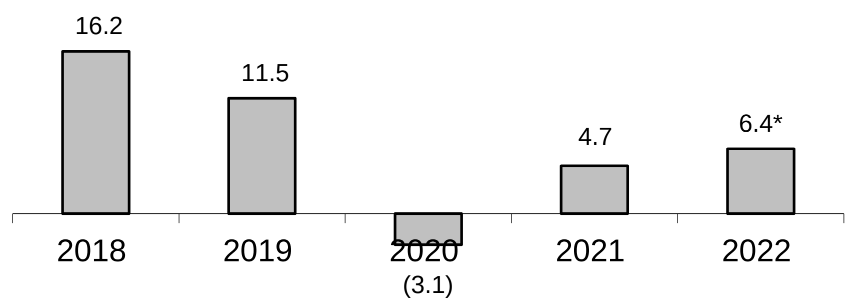
The financial information has been prepared using the same accounting policies and methods of computation applied in the preparation of the latest audited financial statements for the year ended 31 December 2021, except for adoption of new standards or certain amendments to existing standards that have become applicable to the Group effective from 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

## Bahrain Commercial Facilities Company BSC

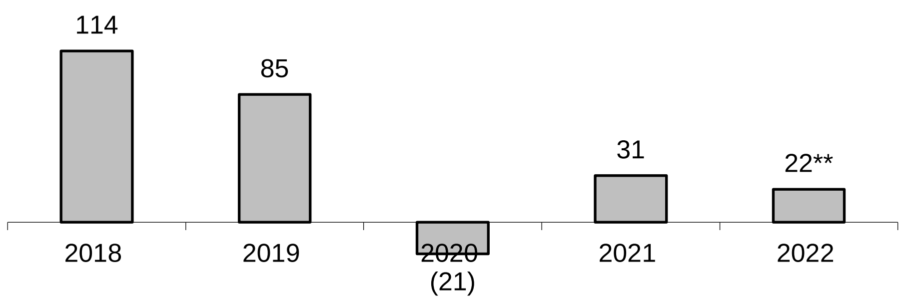
**Half Yearly Quantitative Public Disclosures**
**for the period ended 30 June 2022**

### 1. FINANCIAL HIGHLIGHTS

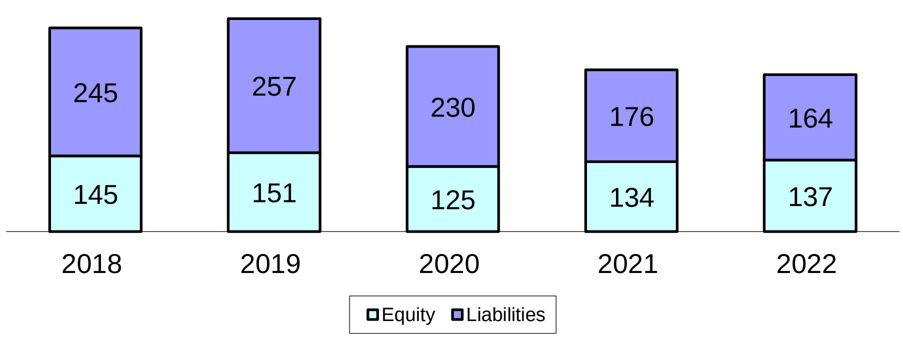
#### A) Return on average equity (%):




#### B) Earning per share (fils)




#### C) Debt / equity (BD million)




***Return on average equity for 2022 is based on the annualised net profit for the six months ended 30 June 2022.**
****Earnings per share for 2022 is based on the net profit for the six months ended 30 June 2022.**

### D) SHARE CAPITAL

| | 30-Jun-22 BD '000 |
|---|---|
| Authorised share capital | |
| 500,000,000 shares of 100 fils each | **50,000** |

| | 30-Jun-22 BD '000 |
|---|---|
| Issued and fully paid | |
| At 1 January | 20,419 |
| At 30 June | 20,419 |
| Treasury shares 2,759,029 shares | 599 |

| | 30-Jun-22 BD '000 |
|---|---|
| Share capital | 20,419 |
| Treasury shares | (599) |
| Statutory reserve | 10,210 |
| Share premium | 25,292 |
| Other reserves | 28,386 |
| Retained earnings | 53,101 |
| **Total Capital** | **136,809** |

The Company's memorandum of association allows it to hold up to 10% of its own issued shares as treasury shares.

### 2. CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Group is principally exposed to credit risk on cash and cash equivalents, loans and advances to customers, trade receivables and other assets. The maximum credit risk is the carrying value of these assets.

**COVID-19 impact**

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. Although it is difficult to assess the full impact at this stage the degree of impact faced by 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.

2. *Credit risk (continued)*

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 CBB. These measures has led 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 SICR on a qualitative basis.

*Management of credit risk*

The Group's credit risk management framework includes:
- Authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending activities;
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties and reviewing limits in accordance with risk management strategy and market trends.

All loans and advances are with local individuals and locally incorporated entities. The credit risk on these loans and advances is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The creditworthiness of each borrower is evaluated prior to lending and with a comprehensive review of information which includes the Credit Bureau report, financial position of the customer, Market position, tangibles security, where applicable.

The Group is also subject to single obligor limits as specified by the Central Bank of Bahrain. Regular credit review procedures are in place to identify at an early stage exposures which require more detailed monitoring and review. Appropriate remedial procedures for follow-up and recovery (including recourse to legal action) are in place to monitor the credit risk on loans and advances.

*Exposure to credit risk*

The Group is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. Regular audits of business units and Group credit processes are undertaken by the Internal Audit department.

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The maximum credit risk exposure of the loans and advances is the carrying value amount net of the deferred income and net of impairment allowance reported at period end.

2. *Credit risk (continued)*

| | **30-Jun-22 BD '000** | 30-Jun-21 BD '000 |
|---|---|---|
| **Stage 3 – Specifically assessed loans** | | |
| Gross amount | 8,600 | 9,015 |
| Expected credit loss | (3,528) | (3,510) |
| **Net amount** | **5,072** | 5,505 |
| **Stage 1, 2 and 3 - Collectively assessed loans** | | |
| Stage 1 - 12 month | 113,065 | 163,395 |
| Stage 2 - lifetime - not credit impaired | 93,567 | 67,653 |
| Stage 3 – lifetime - credit impaired | 34,558 | 37,493 |
| Expected credit loss | (29,535) | (30,958) |
| **Net amount** | **211,655** | 237,583 |
| **Net loans and advances to customers** | **216,727** | 243,088 |

***Significant increase in credit risk assessment***

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

***Monitoring of credit risk***

*Generating the term structure of PD*

Ageing buckets based on days past due ("Ageing buckets") are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by ageing buckets.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates, unemployment and oil prices. Considering the extra ordinary circumstances and the variations in the forward looking data for this variables, the Group has used Vasicek- Merton methodology using oil prices as a factor to determine the PDs.

*2. Credit risk (continued)*

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PDs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. For the purpose of calculating ECL for the period ended 30 June 2022, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 74 days as against 30 days, in line with the CBB concessionary measures. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 74 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’”) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

*2. Credit risk (continued)*

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of 3 months before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL based on regulatory guidance.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Past due but not impaired loans and advances include those for which contractual interest and principal payments are past due, but the Group believes that impairment is not appropriate on the basis of level of security and collateral available and/ or in the process of collecting the amounts owed to the Group.

Aging analysis of loans and advances to customers as follows:

| | Stage 1 BD ’000 | Stage 2 BD ’000 | Stage 3 BD ’000 | Total BD ’000 |
|---|---|---|---|---|
| **Current** | 102,434 | 82,740 | 9,158 | **194,332** |
| **Past due:** | | | | |
| 1-30 days | 7,450 | 7,005 | 1,129 | **15,584** |
| 31-60 days | 2,856 | 1,991 | 1,847 | **6,694** |
| 61-89 days | 325 | 1,831 | 993 | **3,149** |
| 90 days – 1 year | - | - | 15,740 | **15,740** |
| 1 year – 3 years | - | - | 11,797 | **11,797** |
| More than 3 years | - | - | 2,494 | **2,494** |
| Expected credit loss | (3,397) | (8,381) | (21,285) | **(33,063)** |
| Carrying value | **109,668** | **85,186** | **21,873** | **216,727** |

*2. Credit risk (continued)*

*By industry or counterparty:*

| | Retail BD ’000 | Corporate BD ’000 | Total BD ’000 |
|---|---|---|---|
| **Current** | 182,478 | 11,854 | 194,332 |
| **Past due:** | | | |
| 1-30 days | 13,505 | 2,079 | 15,584 |
| 31-60 days | 6,355 | 339 | 6,694 |
| 61-89 days | 3,054 | 95 | 3,149 |
| 90 days – 1 year | 14,440 | 1,300 | 15,740 |
| 1 year – 3 years | 10,172 | 1,625 | 11,797 |
| More than 3 years | 1,842 | 652 | 2,494 |
| Gross loans and advance | **231,846** | **17,944** | **249,790** |
| Collectively assessed ECL | (28,002) | (1,533) | (29,535) |
| Specifically assessed ECL | (1,901) | (1,627) | (3,528) |
| **Net loans and advances** | **201,943** | **14,784** | **216,727** |

At 30 June 2022, the total gross amount of non-performing loans as define by the CBB as accounts with days past due 90 days or above was BD 30,031 thousand. The stage 3 accounts were BD 43,158 thousand. In compliance with the CBB requirements, interest on stage 3 accounts is suspended and is accounted for on a cash basis.

During the period ended 30 June 2022, the average gross credit exposure for cash and balances with banks is BD 31,020 thousand, loans and advances to customers is BD 225,848 thousand, trade and other receivables is BD 3,130 thousand and unutilised credit limit is BD 25,211 thousand. Such amounts are calculated based on the average of last four quarterly results.

At the reporting date, the loans and advances to customers represent 35% vehicle, 20% mortgage, 35% personal and 10% credit card lending.

All exposures are located in Bahrain. The below table summarise the maximum exposure to credit risk without considering collateral and other credit enhancements as of 30 June 2022

| | 30-Jun-22 BD ’000 |
|---|---|
| Balances with banks | 26,331 |
| Loans and advances to customers | 216,727 |
| Trade receivables | 3,000 |
| Other assets | 1,593 |
| **Total** | **247,651** |
| Unutilised credit limit | 21,237 |

*2. Credit risk (continued)*

Impaired loans and advances
Impaired loans and advances are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements. The Group's exposure to credit risk from loans and trade receivables is influenced mainly by the individual characteristics of each customer. Loans which are past due 90 days are considered as non-performing.

The Group's exposure to credit risk from loans and trade receivables is influenced mainly by the individual characteristics of each customer. Loans which are past due 90 days and above are considered as non-performing.

*Credit risk related to trade receivables*
Credit risk related to trade receivables arises from the potential for a counterparty to default from repayment of their dues. The Group has established an appropriate authorisation structure with limits for the approval and renewal of credits.

The Group has established policies and procedures under which each customer is analyzed individually for creditworthiness. At the period end, automotive companies trade receivables of BD 2,518 thousand were past due against which the Group have provided for BD 1,968 thousand as an impairment allowance.

*Loans with renegotiated terms and the Group's forbearance policy*
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially.

The Group implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis in situation where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all the reasonable effort to pay under the original contractual terms and it is expected to be able to meet the revised terms.

The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. During the period ended 30 June 2022, loans and advances amounting to BD 733 thousand were restructured and had no significant impact on ECL and future earnings.

As per the Group's policy, the accounts which are restructured due to credit reasons will be classified under stage 2 for a period of six months. The six months cooling off period should be sufficient for the customer to test the satisfactory performance under the revised terms and conditions. However during the current period, three month cooling off period has been considered in line with the CBB concessionary measures

*Write-off policy*
The Group writes off any loans (and any related allowances for impairment) when the loans are deemed to be uncollectible.

*2. Credit risk (continued)*

*Collateral*

The Group generally holds collateral against loans which may be in the form of mortgage interests over property with custody of title deeds, joint registration of vehicles.

As at 30 June 2022, loans amounting to BD 90,435 thousand were fully collateralized and loans amounting to BD 48,698 thousand was partly collateralized with a collateral value of BD 31,847 thousand.

Management estimates the fair value of collaterals and other security enhancements held against individually impaired loans are reasonably sufficient to cover the value of such loans at the reporting date. The Group monitors concentrations of credit risk by product.

As at 30 June 2022, the Group obtained assets for loan value of BD 450 thousand by taking possession of collateral held as security against loans and advances.

*Credit risk concentration*

Credit risk concentration of loans at the reporting date represents 93% retail loans and 7% to corporate customers and trade receivables represent mainly corporate customers.

As at 30 June 2022, the unutilized credit limit for corporate and retail customers was 7% and 93% respectively.

*Settlement risk*

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

*Derivative related credit risk*

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group which are included in other assets. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The Group's derivative contracts are entered into with other financial institutions.

## 3. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base. The Central Bank of Bahrain sets and monitors capital requirements for the Group. The conventional financing company license granted by the Central Bank of Bahrain limits borrowings to five times the capital and reserves (shareholders' equity) of the Company. Such rate for the Group was 1.2 as at 30 June 2022.

## 4. MATURITY PROFILE

The maturity profile of the Group's financial assets and liabilities based on the expected repayment arrangements is given below. The contractual maturities of assets and liabilities are not significantly different from the expected repayment dates.

| | Within 1 Year BD '000 | 1 year to 5 years BD '000 | 5 years to 10 years BD '000 | 10 years to 20 years BD '000 | Over 20 Years BD '000 | Total BD '000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with banks | 26,331 | - | - | - | - | 26,331 |
| Loans and advances to customers | 68,820 | 99,053 | 39,070 | 8,934 | 850 | 216,727 |
| Trade receivables | 3,000 | - | - | - | - | 3,000 |
| Other assets | 911 | 682 | - | - | - | 1,593 |
| | **99,062** | **99,735** | **39,070** | **8,934** | **850** | **247,651** |
| **LIABILITIES** | | | | | | |
| Trade and other payables | 15,415 | - | - | - | - | 15,415 |
| Derivative financial instruments | 55 | - | - | - | - | 55 |
| Lease liabilities | 352 | 480 | 38 | 38 | - | 908 |
| Bank term loans | 47,802 | 97,841 | - | - | - | 145,643 |
| | **63,624** | **98,321** | **38** | **38** | **-** | **162,021** |

The maturity profile is monitored by the management to ensure adequate liquidity is maintained.