

SICO BSC (c)
**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**
30 SEPTEMBER 2021

Comprehensive investment services for the Bahrain and GCC securities market

Commercial registration : 33469

Board of Directors : Abdulla bin Khalifa Al Khalifa
Chairman of the Board & the Investment Committee

Hisham Al Kurdi
Vice Chairman of the Board & the Investment Committee

Khalid Al Jasim
Member of the Investment Committee

Mohammed Abdulla
*Chairman of Nominations, Remuneration &
Corporate Governance Committee*

Khurram Ali Mirza
*Vice Chairman of Nominations, Remuneration &
Corporate Governance Committee*

Dana Raees
*Member of Nominations, Remuneration &
Corporate Governance Committee*

Tala Fakhro
Chairman of the Audit Committee

Abdulla Kamal
Vice Chairman of the Audit Committee

Naseema Haider
Member of the Audit Committee

Chief Executive Officer : Najla M. Al Shirawi

Office : BMB Centre
P.O. Box 1331, Kingdom of Bahrain
Telephone 17515000, Fax 17514000

Bankers : Bank of Bahrain and Kuwait BSC

Auditors : KPMG Fakhro

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the period ended 30 September 2021

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

11 November 2021

The Board of Directors
SICO BSC (c)
P.O. Box 1331
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 30 September 2021 condensed consolidated interim financial information of SICO BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2021;
- the condensed consolidated statement of profit or loss for the three-month and nine-month periods ended 30 September 2021;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2021;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 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 IAS 34, 'Interim Financial Reporting' as modified by the Central Bank of Bahrain. 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 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 30 September 2021 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as modified by the Central Bank of Bahrain.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

Bahraini Dinars '000

	Note	30 September 2021 (reviewed)	31 December 2020 (audited)
ASSETS			
Cash and bank balances		65,959	54,393
Treasury bills		7,087	1,127
Securities bought under repurchase agreements		103,611	73,816
Investments at fair value through profit or loss ("FVTPL")	13	27,123	22,443
Investments at fair value through other comprehensive income ("FVOCI")	14	10,534	9,723
Investments at amortised cost		9,939	9,953
Investment property		-	427
Fees receivable		1,592	1,153
Other assets		12,584	7,323
Property and equipment	15	283	627
Intangible assets and goodwill	16	1,847	795
Total assets		240,559	181,780
LIABILITIES AND EQUITY			
Liabilities			
Short-term bank borrowings		12,386	7,400
Securities sold under repurchase agreements		109,780	74,406
Customer accounts		41,158	34,885
Other liabilities		6,868	5,426
Payable to other unit holders in consolidated funds		2,586	1,340
Total liabilities		172,778	123,457
Equity			
Share capital		42,849	42,849
Treasury shares		-	(5,322)
Shares under employee share incentive scheme		(2,263)	(2,263)
Statutory reserve		8,330	8,330
General reserve		3,217	3,217
Investments fair value reserve		1,487	992
Retained earnings		12,439	10,520
Equity attributable to the shareholders of the Bank		66,059	58,323
Non-controlling interests		1,722	-
Total equity (page 5 and 6)		67,781	58,323
Total liabilities and equity		240,559	181,780

The condensed consolidated interim financial information was approved by the Board of Directors on 11 November 2021 and signed on its behalf by:



Abdulla bin Khalifa Al Khalifa
Chairman



Hisham Al Kurdi
Vice Chairman



Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

SICO BSC (c)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the three months and nine months ended 30 September 2021

Bahraini Dinars '000

	Note	Nine months ended 30 September		Three months ended 30 September	
		2021 (reviewed)	2020 (reviewed)	2021 (reviewed)	2020 (reviewed)
Net investment income	17	3,676	1,673	944	2,015
Net fee income		3,764	2,592	1,500	862
Brokerage and other income		2,074	2,665	544	548
Net interest income		1,340	1,069	494	342
Income from investment property		-	126	(3)	21
Total income		10,854	8,125	3,479	3,788
Staff cost		4,481	3,854	1,592	1,227
Other operating expenses		2,383	2,193	944	628
Allowance for expected credit loss		38	245	7	245
Share of profit of other unit holders in consolidated funds		405	120	146	134
Total expenses		7,307	6,412	2,689	2,234
Profit for the period		3,547	1,713	790	1,554
Profit attributable to:					
Shareholders of the Bank		3,656	1,713	871	1,554
Non-controlling interests		(109)	-	(81)	-
		3,547	1,713	790	1,554
Basic and diluted earnings per share (fils)		9.19	4.63	2.10	4.20



Abdulla bin Khalifa Al Khalifa
Chairman



Hisham Al Kurdi
Vice Chairman



Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three months and nine months ended 30 September 2021

Bahraini Dinars '000

	Nine months ended 30 September		Three months ended 30 September	
	2021 (reviewed)	2020 (reviewed)	2021 (reviewed)	2020 (reviewed)
Profit for the period	3,547	1,713	790	1,554
Other comprehensive income Items that are or may be reclassified to profit or loss in subsequent periods:				
Net changes in fair value of FVOCI debt instruments	(87)	(81)	(82)	-
Items that will not be reclassified to profit or loss in subsequent periods:				
Net change in fair value of FVOCI equity instruments	582	(429)	108	315
Other comprehensive income for the period	495	(510)	26	315
Total comprehensive income for the period	4,042	1,203	816	1,869
Total comprehensive income attributable to:				
Shareholders of the Bank	4,151	1,203	897	1,869
Non-controlling interests	(109)	-	(81)	-
	4,042	1,203	816	1,869

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

SICO BSC (c)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended 30 September 2021

Bahraini Dinars '000

2021 (reviewed)

	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total owners' equity	Non-controlling interest	Total equity
Balance at 1 January 2021	42,849	(5,322)	(2,263)	8,330	3,217	992	10,520	58,323	-	58,323
Profit for the period	-	-	-	-	-	-	3,656	3,656	(109)	3,547
Other comprehensive income:										
Net change in fair value of FVOCI instruments	-	-	-	-	-	495	-	495	-	495
Total other comprehensive income	-	-	-	-	-	495	-	495	-	495
Total comprehensive income for period	-	-	-	-	-	495	3,656	4,151	(109)	4,042
Transfer to charitable donation reserve	-	-	-	-	-	-	(40)	(40)	-	(40)
Transaction with owners recognised directly in equity:										
Dividends paid for 2020 (note 10)	-	-	-	-	-	-	(2,142)	(2,142)	-	(2,142)
Acquisition of a subsidiary (note 20)	-	5,322	-	-	-	-	445	5,767	1,831	7,598
Balance at 30 September 2021	42,849	-	(2,263)	8,330	3,217	1,487	12,439	66,059	1,722	67,781

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

SICO BSC (c)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended 30 September 2021 (continued)

Bahraini Dinars '000

2020 (reviewed)

	Share capital	Shares under employee share incentive scheme	Treasury shares	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2020	42,849	(2,263)	(5,322)	8,034	3,217	891	11,958	59,364
Profit for the period	-	-	-	-	-	-	1,713	1,713
<i>Other comprehensive income:</i>								
Net change in fair value of FVTOCI instruments	-	-	-	-	-	(510)	-	(510)
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	-	142	(142)	-
<i>Total other comprehensive income</i>	-	-	-	-	-	(368)	(142)	(510)
Total comprehensive income for period	-	-	-	-	-	(368)	1,571	1,203
- Transfer to charitable donation reserve	-	-	-	-	-	-	(60)	(60)
Transaction with owners recognised directly in equity:								
- Dividends paid	-	-	-	-	-	-	(3,899)	(3,899)
Balance at 30 September 2020	42,849	(2,263)	(5,322)	8,034	3,217	523	9,570	56,608

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended 30 September 2021

Bahraini Dinars '000

	30 September 2021 (reviewed)	30 September 2020 (reviewed)
Operating activities		
Net interest received	2,478	2,157
Net purchase of investments at fair value through profit or loss	(83)	(130)
Net purchase of investments at fair value through other comprehensive income	(811)	(53)
Net sale of investments at amortised cost	14	13
Net decrease in investment property	427	991
Net increase in customer accounts	6,273	95
Securities bought under repurchase agreements	(29,794)	(24,210)
Securities sold under repurchase agreements	35,374	20,617
Dividends received	540	399
Net income from investment property	-	126
Movement in brokerage accounts and other receivables	4,765	9,576
Movement in other liabilities	478	(410)
Payments for staff and related expenses	(3,917)	(4,332)
Payments for other operating expenses	(1,119)	(2,419)
Net cash generated from operating activities	14,625	2,420
Investing activities		
Net capital expenditure on equipment and intangibles	(101)	(93)
Acquisition of subsidiary, net cash acquired	5,109	-
Net cash generated from / (used in) investing activities	5,008	(93)
Financing activities		
Net increase in short-term bank borrowings	70	3,630
Net decrease in long-term placements	(859)	-
Dividend paid	(2,142)	(3,899)
Contribution by other unit holders in consolidated funds	841	247
Net cash used in financing activities	(2,090)	(22)
Net increase in cash and cash equivalents	17,543	2,305
Cash and cash equivalents at the beginning of the period	55,520	60,816
Cash and cash equivalents at the end of the period*	73,063	63,121
Represented by:		
Cash and bank balances	65,959	60,839
Treasury bills	7,087	2,268
	73,046	63,107

* Excludes ECL balance of BD 17 (2020: BD 14).

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

1. Reporting entity

This condensed financial information is the reviewed condensed consolidated interim financial information (the “condensed consolidated interim financial information”) of SICO BSC (c) (“SICO” or the “Bank”) and its subsidiaries (collectively, the “Group”). The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the “CBB”).

During the period, the Bank acquired 72.7% of the share capital of Muscat Capital Company (“MCC”), a Saudi Closed Joint Stock Company, which has been subsequently rebranded as SICO Capital (“SC”). The acquisition was completed on 15 March 2021 and the transaction is being accounted as per the requirements of IFRS 3 *Business Combinations* (refer to note 20 for details).

2. Basis of preparation

The condensed consolidated interim financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the CBB including the CBB circulars on regulatory concessionary measures in response to novel coronavirus (“COVID-19”). These rules and regulations require the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), 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 account as required by IFRS issued by IASB. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable IFRS. Please refer to note 4 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 account as required by the IAS 20. This will only be to the extent of any modification loss recorded in equity as a result of 2(a) above, and the balance amount is to be recognised in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of IAS 20.

The above framework for the basis of preparation of the annual financial statements is hereinafter referred to as ‘IFRS as modified by the CBB’.

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 the IFRS as modified by the CBB framework. Hence, the framework used in the preparation of the condensed consolidated interim financial information of the Group is hereafter referred to as “IAS 34 as modified by the CBB”.

The adoption of the above framework did not have any impact on the Group’s reported amounts in the current and comparative periods as the Group’s financial assets were not subject to modification.

The condensed consolidated interim financial information is reviewed by the external auditors, not audited. The condensed consolidated interim financial information does not include all the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group 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. Comparatives

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. The comparatives for the condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows have been extracted from the reviewed condensed consolidated interim financial information for the nine months period ended 30 September 2020.

The comparative figures have been regrouped, where necessary, in order to conform to the current period's presentation. Such regrouping did not affect the previously reported profit, comprehensive income for the period or total equity.

4. COVID-19 impact

On 11 March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organisation ("WHO"). It rapidly evolved and continues to have an impact worldwide, although recovery appears to be on the horizon with the worldwide vaccination rollout. COVID-19 resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including gross domestic product, 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 Government of Kingdom of Bahrain and other governments across the world have announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group and its clients have received some benefits from these Packages to help sustain the impact of the crisis.

The pandemic as well as the resulting measures and policies are expected to have direct and / or knock-on impact on the Group and management and the Board of Directors continue to closely monitor 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. Based on its assessment, management is of the view that the Group will continue as a going concern entity at least for the next 12 months from the date of this condensed consolidated interim financial information.

Fair valuation

The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset / investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

5. Accounting policies

The new accounting standards issued and effective as at 1 January 2021 do not have a significant impact on the Group's accounting policies. The condensed consolidated interim financial information has been prepared using the same accounting policies and methods of computation applied in the preparation of the Groups' audited consolidated financial statements for the year ended 31 December 2020 except for the adoption of the below on account of the acquisition of a subsidiary:

(a) Business combination and goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

IFRS 3 *Business Combinations* allows for the fair value of assets, liabilities and equity interests to be reported on a provisional basis on the date of the business combination. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

After initial recognition, goodwill and other intangibles are measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained. Intangibles with indefinite useful lives are subject to impairment testing at least on an annual basis. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**For the nine months ended 30 September 2021**

Bahraini Dinars '000

6. Estimates

The 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 expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those applied to the consolidated financial statements for the year ended 31 December 2020.

7. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual consolidated financial statements and they should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2020. There have been no changes in the risk management department or in any risk management policies since 31 December 2020.

The regulatory ratios are as follows:

	30 September 2021	31 December 2020
Liquidity Coverage Ratio ("LCR")	228%	263%
Net Stable Funding Ratio (note 21)	159%	170%
Minimum required by the CBB	80%	80%

The average LCR for the nine-month period ended 30 September 2021 was 216% (31 December 2020: 158%).

The Group continues to meet minimum required regulatory liquidity ratios and is also in compliance with the minimum required capital adequacy ratio ("CAR").

8. Operating segments

The Group's lines of business are brokerage, asset management, treasury, investment banking, market making and custody business. At present, the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at Group level. Accordingly, there are no reportable segments.

9. Cyclicity

Due to nature of the Group's business, the nine months' results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results. In particular, dividends and performance fee are not necessarily recognised in the same interim reporting periods each year and are dependent on actions and performances of the investee companies and portfolio performance.

10. Appropriations

At the shareholders Annual General Meeting for the year 2020 on 23 March 2021, the shareholders resolved to make the appropriations of the profit for the year ended 31 December 2020, which were effected during the first quarter of 2021. These include cash dividend of BD 2,142 representing 5% of the paid up capital and charitable donations of BD 40.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

Bahraini Dinars '000

11. Shares under employee share incentive scheme

The Group has established an Employee Share Incentive scheme (the "Scheme") which is operated through a Trustee. The Trust has been set up by the transfer of shares of the Bank allotted to the employees under the Scheme.

Under the Scheme, employees are entitled to receive shares as part of their bonus in ratios determined by the Board of Directors. The value of the shares is to be determined based on the fair value of the Group's net assets as at the reporting date. This Scheme is treated as a cash-settled share based payment transaction due to the restrictions imposed under the Scheme whereby the employees have to sell back the shares to the Group on resignation / retirement based on the vesting conditions mentioned in the scheme.

12. Contingencies, commitments and memorandum accounts

	30 September 2021	31 December 2020
Assets under custody	3,004,485	3,010,365
Assets under management	1,574,985	877,931
Guarantees	3,593	3,593
Other commitments	3,991	2,841

The acquisition of SC during the year (see note 20) has resulted in consolidation of assets under management amounting to BD 331,452. The results of the Group do not reflect the income from such assets under management up to 31 March 2021 due to the practical expedient for acquisition accounting and consolidation as explained in note 20.

13. Investments at fair value through profit or loss

	30 September 2021	31 December 2020
Quoted equity securities – (listed)		
- Parent	3,923	3,425
- Consolidated funds	4,664	3,667
Funds		
- Quoted	7,011	4,138
- Unquoted	3,125	2,528
Quoted debt securities		
- Parent	3,814	4,662
- Consolidated funds	4,586	4,023
	27,123	22,443

14. Investments at fair value through other comprehensive income

	30 September 2021	31 December 2020
Equity securities		
- Quoted	5,652	4,753
Debt securities		
- Quoted	4,882	4,970
	10,534	9,723

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

Bahraini Dinars '000

15. Property and equipment

	30 September 2021	31 December 2020
Property, plant and equipment	100	425
Right-of-use of leased property	183	202
	283	627

Lease liabilities in relation to right-of-use of leased property are presented under interest payable and other liabilities and amounted to BD 106 as at 30 September 2021 (2020: BD 214). The depreciation charge on right-of-use asset during the period was BD 169 (2020: BD 115).

16. Intangible assets and goodwill

	30 September 2021	31 December 2020
Intangibles – software	939	795
Goodwill	908	-
	1,847	795

17. Net investment income

	Nine months ended	
	30 September 2021	30 September 2020
Net gain from investments at fair value through profit or loss	2,023	152
Realised gain on treasury bills	2	1
Interest income from debt instruments	1,104	1,121
Dividend income	547	399
	3,676	1,673

Gain from investments at fair value through profit or loss comprises the following:

	Nine months ended	
	30 September 2021	30 September 2020
Realised gain / (loss)	707	(120)
Unrealised gain	1,316	272
	2,023	152

The realised gain / (loss) from investments at fair value through profit or loss represents the difference between the carrying amount of investments at the beginning of the reporting period, or the transaction price if it was purchased in the current reporting period, and its sale or settlement price.

The unrealised gain represents the difference between the carrying amount of investments at the beginning of the period, or the transaction price if it was purchased in the current reporting period, and its carrying amount at the end of the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

Bahraini Dinars '000

18. Related parties

The following are the related party transactions during the period. All of these transactions are in the ordinary course of business and on normal commercial terms.

Transactions with funds owned by the subsidiary companies namely SICO Funds Company BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC (c), SICO Funds Company VI BSC (c), SICO Funds Company VIII BSC (c), SICO Ventures Company WLL and SICO Capital are as follows:

	Nine months ended	
	30 September 2021	30 September 2020
Fee income	519	352

	30 September 2021	31 December 2020
	Fee receivable	378
Funds under management	78,329	58,686
Investments in own funds	2,699	2,346

Transactions with shareholders:

	Nine months ended	
	30 September 2021	30 September 2020
Fee income	699	278

	30 September 2021	31 December 2020
	Fee receivable	340
Funds under management	81,148	46,525
Placements	13,921	11,154
Borrowings	12,386	7,400
Securities sold under repurchase agreements	34,460	41,261

The Group has banking relationships, makes deposits and placements and has utilised and unutilised credit facilities with certain of its shareholders that are banks.

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19. Fair value

(i) Set out below is a comparison of the carrying amounts and fair values of financial instruments:

	30 September 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and bank balances	65,959	65,959	54,393	54,393
Treasury bills	7,087	7,087	1,127	1,127
Securities bought under repurchase agreements	103,611	103,799	73,816	74,046
Investments at fair value through profit or loss	27,123	27,123	22,443	22,443
Investments at fair value through other comprehensive income	10,534	10,534	9,723	9,723
Investments at amortized cost	9,939	10,788	9,953	11,327
Total financial assets	224,253	225,290	171,455	173,059
Liabilities				
Short-term bank borrowings	12,386	12,395	7,400	7,401
Securities sold under repurchase agreements	109,780	109,861	74,406	74,574
Payable to other unit holders in consolidated funds	2,586	2,586	1,340	1,340
Total financial liabilities	124,752	124,842	83,146	83,315

All investments at fair value through other comprehensive income and investments at fair value through profit or loss are carried at fair value. Investments at amortized cost are carried at amortized cost.

(ii) Fair value hierarchy

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements from the date of reclassification.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

The tables below analyses financial assets and liabilities carried at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised.

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19. Fair value (continued)

As at 30 September 2021

Assets

Investments at fair value through profit or loss:

	Level 1	Level 2	Level 3	Total
- Equity	8,587	-	-	8,587
- Debt securities	8,331	69	-	8,400
- Funds	8,072	-	2,064	10,136
Investment at fair value through other comprehensive income:				
- Equities	5,652	-	-	5,652
- Debt securities	4,882	-	-	4,882
	35,524	69	2,064	37,657

As at 31 December 2020

Assets

Investments at fair value through profit or loss:

	Level 1	Level 2	Level 3	Total
- Equity	7,092	-	-	7,092
- Debt securities	8,685	-	-	8,685
- Funds	5,523	-	1,143	6,666
Investment at fair value through other comprehensive income:				
- Equities	4,753	-	-	4,753
- Debt securities	4,970	-	-	4,970
	31,023	-	1,143	32,166

The following tables analyses the movement in Level 3 financial assets during the period:

	Level 3 30 September 2021	Level 3 30 September 2020
At 1 January	1,143	832
Total loss:		
- in income statement	(35)	(60)
- in other comprehensive income	-	-
Purchases	-	-
Settlements	-	-
Transfers into level 3	956	417
At 30 September	2,064	1,189

20. Business combination

On 15 March 2021, the Bank acquired 72.7% stake in SC by way of a share swap between SICO and Bank Muscat SAOG with 38,563,894 of SICO's treasury shares swapped for 4,362,491 shares of SC. For practical purposes, the 31 March 2021 management accounts of SC have been used as best estimate for the purposes of acquisition accounting and consolidation.

The acquisition of SC will broaden SICO's regional presence and service offerings in the region's largest market, Saudi Arabia. The business combination has been accounted for using the acquisition method.

Purchase price consideration

Management has assessed that the consideration amounted to BD 5,785 is provisionally the fair value of consideration transferred.

Recognition of non-controlling interest

Non-controlling interest in SC has been estimated by applying the proportionate method of fair value of identifiable net assets.

Acquisition related costs

Transaction costs of BD 138 were expensed during 2020 and 2021 under other operating expenses.

Fair valuation of identifiable assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of SC at the date of acquisition is summarised as below:

	Fair value on acquisition date
Assets	
Cash and bank balances	5,109
Investments at fair value through profit or loss ("FVTPL")	1,841
Fees receivable	287
Other assets	1,554
Property, plant and equipment	10
Intangible assets (intangible i.e. software)	91
Total assets	8,892
Liabilities	
Short-term bank borrowings	1,468
Other liabilities	716
Total liabilities	2,184
Identifiable net assets	6,708

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

Purchase price consideration	5,785
Non-controlling interest	1,831
Fair value of identifiable net assets	(6,708)
Goodwill	908

The above figures are provisional. If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustment to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

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20. Business combination (continued)

Impact on Group's results

The acquisition of SC resulted in increase in assets of the Group by BD 12,084, increase in liabilities of the Group by BD 5,775 and increase in off balance sheet items e.g. assets under management by BD 331,452. If SC was consolidated since beginning of the reporting period, the incremental net profits would have a loss amounted to BD 265.

For the purpose of these condensed consolidated interim statement of cash flows, net cash acquired on business combination amounted to BD 5,109.

21. Net stable funding ratio

In August 2018, the CBB issued its regulations on Liquidity Risk Management (Module LM). The main objective of the NSFR is to promote the resilience of the banking system by improving the funding profile of banks by ensuring they have sufficient level of stable funding in relation to their assets and commitments. The NSFR thus promotes banks to rely on funding from stable sources and long-term borrowing in order to reduce the risks of disruptions which might impact the bank's liquidity position.

As per the CBB's Module LM, banks are required to meet the minimum NSFR of at least 100% on a continuous basis. This ratio was relaxed to 80% due to the pressures within the banking sector following the COVID-19 pandemic.

Further details on the calculation of the NSFR is presented in the following tables.

30 September 2021	Unweighted values (before applying factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available stable funding (ASF):					
Capital:					
Regulatory capital	66,965	-	-	123	67,088
Retail deposits and deposits from small business customers:					
Less stable deposits	-	13,212	-	-	11,890
Other liabilities:					
All other liabilities not included in above categories	-	154,526	4,865	-	7,613
Total ASF					86,591
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	25,103	-	-	-	2,520
Deposits held at other financial institutions for operational purposes					
Performing loans and securities:					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	27,684	-	-	13,842
Other assets:					
All other assets not included in the above categories	4,080	169,903	-	-	37,596
Off-balance sheet items	7,422	-	-	-	371
Total RSF					54,329
NSFR %					159%

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21. Net stable funding ratio (continued)

31 December 2020	Unweighted values (before applying factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available stable funding (ASF):					
Capital:					
Regulatory capital	56,785	-	-	72	56,857
Retail deposits and deposits from small business customers:					
Less stable deposits	11,240	-	-	-	10,116
Other liabilities:					
All other liabilities not included in above categories	-	97,891	-	-	4,213
Total ASF					71,186
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	20,307	-	-	-	1,987
Performing loans and securities:					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	23,269	-	-	11,635
Other assets:					
All other assets not included in the above categories	4,971	129,080	-	-	28,009
Off-balance sheet items	6,434	-	-	-	322
Total RSF					41,953
NSFR %					170%

INTRODUCTION

In accordance with the advice of the Central Bank of Bahrain vide its circular no. OG/259/2020 dated 14 July 2020, and in order to maintain transparency, the Bank discloses herewith additional information pertaining to the financial impact of Novel Coronavirus ("COVID-19") on its financial statements and the results of operations.

This assessment would be carried out on an ongoing basis and necessary supplementary information would be provided as part of the interim and annual financial statements.

The declaration by the World Health Organization of a pandemic due to the spread of COVID-19 around the world suddenly and unexpectedly has caused a major global economic crises and panic in financial markets. Financial Services industry like other industries had to manage and overcome multifaceted challenges in an environment of economic uncertainty and higher risk. The global fight to control the coronavirus spread is not over yet. Nonetheless, many countries have started witnessing reduced number of COVID-19 infections and have started to ease lockdown measures while economic and social activities resuming gradually, the threat of further wave of infections still looms and the situation remains uncertain.

CURRENT SITUATION

The Bank, in ongoing basis and since the initial days of the crises has been assessing the impact of the crises on all lines of business in terms of revenues, liquidity and overall exposures. While the impact on the income stream is being reviewed on continuous basis due to the markets turmoil, the Management are also cognizant of the need to maintain business activities while ensuring staff safety and business continuity. The Management have communicated to the clients early in the crises all measures that are implemented giving them the additional comfort that the Bank is fully prepared and their business with SICO is safeguarded from all aspects. In the meantime, the Management have assessed that SICO does not face any imminent liquidity crisis.

The Government of Bahrain had announced various support measures to assist the corporates in these unprecedented situations. The Central Bank of Bahrain has also provided a number of support measures in terms of the reporting requirement timelines and also easing certain threshold requirements.

SICO has taken a number of steps in the business continuity planning and implementation process keeping in mind the overall safety and well-being of our staff members while ensuring no operational disturbances in running the business.

Overall, the Bank's financial performance for the first nine months of 2021 has improved considerably as compared to the same period in 2020. The first none months of 2020 witnessed depressed results due to the COVID-19 related economic shock and the extreme volatility experienced in the oil prices and its resultant impact on the market valuation of securities. However, the introduction of vaccines as well as other measures taken by countries in the region and across the World has contributed positively to the market valuations and the Bank's performance

The Bank achieved a net profit of BD 3.5 million for the period ended 30 September 2021 against BD 1.7 million achieved in the same period of the previous year. Operating income for the period ended 30 September 2021 was BD 10,854 thousand as against BD 8,125 thousand achieved in the same period previous year.

Table of income components (BD '000):

	30 Sep 2021	30 Sep 2020
Net investment income	3,676	1,673
Net fee income	3,764	2,592
Brokerage and other income	2,074	2,665
Net other interest income	1,340	1,069
Income from investment property	-	126
Total	10,854	8,125

Supplementary Disclosures – Financial Impact of COVID-19 (Unreviewed)
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In the first nine months of 2020, the **Proprietary book investment** portfolio took a significant hit due to the market conditions that prevailed during the first three to four months of 2020. The drop in market valuations were due to both the COVID-19 pandemic as well as the significant drop in the oil prices. A number of measures that includes revising asset allocations, implementing hedging strategies, have been put in place. The later part of 2020 witnessed some good recovery. The year 2021 witnessed good recovery in the market valuations that had led to a good performance as compared to the same period previous year.

Fee based income experienced an increase of 45% when compared to the previous year, mainly due to the improvements in the portfolio valuations and also due to the increase in Assets under Management.

The market volatilities that existed in the first half of 2020 resulted in increase in **Brokerage income** in the previous year. In the short term, this volatility had created good trading opportunity for clients in both the equities and fixed income space.

Interest income reflected a growth of 25% from previous year levels. This has been achieved due to the efficient management of the liquidity position as well an increase in the reverse repo based business activities.

Others:

- The Bank continues to meet the regulatory requirement of CAR, LCR and NSFR.
- A detailed analysis of the ECL provisioning requirements has been carried out and considering the nature of the exposures, the stressed economic situation has not resulted in the need for any increase to the existing ECL provisions.
- Strict cost control measures are in place; however due attention is given and necessary expenditure is incurred to ensure safety and well-being of staff personnel

CLOSING NOTE

The Management believes that ample measures have been taken by the Bank to handle the challenges of this uncertain situation. At this point, the priority is to ensure safety of our employees, clients, partners and all other stakeholders. The Bank will continue to maintain a resilient financial position and an attentive approach to dealing with all the clients.