

SICO BSC (c)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION 30 September 2020

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 and the Investment Committee

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

Khalid 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
Chairperson 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
PO Box 1331, Kingdom of Bahrain
Telephone 17515000, Fax 17514000

Bankers : BBK BSC

Auditors : KPMG Fakhro

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the period ended 30 September 2020

CONTENTS	Page
Independent auditors' report on review of condensed consolidated interim financial information	1
Condensed Consolidated Interim Financial Information	
Condensed consolidated statement of financial position	2
Condensed consolidated statement of profit or loss	3
Condensed consolidated statement of comprehensive income	4
Condensed consolidated statement of changes in equity	5-6
Condensed consolidated statement of cash flows	7
Notes to the condensed consolidated interim financial information	8-16
Supplementary Disclosures – Financial Impact of COVID-19 (Not reviewed)	17-18



KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: home.kpmg/bh
CR No. 6220

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

The Board of Directors
SICO BSC (c)
PO Box 1331
Manama
Kingdom of Bahrain

11 November 2020

Introduction

We have reviewed the accompanying 30 September 2020 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 2020;
- the condensed consolidated statement of profit or loss for the three-month and nine-month periods ended 30 September 2020;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2020;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2020;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2020; 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 2020 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 2020

Bahraini Dinars '000

	Note	30 September 2020 (reviewed)	31 December 2019 (audited)
ASSETS			
Cash and bank balances		60,839	56,555
Treasury bills		2,268	4,261
Securities bought under repurchase agreements		75,316	51,106
Investments at fair value through profit or loss	12	20,383	20,076
Investments at fair value through other comprehensive income	13	9,181	9,128
Investments at amortized cost		9,958	9,971
Investment property	14	679	1,915
Fees receivable		1,359	3,523
Furniture, equipment and intangibles	15	1,370	1,671
Other assets		6,537	8,576
Total assets		187,890	166,782
LIABILITIES AND EQUITY			
Liabilities			
Short-term bank borrowings		7,400	3,770
Securities sold under repurchase agreements		76,165	55,548
Customer accounts		41,435	41,340
Payable to other unit holders in consolidated funds	16	989	622
Other liabilities		5,293	6,138
Total liabilities		131,282	107,418
Equity			
Share capital		42,849	42,849
Shares under employee share incentive scheme		(2,263)	(2,263)
Treasury shares		(5,322)	(5,322)
Statutory reserve		8,034	8,034
General reserve		3,217	3,217
Investments fair value reserve		523	891
Retained earnings		9,570	11,958
Total equity (page 5)		56,608	59,364
Total liabilities and equity		187,890	166,782

The Board of Directors approved the condensed consolidated interim financial information on 11 November 2020 and signed on its behalf by:



Abdulla Bin Khalifa Al Khalifa
Chairman



Hisham Al Kurdi
Vice Chairman



Najla M. Al Shiraw
Chief Executive Officer

The accompanying notes 1 to 20 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the nine months ended 30 September 2020

Bahraini Dinars '000

	Note	Nine months ended 30 September		Three months ended 30 September	
		2020 (reviewed)	2019 (reviewed)	2020 (reviewed)	2019 (reviewed)
Net investment income	17	1,673	3,127	2,015	(415)
Net fee income		2,592	3,092	862	1,069
Brokerage and other income		2,665	1,837	548	597
Net other interest income		1,069	1,048	342	401
Rental income		126	165	21	59
Total income		8,125	9,269	3,788	1,711
Staff and related expenses		3,897	3,614	1,241	1,216
Other operating expenses		2,150	1,992	674	642
Impairment provision		245	40	185	-
Share of profit / (loss) of non- controlling unit holders in consolidated funds		120	47	134	(855)
Total expenses		6,412	5,693	2,234	1,003
Profit for the period		1,713	3,576	1,554	708
Basic and diluted earnings per share (fils)		4.63	9.67	4.2	1.91



Abdulla Bin Khalifa Al Khalifa
Chairman



Hisham Al Kurdi
Vice Chairman



Najla M. Al Shiraw
Chief Executive Officer

The accompanying notes 1 to 20 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the nine months ended 30 September 2020

Bahraini Dinars '000

	Nine months ended 30 September		Three months ended 30 September	
	2020 (reviewed)	2019 (reviewed)	2020 (reviewed)	2019 (reviewed)
Profit for the period	1,713	3,576	1,554	708
Other comprehensive income				
Items that are or may be reclassified to profit or loss in subsequent periods:				
- Net change in fair value of FVTOCI debt instruments	(81)	276	-	130
- Net amount transferred to profit or loss on sale of FVTOCI debt instruments	-	20	-	-
- Net amount transferred to profit or loss on impairment	-	8	-	8
Items that will not be reclassified to profit or loss in subsequent periods:				
- Net change in fair value of FVTOCI equity instruments	(429)	197	315	204
Total other comprehensive income for the period	(510)	501	315	342
Total comprehensive income for the period	1,203	4,077	1,869	1,050

The accompanying notes 1 to 20 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 2020

Bahraini Dinars '000

30 September 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
Other comprehensive income:								
Net change in fair value of FVTOCI instruments	-	-	-	-	-	(510)	-	(510)
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	-	142	(142)	-
Total other comprehensive income	-	-	-	-	-	(368)	(142)	(510)
Total comprehensive income for period	-	-	-	-	-	(368)	1,571	1,203
- Transfer to charitable donation reserve	-	-	-	-	-	-	(60)	(60)
Transaction with owners recognized 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 20 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 2020 *(continued)*

Bahraini Dinars '000

30 September 2019 (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 2019	42,849	(1,599)	(5,913)	7,362	3,217	133	9,616	55,665
Profit for the period	-	-	-	-	-	-	3,576	3,576
<i>Other comprehensive income:</i>								
Net change in fair value of FVTOCI instruments	-	-	-	-	-	473	-	473
Net amount transferred to profit or loss on sale of FVTOCI debt instruments	-	-	-	-	-	20	-	20
Net amount transferred to profit or loss on impairment	-	-	-	-	-	8	-	8
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	-	(36)	36	-
<i>Total other comprehensive income</i>	-	-	-	-	-	465	36	501
Total comprehensive income for period	-	-	-	-	-	465	3,612	4,077
- Transfer to charitable donation reserve	-	-	-	-	-	-	(40)	(40)
Transaction with owners recognized directly in equity:								
- Dividends paid	-	-	-	-	-	-	(3,085)	(3,085)
- Treasury shares transferred to employee share incentive scheme	-	(664)	591	69	-	-	-	(4)
Balance at 30 September 2019	42,849	(2,263)	(5,322)	7,431	3,217	598	10,103	56,613

The accompanying notes 1 to 20 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2020

Bahraini Dinars '000

	30 September 2020 (reviewed)	30 September 2019 (reviewed)
Operating activities		
Net interest received	2,157	2,017
Net (purchase) / sale of investments at fair value through profit or loss	(130)	7,474
Net (purchase) of investments at FVTOCI	(53)	(2,549)
Net sale of investments at amortized cost	13	14
Net decrease in investment properties	991	93
Net increase in customer accounts	95	35,270
Securities bought under repurchase agreements	(24,210)	3,716
Securities sold under repurchase agreements	20,617	(239)
Dividends received	399	405
Rental income received	126	165
Movement in brokerage accounts and other receivables	9,576	(2,337)
Movement in other liabilities	(410)	640
Payments for staff and related expenses	(4,332)	(3,482)
Payments for other operating expenses	(2,419)	(1,157)
Net cash generated from operating activities	2,420	40,030
Investing activities		
Net capital expenditure on furniture and equipment	(93)	(844)
Net cash used in investing activities	(93)	(844)
Financing activities		
Net increase in short-term bank borrowings	3,630	385
Dividends paid	(3,899)	(3,085)
Net Contribution / (distribution) to other unit holders in consolidated fund	247	(6,139)
Net cash used in financing activities	(22)	(8,839)
Net increase in cash and cash equivalents	2,305	30,347
Cash and cash equivalents at the beginning of the period	60,816	44,883
Cash and cash equivalents at the end of the period*	63,121	75,230
Represented by:		
Cash and bank balances	60,839	68,601
Treasury bills	2,268	6,605
	63,107	75,206

* Excludes ECL balance of BD 14 (2019: BD 24).

The accompanying notes 1 to 20 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) (the “Bank”) and its subsidiaries (the “Group”). The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain.

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 Central Bank of Bahrain (“CBB”) including the recently issued CBB circulars on regulatory concessionary measures in response to 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 (3) 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 (a) above, and the balance amount to be recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Please refer to note (3) for further details.

The above framework for basis of preparation of the interim financial statements is hereinafter referred to as ‘IAS 34 as modified by CBB’. However, the above modification did not have any impact on the Group.

The accounting policies used in the preparation of condensed consolidated interim financial information of the Group for the period ended 30 September 2020 were in accordance with IFRS as issued by IASB. However, except for the above-mentioned modifications to accounting policies that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in this condensed consolidated interim financial information. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

The condensed consolidated interim financial information is reviewed by the external auditors, not audited. The comparatives for the condensed statement of financial position have been extracted from the audited financial statements for the year ended 31 December 2019 and the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2019. 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 2019.

The condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) as modified by the Central Bank of Bahrain, which permits the interim financial information to be in summarized form. 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 financial statements of the Group for the year ended 31 December 2019. 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 2019.

3. COVID-19 impact

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global 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 GDP, 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 are expected to get some benefits from these Packages that will help them 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. The management and the Board of Directors has been closely monitoring 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 their assessment, the management is of the view that the Group will continue as a going concern entity atleast for the next 12 months from the date of this condensed consolidated interim financial information.

Government assistance and subsidies

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes to support businesses in these challenging times.

Financial assistance amounting to BD 312 thousand (representing specified reimbursement of a portion of staff costs) received from the government, in response to its COVID-19 support measures, has been recognized as income and captured in the Brokerage and other income.

Fair valuation

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. 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.

4. 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 annual financial statements for the year ended 31 December 2019, except for the new accounting policy adopted and new amendments that were effective from 1 January 2020 as noted below:

4 *Accounting policies (continued)*

Government grants

Government grants are recognized when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received. Grants are recognised as other income in profit or loss on a systematic basis as the Group recognizes as expenses the costs that the grants are intended to compensate. Grants that relate to the acquisition of an assets are recognised in profit or loss as the assets is depreciated or amortised.

The following relevant amendments to existing standards and framework did not have any significant impact on the Group's financial information.

Description	Effective from
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020

5. **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 these condensed consolidated interim financial information, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2019, except for those mentioned in note 3.

6. **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 financial statements and they should be read in conjunction with the Group's audited annual financial statements for the year ended 31 December 2019. There have been no changes in the risk management department or in any risk management policies since 31 December 2019, except for those mentioned in note 3 and the changes below:

Liquidity risk and capital management

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 on liquidity in banking sector which includes reduction of LCR and NSFR ratio from 100% to 80%.

The regulatory ratios as of 30 September 2020 are as follows:

	As of 30 September 2020	As of 31 December 2019
Liquidity Coverage Ratio	228%	131%
Net Stable Funding Ratio	181%	148%
Minimum required by CBB	80%	100%

The average LCR for the nine months' period ended 30 September 2020 was 143% (31 December 2019: 137%).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2020

Bahraini Dinars '000

7. 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.

8. 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.

9. Appropriations

At the shareholders Annual General Meeting for the year 2019 on 24 March 2020, the shareholders resolved to make the appropriations of the profit for the year ended 31 December 2019, which were effected during the first quarter of 2020. These include cash dividend of BD 3,899 representing 8% of paid up capital and charitable donations of BD 60.

10. 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.

11. Contingencies, commitments and memorandum accounts

	30 September 2020	31 December 2019
Assets under custody	2,799,329	2,800,744
Assets under management	792,544	808,732
Other commitments	1,737	3,279
Guarantees	3,593	5,646

12. Investments at fair value through profit or loss

	30 September 2020	31 December 2019
Quoted equity securities – (listed)		
- Parent	2,904	2,230
- Consolidated funds	3,072	-
Funds		
- Quoted	3,828	5,898
- Unquoted	2,241	2,384
Quoted debt securities		
- Parent	4,515	5,463
- Consolidated funds	3,823	4,101
	20,383	20,076

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2020

Bahraini Dinars '000

13. Investments at fair value through other comprehensive income

	30 September 2020	31 December 2019
Equity securities		
- Listed	4,392	4,959
Debt securities		
- Quoted	4,789	4,169
	9,181	9,128

14. Investment property

Investment property represent three properties in USA which are held by SICO US Real Estate Corp., a wholly owned subsidiary of the Bank and is disclosed at cost less depreciation and impairment provision.

15. Furniture, equipment and intangibles

	30 September 2020	31 December 2019
Furniture, equipment and intangibles	1,118	1,327
Right-of-use of leased assets	252	344
	1,370	1,671

Lease liabilities in relation to right-of-use of leased assets are presented under interest payable and other liabilities and amounted to BD 237 as at 30 September 2020. The depreciation charge on right-of-use assets during the period was BD 115.

16. Payable to other unit holders in consolidated funds

During the period ending 30 September 2020, the Bank's stake in SICO Kingdom Equity Fund (SKEF) increased due to a redemption by another unit holder. Accordingly, the financial position and the financial performance of SKEF has also been consolidated as per the requirements of IFRS 10.

17. Net investment income

	Nine months ended	
	30 September 2020	30 September 2019
Net gain from investments at fair value through profit or loss	152	1,718
Realized loss on sale of FVTOCI debt securities	-	(20)
Realized gain on Treasury Bills	1	18
Interest income from debt instruments	1,121	1,006
Dividend income	399	405
	1,673	3,127

17 Net investment income (continued)

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

	Nine months ended	
	30 September 2020	30 September 2019
Realized (loss) / gain	(120)	1,096
Unrealized gain	272	622
	152	1,718

The realized (loss) / gain 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 unrealized 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.

18. Related parties

The following are the related party transactions during the period. All 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) and SICO Ventures Company SPC are as follows:

	Nine months ended	
	30 September 2020	30 September 2019
Fee income	352	463

	30 September 2020	31 December 2019
	Fee receivable	330
Funds under management	56,904	67,727
Investments in own funds	2,277	4,884

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2020

Bahraini Dinars '000

18. *Related parties (continued)***Transactions with shareholders:**

	Nine months ended	
	30 September 2020	30 September 2019
Fee income	278	419

	30 September 2020	31 December 2019
	Fee receivable	97
Funds under management	45,143	53,847

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

19. Fair value

- (i) Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 September 2020:

	30 September 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Investments at amortized cost	9,958	10,760	9,971	11,477
Investments at fair value through profit or loss	20,383	20,383	20,076	20,076
Investments at fair value through other comprehensive	9,181	9,181	9,128	9,128
Total assets	39,522	40,324	39,175	40,681
Liabilities				
Short-term bank borrowings	7,400	7,402	3,770	3,778
Securities sold under repurchase agreements	76,165	76,456	55,548	55,701
Payable to unit holders	989	989	622	622
Total liabilities	84,554	84,847	59,940	60,101

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2020

Bahraini Dinars '000

19 Fair value (continued)

(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 categorized.

As at 30 September 2020**Assets**

Fair value through other comprehensive income investments:

- Equity securities
- Debt securities

Fair value through profit or loss:

- Equity securities
- Debt securities
- Funds

	Level 1	Level 2	Level 3	Total
- Equity securities	4,392	-	-	4,392
- Debt securities	4,789	-	-	4,789
- Equity securities	5,976	-	-	5,976
- Debt securities	8,338	-	-	8,338
- Funds	4,880	-	1,189	6,069
	28,375	-	1,189	29,564

As at 30 September 2019**Assets**

Fair value through other comprehensive income investments:

- Equities
- Debt securities

Fair value through profit or loss:

- Equity
- Debt securities
- Funds

	Level 1	Level 2	Level 3	Total
- Equities	4,657	-	-	4,657
- Debt securities	4,086	-	-	4,086
- Equity	1,499	-	-	1,499
- Debt securities	8,884	-	-	8,884
- Funds	7,014	-	540	7,554
	26,140	-	540	26,680

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2020

Bahraini Dinars '000

19 *Fair value (continued)*

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

	30 September 2020
At 1 January 2020	832
Total loss:	
- in income statement	(60)
- in other comprehensive income	-
Purchases	-
Settlements	-
Transfers into / (out) of level 3	417
At 30 September 2020	1,189
	30 September 2019
At 1 January 2019	974
Total loss:	
- in income statement	(370)
- in other comprehensive income	-
Purchases	-
Settlements	(64)
Transfers into / (out) of level 3	-
At 30 September 2019	540

20. Comparatives

Prior period comparatives have been regrouped to conform to the presentation in the current period. Such regroupings did not affect previously reported profit for the period or total equity.

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 a second 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 and also, the Bank has recovered a decent portion of the loss in revenue that was incurred in the first half of the year.

The Government of Bahrain has 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.

The Bank is also pleased to disclose that as part of the Bank's Corporate Social Responsibility measures, an amount of BD 300 thousand has been donated to the "Fina Khair" national campaign which would be used by the Government to support those who are most affected due to the pandemic.

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.

Below is a summary of the financial impact as of September 2020:

Overall, the Bank's financial performance for the first nine months of 2020 has got impacted 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.

The Bank achieved a net profit of BD 1.7 million for the nine months ended September 2020 as compared to the BD 3.6 million that was achieved for the same period of 2019.

Fee based income experienced a marginal decline of 16% when compared to the same period of previous year, mainly due to the following reasons:

- Reduction in the portfolio valuations due to the market volatilities has resulted in lower management fees income in 2020 as compared to 2019
- The strain caused by COVID-19 has resulted in the postponement of certain of the corporate events in the region. This has an impact on achieving the target revenue stream in the Investment banking mandates.
- The existing volatile market conditions are not conducive for the Market Making line of business resulting in the deferment of certain of the new mandates and the resultant reduction in the fee income.

Brokerage and other income recorded an increase of about 45% in 2020 as compared to 2019. The volatile market situation resulted in increased trading activities which helped boost the brokerage income. In the short term, this volatility has created good trading opportunity for the clients in both the equities and fixed income space.

Interest income reflected a growth of 2% from previous year levels. This has been achieved due to the efficient management of the liquidity position as well increase in the Reverse repo based business activities.

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 third quarter of 2020 witnessed some good recovery. As of 30 September 2020, there is a net investment gain amounting to BD 1.7 million in comparison to net income of BD 3.1 million booked for the same period in 2019, representing a decrease of about 47%.

Table of income components:

	Nine months ended	
	30-Sep-20	30-Sep-19
Net investment income	1,673	3,127
Net fee income	2,592	3,092
Brokerage and other income	2,665	1,837
Net other interest income	1,069	1,048
Rental income	126	165
Total income	8,125	9,269

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.
- The Bank decided to postpone certain internal technology projects mainly to avoid / restrict the movement of external vendors and consultants. This has resulted in the reduction of certain amounts of capital expenditure and the related depreciation.
- 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
- The overall Assets Under Management (AUM) as of September 2020 stood at USD 2.1 billion which is in similar lines as of December 2019. In the first half of 2020, there was a decrease of about 20% in the AUM due to reductions experienced in the overall portfolio valuations due to market turmoil as well as certain outflows that were effected by the clients to meet their liquidity needs. However, with the subsequent new subscriptions, the AUM has once again crossed the USD 2 billion mark as of September 2020.

CLOSING NOTE

The above information should not be considered as an indication of the results of the entire year. Since the underlying situation of the COVID-19 is still evolving, there is a likely possibility of the circumstances to change and the impact of those would be documented as part of the subsequent interim and annual financial statements.

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.