SICO BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 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 and the Investment Committee
		Hisham Al Kurdi Vice Chairman of the Board & the Investment Committee
		Khalid Al Jassim 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, Risk and Compliance Committee
		Abdulla Kamal Vice Chairman of the Audit, Risk and Compliance Committee
		Naseema Haider Member of the Audit, Risk and Compliance Committee
Chief Executive Officer	:	Najla M. Al Shirawi
Office	:	BMB Centre P.O. Box 1331, Kingdom of Bahrain Telephone 17515000, Fax 17514000
Bankers	:	BBK BSC
Auditors	:	KPMG Fakhro

CONTENTS

The year 2021 began with much hope and optimism. New vaccines against COVID-19 were becoming widely available signalling a possible end to the pandemic, oil prices were rebounding ushering in a period of recovery for the GCC, and financial markets were stabilizing globally; all indications that the year was shaping up to be one of recovery and renewal.

But as the year unfolded, it became clear that the challenges of 2020 weren't entirely behind us. As new variants cropped up and case numbers took an upward trajectory, we became reluctantly accepting of the fact that COVID-19 was going to remain a part of our lives for some time to come. The difference this time around was that we were better equipped to deal with the difficulties, and we knew how to live with the uncertainty.

Despite the unforeseen challenges of the past two years, there has been a learning curve and there is no denying that some positive changes have come about as a result of the turbulence. From the shift in focus on wellbeing, personal, professional, and financial, to changes in the way we work and interact with our communities, having to deal with a collective problem of this magnitude has made businesses across the globe revisit their strategies to ensure that their approach to value creation is fair, inclusive, and sustainable.

At SICO we have given much thought and attention to the crafting of a strategy that will take us to where we want to go in the coming years while keeping in mind these crucial pillars of fairness, inclusivity, and sustainability. Our strategy is a holistic approach that leverages our key strengths as an organization and our ability to create value to expand regionally in high-growth markets while preserving our lead in Bahrain.

Our 2021 results already prove that we are well on our way to achieving our goals. We have successfully implemented our growth strategy despite the challenges brought about by the pandemic and we have captured opportunities that were presented by the market recovery, cementing our reputation as a leading regional financial services provider.

The acquisition of SICO Capital in Saudi Arabia is one of our notable achievements this year; it not only gives us access to the highly promising Saudi market but also serves as a springboard for further regional growth. With the official launch of operations at our full-fledged financial services subsidiary, SICO Capital, we look forward to exploring new opportunities and offering a wider suite of products and services to an aspirational client base across the region.

Our KSA acquisition has unfolded over the course of the past two years, which have been characterised by volatility making it particularly difficult to navigate. Credit is due to our exceptional leadership team for expertly structuring and closing the acquisition in an efficient and timely manner under such trying conditions. Post-acquisition, we are extremely pleased with the contribution and efforts exerted by all of our divisions and the management team on the ground at SICO Capital to enhance and streamline systems and procedures in a manner that will ensure operational alignment and the maximization of synergies across the board.

Our financial results for the year have been impressive with BD 6.4 million (USD 17 million) in net profit, an increase of 116% year-on-year from the BD 3.0 million (USD 7.8 million) recorded at year-end 2020. We experienced strong bottom line growth with net fee income climbing 142% and investment income nearly doubling. Earnings per share increased by nearly 100% to 15.96 Bahraini fils during the year from 8.00 Bahraini fils in 2020.

Strong performances across SICO's lines of business maintained the Bank's growth momentum throughout the year, with a further boost from strong results by our subsidiaries at SICO Capital and SICO Funds Services Company. SICO's assets under management (AUMs) increased substantially during the year on the back of new mandates and the introduction of new products, coupled with the consolidation of SICO Capital AUMs. On a gross basis (including leverage), SICO's total AUMs increased by 80% to BD 1.7 billion (USD 4.5 billion) in 2021 compared to the BD 946.1 million (USD 2.5 billion) recorded on 31 December 2020. This growth in AUM exceeded our expectations and reinforced our ability to successfully leverage our core strengths to drive solid growth and deliver value to our stakeholders.

Our 2021 operational and financial results paint a clear picture of an organization that has demonstrated its resilience and come out on top during a particularly challenging period.

As the new year unfolded, we were extremely pleased to announce that we expanded the size of our Board of Directors to ten members from nine to welcome our newest Executive Director, Shaikh Waleed Khamis Al Hashar, the CEO of Bank Muscat, which now owns a 10.38% stake in SICO. As Bank Muscat's representative on SICO's Board, we will benefit greatly from Shaikh Waleed's regional expertise and decades of experience as we grow and expand our businesses regionally in the coming years. We look forward to working with Shaikh Waleed and strengthening the fruitful partnership that we have with Bank Muscat.

To my fellow Board Members kindly allow me to take this opportunity to extend my thanks and appreciation for the effort and dedication that you have demonstrated over the past year. I am extremely proud and honored to work alongside such a talented, diverse, and knowledgeable group of ladies and gentlemen. Your input has been invaluable.

No matter what the year ahead brings, I am confident that our senior management team at SICO is more than capable of capturing the upside and catapulting us to new heights. With exceptional leadership, a clear vision, a strong sense of purpose, and a talented team of professionals, SICO has the reputation, track record and regional presence required to optimally deploy our capabilities and go from strength to strength across our lines of business and subsidiaries.

We look forward to capturing new opportunities regionally and of course in our home market of Bahrain as the government rolls out their new national economic growth and fiscal balance plan, one of Bahrain's largest economic reform programs to date that aims to enhance our economy's long-term competitiveness and support the post-COVID recovery.

On behalf of the Board and the entire team at SICO we wish to express our gratitude and appreciation to His Majesty the King and His Royal Highness the Crown Prince and the Prime Minister of Bahrain, Salman bin Hamad Al Khalifa. We would also like to convey our thanks and appreciation to the Ministry of Finance & National Economy, the Central Bank of Bahrain and the Bahrain Bourse for their steadfast support.

SICO's Executive remuneration in BD '000

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO and CFO	765	157	129	1,051

Details of SICO's Board remuneration in BD '000

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board & committee meetings	Salaries	Others	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total		(Does not include expense allowance)	
Independent Directors:													
Tala Fakhro	18	8	-	-	26	-	-	-	-	-	-	26	-
Non-Executive Directors:													
Naseema Haider[1]	18	8	-	-	26	-	-	-	-	-	-	26	-
Khalid Al-Jassim	18	8	-	-	26	-	-	-	-	-	-	26	-
Executive Directors:													
Shaikh Abdulla bin Khalifa Al Khalifa[2]	36	8	-	-	44	-	-	-	-	-	-	44	-
Hisham Alkurdi[1]	18	8	-	-	26	-	-	-	-	-	-	26	-
Mohammed Abdulla Isa[1]	18	8	-	-	26	-	-	-	-	-	-	26	-
Khurram Ali Mirza[2]	18	8	-	-	26	-	-	-	-	-	-	26	-
Dana Raees[2]	18	8	-	-	26	-	-	-	-	-	-	26	-
Abdulla Kamal[2]	18	8	-	-	26	-	-	-	-	-	-	26	-
Total	180	72	-	-	252	-	-	-	-	-	-	252	-
1: Remuneration & meeting attendance allowance are paid to the account of shareholder being represented by the respective Director													
2: Remuneration is paid to the account of the shareholder being represented by the respective Director													

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

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

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

Independent auditors' report

To the Shareholders of

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

Opinion

We have audited the consolidated financial statements of SICO BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of profit, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of quoted equity, debt and fund investments	
(refer to the accounting policies in note 4(d) and (e) of the consolidated financial statements)	
The key audit matter	**How the matter was addressed in our audit**
The Group's portfolio of quoted equity, debt and fund investments at fair value make up 14% of the Group's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatements, or to be subject to significant risk of judgement because they comprise liquid, quoted investments. However, due to the materiality in the context of the consolidated financial statements as a whole and the impact on the Group's performance, they are considered to be one of the areas which has the greatest impact on our overall audit strategy and allocation of resources in the planning and completing our audit.	Our procedures included: • Agreeing the valuation of investments in the portfolio to the externally quoted prices; • Agreeing investments holding in the portfolio to independently received third party confirmations; and • Evaluating the adequacy of the Group's disclosure by reference to the requirements of the relevant accounting standards.

Business Combination	
See Note 36 to the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
During the year, 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 Company ("SCC"). As a result, SCC is now a subsidiary of the Bank. This is considered as a key audit matter due to: • complexity associated with application of acquisition accounting principles; and • significant estimates and judgement is involved in determining fair value of identifiable assets and liabilities and the resultant goodwill.	We evaluated and challenged the appropriateness of the methodology, assumptions and valuation techniques used to value identifiable assets and liabilities and the appropriateness of the useful lives assigned to the identified intangible assets, having regard to the expected use of these assets. Our audit procedures, amongst others, included: • validation of fair value adjustment recognized by the management on the acquired assets and liabilities to ascertain that they are in accordance with the requirements of IFRS 3; • challenging management's basis and assumptions used in the recognition and measurement of goodwill and intangible assets; • assessing management's assumptions used i.e. cash flow projections, growth rate and discount rate in relation to the accounting for the transaction in accordance with the requirements of relevant accounting standards; • testing the process and controls put in place over consolidation of the financial position and results of the subsidiary from the date of acquisition, including assessing consistency of accounting policies used; and • evaluating the appropriateness and adequacy of disclosures in relation to the business combination by reference to the relevant accounting standards.

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the Consolidated Financial Statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as modified by the Central Bank of Bahrain, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Regulatory Requirements

As required by the Commercial Companies Law and (Volume 1) of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 1 , applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests

The engagement partner on the audit resulting in this independent auditors' report is Salman Manjlai.

KPMG

KPMG Fakhro
Partner Registration Number 213
22 February 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

Bahraini Dinars '000

	Note	2021	2020
Assets			
Cash and bank balances	8a	74,831	54,393
Treasury bills	8a	2,998	1,127
Securities bought under repurchase agreements	8b	117,938	73,816
Investments at fair value through profit or loss	9	26,948	22,443
Investments at fair value through other comprehensive income	10	10,614	9,723
Investments at amortized cost		9,935	9,953
Investment property	11	-	427
Fees receivable	12	5,714	1,153
Other assets	13	12,431	7,323
Property and equipment		242	627
Intangible assets and goodwill	14	1,870	795
Total assets		**263,521**	181,780
Liabilities and equity			
Liabilities			
Short-term bank borrowings	15a	8,411	7,400
Securities sold under repurchase agreements	15b	125,210	74,406
Customer accounts	16	47,149	34,885
Other liabilities	17	9,245	5,426
Payable to other unit holders in consolidated funds	7	2,694	1,340
Total liabilities		**192,709**	123,457
Equity			
Share capital	18	42,849	42,849
Treasury shares	18	-	(5,322)
Shares under employee share incentive scheme	18	(2,263)	(2,263)
Statutory reserve	19	8,982	8,330
General reserve	20	3,217	3,217
Investments fair value reserve		1,540	992
Retained earnings		14,540	10,520
Equity attributable to the shareholders of the Bank		**68,865**	58,323
Non-controlling interests		1,947	-
Total equity		**70,812**	58,323
Total liabilities and equity		**263,521**	181,780

The consolidated financial statements were approved by the Board of Directors on 22 February 2022 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 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021 Bahraini Dinars '000

	Note	2021	2020
Net investment income	21	4,438	2,238
Net fee income	22	8,752	3,619
Brokerage and other income	23	2,680	3,229
Net interest income	24	1,841	1,447
Loss from investment property	11	-	(101)
Total income		**17,711**	10,432
Staff cost	25	(7,190)	(5,088)
Other operating expenses	26	(3,593)	(2,847)
Share of (profit) / loss of non-controlling unit holders in consolidated funds	7	(389)	464
Allowance for expected credit loss		(19)	(2)
Profit for the year		**6,520**	2,959
Profit attributable to:			
Shareholders of the Bank		**6,391**	2,959
Non-controlling interests		**129**	**-**
		6,520	2,959
Basic and diluted earnings per share (fils)	32	**15.96**	8.00

Abdulla Bin Khalifa Al Khalifa
Chairman

Hisham Al Kurdi
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021 Bahraini Dinars '000

	2021	2020
Profit for the year	**6,520**	2,959
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	(134)	99
Items that will not be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVOCI equity instruments	682	(140)
Total other comprehensive income for the year	**548**	(41)
Total comprehensive income for the year	**7,068**	2,918
Total comprehensive income attributable to:		
Shareholders of the Bank	6,939	2,918
Non-controlling interests	129	-
	7,068	2,918

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

SICO BSC (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

Bahraini Dinars '000

2021	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**
Comprehensive income:										
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**6,391**	**6,391**	**129**	**6,520**
Other comprehensive income:										
Net change in fair value of FVOCI instruments	**-**	**-**	**-**	**-**	**-**	548	-	548	-	**548**
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	548	-	548	-	**548**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**548**	**6,391**	**6,939**	**129**	**7,068**
Transfer to charitable donation reserve	**-**	**-**	**-**	**-**	**-**	-	(40)	(40)	-	**(40)**
Transaction with owners recognised directly in equity:										
Transfer to statutory reserve	**-**	-	-	652	-	-	(652)	-	-	-
Dividends paid for 2021 (note 18)	**-**	-	-	-	-	-	(2,142)	(2,142)	-	(2,142)
Acquisition of a subsidiary (note 36)	**-**	5,322	-	-	-	-	463	5,785	1,818	7,603
Balance at 31 December 2021	**42,849**	**-**	**(2,263)**	**8,982**	**3,217**	**1,540**	**14,540**	**68,865**	**1,947**	**70,812**

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021 *(continued)* Bahraini Dinars '000

2020	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2020	42,849	(5,322)	(2,263)	8,034	3,217	891	11,958	59,364
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	2,959	2,959
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	(41)	-	(41)
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	142	(142)	-
Total other comprehensive income	-	-	-	-	-	101	(142)	(41)
Total comprehensive income for the year	-	-	-	-	-	101	2,817	2,918
- Transfer to charitable donation reserve	-	-	-	-	-	-	(60)	(60)
Transaction with owners recognised directly in equity:								
- Transfer to statutory reserve	-	-	-	296	-	-	(296)	-
- Dividends paid	-	-	-	-	-	-	(3,899)	(3,899)
Balance at 31 December 2020	42,849	(5,322)	(2,263)	8,330	3,217	992	10,520	58,323

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2021 Bahraini Dinars '000

	Note	**2021**	2020
Operating activities			
Net interest received		3,277	2,870
Net sale / (purchase) of investments at fair value through profit or loss		408	(2,094)
Net purchase of investments at fair value through other comprehensive income		(891)	(595)
Movement in investments at amortized cost		18	18
Net decrease in investment property		427	1,401
Net increase / (decrease) in customer accounts		12,264	(6,455)
Securities bought under repurchase agreements		(44,122)	(22,710)
Securities sold under repurchase agreements		50,804	18,858
Dividends received		640	524
Net income / (loss) from investment property		-	(101)
Movement in brokerage accounts and other receivables		6,357	10,690
Movement in other liabilities		1,326	(349)
Payments for staff and related expenses		(5,301)	(5,509)
Payments for other operating expenses		(1,788)	(2,487)
Net cash generated from / (used in) operating activities		**23,419**	(5,939)
Investing activities			
Net capital expenditure on furniture and equipment		(295)	(285)
Acquisition of subsidiary, net cash acquired		5,109	-
Net cash generated from / (used in) investing activities		**4,814**	(285)
Financing activities			
Net (decrease) / increase in short-term bank borrowings		(3,700)	3,630
Net increase in placements		(1,039)	-
Dividend paid		(2,142)	(3,899)
Contribution by other unit holders in consolidated funds		990	1,190
Distribution to other unit holders in consolidated funds		(25)	(8)
Net cash (used in) / generated from financing activities		**(5,916)**	913
Net increase / (decrease) in cash and cash equivalents		**22,317**	(5,311)
Cash and cash equivalents at the beginning of the year		55,530	60,841
Cash and cash equivalents at the end of the year*	8	**77,847**	55,530

* Excludes expected credit loss of BD 18 (2020: BD 10)

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

1. Reporting entity

SICO BSC (c) (the "Bank") is a closed joint stock company registered in Bahrain under commercial registration number 33469 on 11 February 1995 and operates under a wholesale banking license from the Central Bank of Bahrain. On 7 May 2003, the Bank was listed on the Bahrain Bourse as a closed company.

During the year, the Bank has 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 ("SCC"). 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 36 for details).

The primary objectives of the Bank are:

- to act as a market maker at the Bahrain Bourse;
- to assist in the development of the securities market in Bahrain by researching and promoting financial instruments and other investment vehicles;
- to arrange the issuance of bonds for developmental and investment purposes;
- to act as investment agents, trustees and intermediaries;
- to establish and manage investment and financial funds and portfolios; and
- to offer financial advisory and underwriting services, such as advising corporations and family businesses on going public and structuring transactions for privatisation programs, mergers and acquisitions.

The consolidated financial statements include the results of the Bank and its subsidiaries, (collectively "the Group").

2. Basis of preparation

(a) Statement of compliance

The consolidated financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (the "CBB") including the CBB circulars issued during the year 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:

(i) 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

(ii) 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 (i) above, and the balance amount to be recognised 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 consolidated financial statements is hereinafter referred to as 'IFRS as modified by the CBB'.

However, 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.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments at fair value through profit or loss and investments at fair value through other comprehensive income.

2. Basis of preparation (continued)

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4 (d).

(d) New accounting policy, standards, amendments and interpretations effective from 1 January 2021

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

Description	**Effective from**
Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 April 2021

The new accounting policy adopted on account of the acquisition of a subsidiary:

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.

2. Basis of preparation (continued)

(d) New accounting policy, standards, amendments and interpretations effective from 1 January 2021 (continued)

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.

(e) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The new standards and amendments to standards are not expected to have a significant impact on the Group's consolidated financial statements.

3. COVID-19 impact

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organisation (WHO). It has rapidly evolved and continues to affect worldwide. 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 gross domestic product ("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 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. Management and the Board of Directors have 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

3 COVID-19 impact (continued)

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, 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 these consolidated financial statements.

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

During 2020, the Bank has received financial assistance amounting to BD 312 (representing specified reimbursement of a portion of staff costs) from the government, in response to its COVID-19 support measures which has been recognised as income and captured in the brokerage and other income account line in the period ending 31 December 2020.

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.

4. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements

(a) Consolidation

(i) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. NCI of consolidated funds are recognised as liabilities.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

4. Significant accounting policies (continued)

(iv) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Functional and presentation currency
Items included in the financial statements of the Bank and its subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Bahraini Dinars, representing the Group's functional and presentation currency. Some of the subsidiaries' functional currencies are either in US Dollars or denominated in currencies which are effectively pegged to the US Dollars, and hence, the translation of financial statements of the Group companies that have a functional currency different from the presentation currency of the Bank do not result in exchange differences.

(c) Foreign currencies
Transactions in foreign currencies are converted to Bahraini Dinars at rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Bahraini Dinars at the market rates of exchange prevailing at the balance sheet date. Realised and unrealised foreign exchange profits and losses are included in other income.

(d) *Critical accounting estimates and judgments in applying accounting policies*

(i) Estimates
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Valuation of financial instruments
The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management.

(ii) Judgments
Classification of investments
In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as at fair value through profit or loss, amortised cost or fair value through other comprehensive income. The classification of each investment reflects the objective of the Group's business model in relation to each investment and is subject to different accounting treatments based on such classification.

Determination of control over investees – Investment funds
The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager.

(e) Investment securities

(i) Classification
Investments at fair value through profit or loss comprise trading securities and investments designated at initial recognition as investments at fair value through profit or loss. Trading securities are investments which the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position.

4. Significant accounting policies (continued)

Investments at amortised costs are the assets where the group's model objectives is to hold assets in order to collect contractual cash flows, and the contractual cash flows of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal. Investments at fair value through other comprehensive income are non-derivative investments that represent debt instruments under business model both to collect contractual cash flows and to sell and quoted and unquoted equity investments held with the primary aim of dividends yields.

(ii) Recognition and de-recognition

Investment securities are recognised when the Group becomes a party to the contractual provisions of the instrument. Investment securities are derecognised if the Group's contractual rights from the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. This is normally deemed to occur on settlement date i.e. when the Group receives or delivers an asset.

(iii) Measurement

Investments at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised directly in the statement of profit or loss. They are subsequently remeasured to fair value at each reporting date with any resultant gain or loss recognised in the statement of profit or loss.

Investments at fair value through other comprehensive income ("FVOCI") are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition. Unrealised gains and losses arising from changes in the fair values of FVOCI investments are recognised in the statement of other comprehensive income. In the event of sale, disposal or collection of debt securities classified as FVOCI, the cumulative gains and losses recognised in other comprehensive income are transferred to the profit or loss. In the event of sale, disposal or collection of equity securities classified as FVOCI, the cumulative gains and losses recognised in other comprehensive income are transferred to the retained earnings.

(iv) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of the relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

(f) Recognition and de-recognition of financial liabilities

The Group recognises and measures financial liability initially at fair value. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

4. Significant accounting policies (continued)

(g) Cash and cash equivalents
For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, placements with banks and treasury bills that have an original maturity of three months or less when acquired and which are subject to insignificant risk of changes in their fair value. Placement with original maturity over three months are presented under placement with banks. Loss allowance for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition are measured at 12-month ECLs.

(h) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate.

(i) Impairment of non-financial assets
At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

(j) Property, equipment and intangibles
Furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Depreciation is provided on cost using the straight-line method, which is intended to write off the cost of the assets over their expected useful life as follows:

Software	5-10 years
Furniture and equipment	3-5 years

(k) Leases
At the inception of the contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
  - the Bank has the right to operate the asset; or
  - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

4. Significant accounting policies (continued)

The new definition of a lease under IFRS 16 has been applied for contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

(i) Measurement
The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Bank's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Short-term leases and leases of low-value assets
The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. Significant accounting policies (continued)

(l) Bank borrowings
Borrowings are initially measured at fair value minus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(m) Repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. As the Bank retains all or substantially all the risks and rewards of the transferred assets, amounts received under these agreements are treated as liabilities and the difference between the sales and repurchase price treated as interest expense using the effective interest method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as assets and the difference between the purchase and resale price treated as interest income using the effective interest method.

(n) Customer accounts
These are initially measured at fair value minus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(o) Investment property
Investment property comprise buildings that are occupied substantially for use by third parties and are held by the group to earn rentals or for capital appreciation or both.

(i) Recognition and Measurement
An investment property is recognised initially at cost of acquisition including any transaction cost and is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to the Group.

(ii) Depreciation
Depreciation is calculated to write off the cost of items of investment property less their estimated residual values using the straight-line method over their estimated useful lives of 25 years, and is recognised in profit or loss. Depreciation methods, residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

(iii) Derecognition
An item of investment property is derecognised upon disposal or when no future economic benefits are expected from its use. Profits and losses on disposals of items of investment property are determined by comparing the proceeds from their disposals with their respective carrying amounts, and are recognised net within profit or loss.

(p) Employee benefits

(i) Bahraini employees
Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard ("IAS") 19 – Employee Benefits are charged to income in the year to which they relate.

(ii) Expatriate employees
Expatriate employees are entitled to a leaving indemnity under the Bahrain Labor Law for the Private Sector – Law no. (36) of 2012 based on length of service and final salary and other allowances paid. Provision for this unfunded commitment, which represents a defined benefit plan under IAS 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the balance sheet date.

4. Significant accounting policies (continued)

(iii) Employee share incentive scheme
The Bank operates a discretionary share-based plan, which is designed to provide competitive long-term incentives and is a cash-settled share based payment scheme. The total amount is expensed over the vesting period and is determined by reference to the fair value of the shares at the grant date and re-measured at every year end over the vesting period.

(q) Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(r) Fiduciary activities
The Group act as administrator and manager for assets held in funds and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

(s) Settlement date accounting
All "regular way" purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Group receives or delivers the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(t) Offsetting
Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(u) Earnings per share
The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(v) Interest income and expense
Interest income and expense is recognised in the statement of profit or loss as it accrues, using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

(w) Fee and commission
Fee and commission income comprises custody fee, investment management fee, performance fee and investment banking fees earned by the Group. Custody and investment management fees are recognised at a point in time as the related services are performed and the Group becomes entitled to the fee and the customer obtains control of the benefits from the services. Variable consideration in such fees are estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of fee recognised, will not occur when the associated uncertainty is resolved.

4. Significant accounting policies (continued)

Performance fee is recognised in accordance with investment management agreements where the Group is entitled to receive a share of the profits of the investment funds once a certain hurdle is reached on a high-water mark basis. In accordance with the terms and conditions of the investment management agreements, the performance fee due to the Group is calculated at each reporting date, taking into account each performance condition and distribution arrangements of the Funds as a whole.

Fee and commission expense relates mainly to custody fee which is expensed as the service is provided.

(x) Net investment income

Net investment income includes all realised and unrealised fair value changes on investment at fair value through profit or loss and realised portion on the debt investment at fair value through other comprehensive income and the related dividend. This also includes interest income from fixed income investments.

(y) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are presented in net investment income.

(z) Brokerage and other income

Brokerage and other income consist of brokerage income, other income and foreign exchange income. This income is recognised at a point in time when the related services are performed and the customer obtains control of the benefits of the services rendered.

(aa) Segment reporting

IFRS 8 "Operating Segments" prescribes the "management approach" to segment reporting which requires the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's decision maker in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, investment banking, real estate, investments, market making and custody business. At present, the Group's revenue is reviewed by lines of business. However, the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in these consolidated financial statements.

(ab) Statutory reserve

In accordance with the Commercial Companies Law, 10% of the net profit is appropriated to a statutory reserve, until it reaches 50% of the paid-up share capital. This reserve is not normally distributable except on liquidation.

(ac) General reserve

General reserve is appropriated from retained earnings and available for distribution.

(ad) Treasury shares

When share capital of the Company is repurchased, the amount of consideration paid is recognised as a change in equity. Repurchased shares classified as treasury shares are carried at cost and are presented as a deduction from equity. Gains/ losses on disposal of treasury shares are recognised in equity.

(ae) Government grants

Government grants are recognised 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 recognises 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.

5. Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is assisted in this function by the Board Audit, Risk and Compliance Committee.

The Board has set up an independent Risk Management Unit that provides leadership, direction and coordination of the efforts in managing the risks. It provides a holistic, integrated, future-focused and process-oriented approach to enable the Group to balance its key business risks and opportunities with the intent of maximising returns and shareholder value.

The Audit, Risk and Compliance Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit, Risk and Compliance Committee is assisted in these functions by the Internal Audit function, which undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit, Risk and Compliance Committee.

(b) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. The credit risk for the Group arises principally from its brokerage activities and issuer price risk in proprietary portfolios. Counterparty credit risk consists of two categories of risks: pre-settlement and settlement risks. In the brokerage department, counterparty credit risk arises vis-a-vis trading counterparties and counterparty brokers. In asset management treasury and proprietary investments, deals routed through counterparty brokers gives rise to counterparty credit risk.

(i) Investments in debt securities

The Group's investments in debt securities are spread among geographical areas and various credit grades. The Group has an established investment policy under which investments are analyzed individually for classification based on established business model. Hence, debt investments may be purchased for trading purposes as well as for liquidity management purposes. Each investment is evaluated by the proprietary investments department based on the business model and various external factors including but not limited to external rating, issuer rating, coupon rates, country risk, etc.

Expected loss is assessed based on a variety of data that are determined to be predictive of the risk of loss (including external credit ratings, financial statements and available external information) and applying experienced credit judgment. The historic loss experience is adjusted to reflect differences between economic conditions during the period over which historic data has been collected, current conditions and the Group's view of economic conditions over the remaining life-time tenor of the securities. Management believes there is no further credit risk provision required in excess of the normal impairment on debt securities.

For the year ended 31 December 2021 Bahraini Dinars '000

5. Financial risk management (continued)

(ii) Management of credit risk

The Group limits its credit risk by applying well-defined credit policies and procedures laid down by the Board and the Audit, Risk and Compliance Committee.

The Group manages the counterparty risks for brokerage clients by conducting a credit evaluation of the clients and counterparty brokers of the Gulf Cooperation Council ("GCC") and other exchanges using financial and other parameters.

The risks in proprietary investment portfolios are monitored and controlled by means of asset allocation guidelines and exposure limits approved in accordance with well-defined investments policies and procedures, by the Asset Liability Investment Committee ("ALIC"), Investment Committee or the Board, as appropriate. Additionally, the Group strictly adheres to the large exposure norms prescribed by the CBB.

Regular audits of business units and Group credit processes are undertaken by Internal Audit.

Exposure to credit risk

The Group's maximum exposure to credit risk is as follows:

	2021	2020
Bank balances	74,831	54,393
Treasury bills	2,998	1,127
Securities bought under repurchase agreements	117,938	73,816
FVTPL debt securities	8,304	8,685
FVOCI debt securities	4,835	4,970
Fee receivable	5,714	1,153
Other assets	12,094	6,947
	226,714	151,091

Currently the margin trading lending on the GCC Stock Exchange and reverse REPO transactions are subject to formal collateral arrangement. The margin scheme is undertaken in accordance with the related regulation issued by the CBB. Further, the margin lending on the UAE Stock Exchanges are undertaken in accordance with the regulations issued by the Emirates Securities and Commodities Authority. The margin lending on the Saudi Stock Exchange is undertaken in accordance with the regulations issued by the Capital Market Authority. The shares in the Margin Trading portfolio is held as collateral against the amount lent to the customer. Such shares are marked-to-market on a daily basis. If there is any deficit in the minimum equity ratio, then a maintenance margin call is issued.

Additionally, brokerage client agreements have a clause that the Group has a right to liquidate the client's shares under its custody, if such client fails to honor its obligations.

Reverse REPO transactions are short term in nature and generally backed by liquid high quality collateral (mainly Government and Quasi-Government bonds along with investment grade securities) and with substantial hair-cuts. The lending is subject to daily margin management and monitoring within the realms of the Group's internal risk management framework.

The Group writes off a customer/ investment balance when the Group determines that carrying amounts are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer/ issuer's financial position such that the customer/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. There were no such write-offs during the year.

For the year ended 31 December 2021 Bahraini Dinars '000

5 *Financial risk management (continued)*

Risk exposure concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits. Concentration of risks is managed by counterparty, by geographical region and by industry sector.

The maximum credit exposure to any client, counterparty or group of closely related counterparties as of 31 December 2021 was BD 39,974 (2020: BD 34,972), relating to securities bought under repurchase agreements and cash and cash equivalents.

Geographical exposure distribution

Geographical concentration of all assets and liabilities of the Group are as follows:

2021	**Middle East & Asia countries**	**North America**	**Europe**	**Total**
Assets				
Cash and bank balances	68,703	771	5,357	74,831
Treasury bills	2,998	-	-	2,998
Securities bought under repurchase agreements	111,882	-	6,056	117,938
Investments at fair value through profit or loss	19,449	3,845	3,654	26,948
Investments at fair value through other comprehensive income	10,614	-	-	10,614
Investments at amortized cost	9,935	-	-	9,935
Fees receivable	5,664	-	50	5,714
Other assets	12,422	4	5	12,431
Property and equipment	242	-	-	242
Intangible assets & Goodwill	1,870	-	-	1,870
Total assets	**243,779**	**4,620**	**15,122**	**263,521**
Liabilities				
Short-term bank borrowings	8,411	-	-	8,411
Securities sold under repurchase agreements	124,326	-	884	125,210
Customer accounts	35,853	10,390	906	47,149
Other liabilities	9,245	-	-	9,245
Payable to other unit holders in consolidated funds	2,694	-	-	2,694
Total liabilities	**180,529**	**10,390**	**1,790**	**192,709**

For the year ended 31 December 2021 Bahraini Dinars '000

5. *Financial risk management (continued)*

2020	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	51,470	442	2,481	54,393
Treasury bills	1,127	-	-	1,127
Securities bought under repurchase agreements	67,475	-	6,341	73,816
Investments at fair value through profit or loss	14,323	5,247	2,873	22,443
Investments at fair value through other comprehensive income	9,723	-	-	9,723
Investments at amortized cost	9,953	-	-	9,953
Investments property	-	427	-	427
Fees receivable	1,107	-	46	1,153
Other assets	7,291	19	13	7,323
Property and equipment	627	-	-	627
Intangible assets & Goodwill	795	-	-	795
Total assets	163,891	6,135	11,754	181,780
Liabilities				
Short-term bank borrowings	7,400	-	-	7,400
Securities sold under repurchase agreements	68,277	-	6,129	74,406
Customer accounts	33,182	134	1,569	34,885
Other liabilities	5,416	-	10	5,426
Payable to other unit holders in consolidated funds	1,340	-	-	1,340
Total liabilities	115,615	134	7,708	123,457

The distribution of assets and liabilities by industry sector is as follows:

2021	**Financial services**	**Others**	**Total**
Total assets	181,967	81,554	**263,521**
Total liabilities	162,037	30,672	**192,709**

2020	Financial services	Others	Total
Total assets	127,725	54,055	181,780
Total liabilities	99,729	23,728	123,457

For the year ended 31 December 2021 Bahraini Dinars '000

5. Financial risk management (continued)

The gross carrying amount of financial instruments and the associated loss allowance is as follows:

	2021			2020		
Particulars	**Gross exposure**	**ECL**	**Net exposure**	Gross exposure	ECL	Net exposure
Bank balances	74,849	18	74,831	54,403	10	54,393
Securities bought under repurchase agreements	117,960	22	117,938	73,855	39	73,816
Investment securities	10,617	6	10,611	9,729	6	9,723
Other assets (margin lending)	10,464	69	10,395	7,086	17	7,069
Total	**213,890**	**115**	**213,775**	145,073	72	145,001

ECL on Investments in debt securities classified as FVOCI has been adjusted through the other comprehensive income statement.

All investments at amortised costs are exposures to the domestic sovereign debt. No credit loss is expected to materialise on these investments.

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 honor its obligations to deliver cash, securities or other assets as contractually agreed.

(c) Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is managed for all the three risk originating departments - Asset Management, Brokerage and Proprietary Investments and the subsidiaries.

It originates from the mismatches in the maturity pattern of assets and liabilities or other defaults that could result in its funding and credit lines drying up. Measuring and managing liquidity needs are considered vital for effective operation of the Group.

The Group faces three types of liquidity risks as follows:

- Funding risk – the need to replace net outflows due to unanticipated withdrawal/ non-renewal of call deposit accounts, borrowing or inability to liquidate financial assets in time;
- Operating liquidity – the need to compensate for low liquidity of investments or markets and non-receipt of expected inflows of funds; and
- Call risk - due to crystallisation of contingent, off balance sheet liabilities and inability to undertake profitable business opportunities when desirable.

Management of liquidity risk
Liquidity risk is currently managed by the Treasury Unit monitoring the cash flow and funding requirements on a daily basis. Credit lines have been established with a few financial institutions to be drawn upon in case of need. The Bank has set up the ALIC to closely supervise the liquidity management and associated risks.

For the year ended 31 December 2021 Bahraini Dinars '000

5. Financial risk management (continued)

The residual contractual maturity of financial liabilities is as follows:

2021	**Less than 1 year**	**Gross outflow**	**Carrying value**
Short-term bank borrowings	8,420	8,420	8,411
Securities sold under repurchase agreements	125,309	125,309	125,210
Customer accounts	47,149	47,149	47,149
Other liabilities	9,245	9,245	9,245
Payable to other unit holders in consolidated funds	2,694	2,694	2,694
	192,817	**192,817**	**192,709**

2020	Less than 1 year	Gross outflow	Carrying value
Short-term bank borrowings	7,401	7,401	7,400
Securities sold under repurchase agreements	74,574	74,574	74,406
Customer accounts	34,885	34,885	34,885
Other liabilities	5,426	5,426	5,426
Payable to other unit holders in consolidated funds	1,340	1,340	1,340
	123,626	123,626	123,457

Liquidity risk is also managed through ensuring compliance with regulatory liquidity requirements. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are the ratios which the Bank computes as per the CBB requirements. The ratios as of 31 December 2021 are as follows:

	As of 31 December 2021	As of 31 December 2020
Liquidity Coverage Ratio	**170%**	263%
Net Stable Funding Ratio	**139%**	170%

The average LCR for the year ended 31 December 2021 was 212% (31 December 2020: 158%).

(d) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether these changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Bank, as part of its normal operations, is exposed to market risk with regard to its investments in fair value through profit or loss ("FVTPL") securities and fair value through other comprehensive income securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio Guidelines set by the Board Investment Committee and the Group's management. Market risk management thus involves management of equity price risk, interest rate risk and foreign exchange risk.

(i) Equity price risk

Equity investment activities have a significant impact on earnings and business relationships in the Bank. Only the equities and equity based funds are considered by the Bank for the purpose of market risk management and market risk capital computation.

5. Financial risk management (continued)

Active management of investments is a well-known method of risk management in equities. Portfolio diversification on the basis of industry, sector, geographic, and market factors enables the Bank to diversify its risks. There are well defined Investment Policies and Procedures approved by the Board that govern the FVTPL as well as FVOCI portfolios.

Formal valuation policies that specify appropriate and sound portfolio valuation methodologies have been established for investments in listed companies and indirect fund investments. Marking the equity portfolio to market on a daily basis ensures that the unrealized gains and losses are accounted for on a daily basis. Externally managed funds and portfolios are valued at Net Asset Value provided by the external investment managers and administrators on a periodic basis.

Portfolio-valuation methodologies conform to accepted accounting principles and are based on sound, empirically acceptable approaches that are clearly articulated, well documented, and applied consistently across similar investments over time.

Equity price risk – sensitivity
All of the Group’s listed equity investments are listed on recognized regional and global stock exchanges. For such investments classified at FVOCI, a 1% increase in the fair value at the reporting date would have increased equity by BD 58 (2020: BD 48); an equal change in the opposite direction would have decreased equity by BD 58 (2020: a decrease of BD 48). For such investments classified as at FVTPL, the impact of a 1% increase in the index at the reporting date on profit or loss would have been an increase of BD 82 (2020: BD 71). An equal change in the opposite direction would have decreased profit or loss by BD 82 (2020: BD 71).

(ii) ***Interest rate risk***
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The investments in debt instruments, placements, borrowings and call deposits are subject to interest rate risk. The Treasury Unit carefully monitors these exposures in order to mitigate this risk. The Bank minimises its exposure to interest rate risk by careful monitoring of exposures. Placements and call deposits with banks are at fixed interest rates and mature within three months. The liabilities of the Bank include customer advances for purchase of investments on their behalf. The Bank maintains cash balances with various banks in different currencies to meet liquidity requirements for equity share deals settlement in these currencies. These arise due to the need for timely payment of settlement amounts by clients as well as proprietary trades. The Bank has exposures to debt instruments issued by GCC institutions in its proprietary investment portfolios. Some of these instruments are not listed but can be traded over the counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. Some debt instruments are unrated.

The Bank follows the Standardised Methodology for managing interest rate risk, where the risk exposures in fixed income securities are measured using a two-pronged approach – measuring the issuer risk and general market risk. The Duration Gap approach methodology is used for this purpose.

The Bank engaged the services of an external consultant who worked with our designated Libor transition committee consisting of members of senior management to evaluate the impact of the LIBOR transition. Based on the detailed assessment carried out, it was concluded that there is no impact on any of the current products offered by the bank on account of LIBOR transition. However, the Bank is currently in the process of upgrading the version of core-banking system, where the latest version can readily cater to any product linked to Libor that may be launched in the future.

For the year ended 31 December 2021 Bahraini Dinars '000

5. Financial risk management (continued)

Interest rate re-pricing profile

2021	**Effective interest rate % p.a.**	**Within 1 year**	**Over 1 year**	**Non-interest sensitive**	**Total**
Bank balances		-	-	48,693	48,693
Call deposits*		1,028	-	-	1,028
Treasury bills		2,998	-	-	2,998
Short-term placements with banks	**1.88%**	25,110	-	-	25,110
Securities bought under repurchase agreements	**1.24%**	117,938	-	-	117,938
Investments at fair value through profit or loss	**5.51%**	703	7,601	18,644	26,948
Investments at fair value through other comprehensive income	**6.78%**	-	4,835	5,779	10,614
Investments at amortised cost	**6.45%**	-	9,935	-	9,935
Fees receivable		-	-	5,714	5,714
Other assets		-	-	12,431	12,431
Property and equipment		-	-	242	242
Intangible assets and goodwill		-	-	1,870	1,870
Total assets		**147,777**	**22,371**	**93,373**	**263,521**
Short-term bank borrowings	**0.57%**	8,411	-	-	8,411
Securities sold under repurchase agreements	**0.62%**	125,210	-	-	125,210
Customer accounts		-	-	47,149	47,149
Other liabilities		-	-	9,245	9,245
Payable to other unit holders in consolidated funds		-	-	2,694	2,694
Total liabilities		**133,621**	**-**	**59,088**	**192,709**
Equity		**-**	**-**	**70,812**	**70,812**
Total liabilities and equity		**133,621**	**-**	**129,900**	**263,521**
Interest rate sensitivity gap		**14,156**	**22,371**	**(36,527)**	**-**
Cumulative interest rate sensitivity gap		**14,156**	**36,527**	**-**	

For the year ended 31 December 2021 Bahraini Dinars '000

5. Financial risk management (continued)

Interest rate re-pricing profile

2020	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Bank balances		-	-	39,951	39,951
Call deposits*		1,988	-	-	1,988
Treasury bills		1,127	-	-	1,127
Short-term placements with banks	2.46%	12,454	-	-	12,454
Securities bought under repurchase agreements	2.00%	73,816	-	-	73,816
Investments at fair value through profit or loss	5.70%	1,323	7,362	13,758	22,443
Investments at fair value through other comprehensive income	6.79%	-	4,970	4,753	9,723
Investments at amortised cost	6.65%	-	9,953	-	9,953
Investment property		-	-	427	427
Fees receivable		-	-	1,153	1,153
Other assets		-	-	7,323	7,323
Property and equipment		-	-	627	627
Intangible assets and goodwill		-	-	795	795
Total assets		90,708	22,285	68,787	181,780
Short-term bank borrowings	1.18%	7,400	-	-	7,400
Securities sold under repurchase agreements	1.52%	74,406	-	-	74,406
Customer accounts		-	-	34,885	34,885
Other liabilities		-	-	5,426	5,426
Payable to other unit holders in consolidated funds		-	-	1,340	1,340
Total liabilities		81,806	-	41,651	123,457
Equity		-	-	58,323	58,323
Total liabilities and equity		81,806	-	99,974	181,780
Interest rate sensitivity gap		8,902	22,285	(31,187)	-
Cumulative interest rate sensitivity gap		8,902	31,187	-	-

* *At 31 December 2021 the effective interest rate on Bahraini Dinar call deposits is 1% (2020: 1%) and on USD call deposits is 1% (2020: 1%).*

(iii) Foreign exchange risk

Foreign exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. Most of the Bank's foreign currency exposures are in GCC currencies and US Dollar. Such exposures include short-term fixed deposits, investments in Securities and due from/ to customers. Since the Bahraini Dinar and all GCC currencies except for Kuwaiti Dinar are effectively pegged to the US Dollar, currency risk is minimal.

5. Financial risk management (continued)

(e) Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, systems and people or external events. Unlike market or credit risks, which are systemic in nature, operational risk is firm-specific and is inherent in the day-to-day operations of any bank. It includes a very broad spectrum of risks that could arise from a variety of reasons including, but not limited to, deficient transaction processing, business practices, employment practices and systems failures, and damage to physical assets. It also includes the risk of internal and external fraud.

The Bank follows a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organisational structure, policies and procedures guidelines and segregation of duties, approval authorities, reconciliations and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provide support in this control activity.

Regular custodial position reconciliations and bank reconciliations provide key strengths to mitigate operational risks. There is also a professional indemnity insurance cover in place.

Another endeavor of the Bank's operational risk management is to usher in straight through processing to enable seamless processing and reduce operational errors and optimise productivity. The Bank upgraded the core banking system and has used office automation since 2013.

Assets under management activity have a range of controls to support the quality of the investment process and are supervised by an Asset Management Committee. These are supported by strict operational controls to safeguard clients' assets, and there are regular reviews of investment management performance.

Investment Banking and Real Estate activity is exposed to legal and reputational risk. Obtaining the necessary legal and regulatory approvals mitigates this risk. Advisory and underwriting matters are monitored and controlled by the ALIC.

Regulatory compliance including anti-money laundering compliance program also forms a key component of risk management. Board and management attach high importance to these matters of strategic importance. There are well laid out policies and procedures to achieve compliance with regulatory matters.

(f) Capital management

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's current capital position is sufficient to meet the regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has subsidiaries. The Bank has complied with regulatory capital requirements throughout the year.

For the year ended 31 December 2021 Bahraini Dinars '000

5. Financial risk management (continued)

The Bank's regulatory capital position at 31 December was as follows:

Based on year end balances

	2021	2020
Risk weighted exposure		
Credit risk	66,860	40,885
Market risk	28,365	27,150
Operational risk	23,186	23,803
Total risk weighted assets	**118,411**	91,838
Common Equity (CET 1)	68,111	58,317
Additional Tier 1	111	72
Total regulatory capital	**68,222**	58,389
Capital adequacy ratio	**57.61%**	63.58%

The capital adequacy ratio as at 31 December 2021 has been calculated in accordance with Basel III and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardised approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market risk is computed using the Standardised method.

Capital allocation
The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted basis while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

6. Group subsidiaries and consolidated funds

Set out below are the Group's principal subsidiaries at 31 December 2021. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the Group to the total units issued by the fund.

For the year ended 31 December 2021 Bahraini Dinars '000

6. Group subsidiaries and consolidated funds (continued)

The country of incorporation or registration is also their principal place of business:

Subsidiary	Percentage ownership	Year of incorporation	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
7. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO
8. SICO Financial Brokerage LLC	100%	2011	UAE	Brokerage services
9. SICO Kingdom Equity Fund	70%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi
10. SICO Fixed Income Fund	72%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks
11. SICO Capital Company	72.71%	2008	Saudi Arabia	Brokerage services, Investment Banking, Asset Management & Custodial Services

For the year ended 31 December 2021 Bahraini Dinars '000

7. Payable to other unit holders in consolidated funds

The following table summarises the information relating to the consolidated funds and the amount payable to the unit holders other than the Group. Since there is a contractual obligation to deliver cash to the other unit holders, the amount payable to other unit holders is considered as a liability of the Group.

	2021	2020
Payables to other unit holders in the consolidated funds:		
SICO Fixed Income Fund	1,283	640
SICO Kingdom Equity Fund	1,411	700
	2,694	1,340
Share of profit/ (loss) on non-controlling unit holders in consolidated funds		
SICO Fixed Equity Fund	17	25
SICO Kingdom Equity Fund	372	(489)
	389	(464)

SICO Fixed Income Fund

	2021	2020
Other unit holders' share	**28%**	16%
Cash and cash equivalents	925	522
Investment at fair value through profit or loss	4,580	4,023
Other assets	66	58
Short-term bank borrowings	(914)	(540)
Other liabilities	(14)	(12)
Net assets	**4,643**	4,051
Carrying amount of payable to other unit holders	**1,283**	640
Investment income	105	221
Net interest income	12	(8)
Profit	61	160
Total comprehensive income	**61**	160
Profit allocated to other unit holders	**17**	25
Cash flows from operating activities	(128)	49
Cash flows used in financing activities	531	(120)
Net increase / (decrease) in cash and cash equivalents	**403**	(71)

For the year ended 31 December 2021 Bahraini Dinars '000

7. Payable to other unit holders in consolidated funds (continued)

SICO Kingdom Equity Fund

	2021	2020
Other unit holders' share	**30%**	20%
Cash and cash equivalents	189	6
Investment at fair value through profit or loss	4,523	3,425
Other assets	-	5
Short-term bank borrowings	-	-
Other liabilities	49	(19)
Net assets	**4,761**	3,417
Carrying amount of payable to other unit holders	**1,411**	700
Investment income	1,326	(85)
Interest income	-	-
Profit & Loss	1,230	(204)
Total comprehensive income	**1,230**	(204)
Profit/ (loss) allocated to other unit holders	**372**	(489)
Cash flows from operating activities	46	(206)
Cash flows used in financing activities	127	4,312
Net increase in cash and cash equivalents	**173**	4,106

8. (a) Cash and bank balances

	2021	2020
Cash and bank balances	48,694	39,951
Call deposits	1,028	1,988
Short-term placements with banks	25,127	12,464
Less:		
Expected credit loss	(18)	(10)
Total	**74,831**	54,393
Treasury bills	2,998	1,127
Total cash and cash equivalents for cash flow purposes	**77,829**	55,520

Cash and bank balances include bank balances amounting to BD 17,054 (2020: BD 14,968) held on behalf of discretionary customer accounts.

(b) Securities bought under repurchased agreements
Reverse repurchase agreements have been entered with clients amounting to BD 117,938 (2020: BD 73,816) for which client owned securities of BD 152,838 (2020: BD 95,587) are pledged as collateral.

For the year ended 31 December 2021 Bahraini Dinars '000

9. Investments at fair value through profit or loss

	2021	2020
Quoted equity securities		
- Parent	3,659	3,667
- Consolidated funds	4,523	3,425
Funds		
- Quoted	8,328	4,138
- Unquoted	2,134	2,528
Quoted debt securities		
- Parent	3,724	4,662
- Consolidated funds	4,580	4,023
	26,948	22,443

10. Investments at fair value through other comprehensive income

	2021	2020
Equity securities		
- Quoted	5,779	4,753
	5,779	4,753
Debt securities		
- Quoted	4,835	4,970
	4,835	4,970
	10,614	9,723

11. Investment property

Investment property represent properties in the USA acquired in 2018 through a fund structure. In 2019, the fund structure was dissolved and the properties were transferred to SICO US Real Estate Corp., a wholly owned subsidiary of the Bank. During 2020, the Group sold three of the five investment properties and in the year 2021, the remaining two properties were also sold and the SICO US Real Estate Corp is in the process of being liquidated. Accordingly the gain / loss on sale of properties have been accounted for in the consolidated statement of profit or loss.

12. Fees receivable

Fees receivable mainly represent management, custody and performance fee receivable by the Group from its Discretionary Portfolio Management Account ("DPMA") clients and managed funds.

	2021	2020
Management fees	1,394	992
Performance fees	4,119	75
Custody fees	98	86
Others	103	-
	5,714	1,153

For the year ended 31 December 2021 Bahraini Dinars '000

13. Other assets

	2021	2020
Receivables from clients	10,328	5,355
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	337	376
Interest receivable	682	713
Other receivables	584	379
	12,431	7,323

14. Intangible assets and goodwill

	2021	2020
Intangibles – software	1,030	795
Goodwill and other intangibles (note 36)	840	-
	1,870	795

Goodwill and other intangibles is net of BD 100 of amortization during the year.

15. Short-term bank borrowings and securities sold under repurchase agreements

(a) The following represents the movement in short-term bank borrowings:

At 1 January 2021	7,400
Borrowings made during the year	8,481
Borrowings settled during the year	(7,470)
At 31 December 2021	**8,411**

(b) The following represents the movement in securities sold under repurchase agreements during the year:

At 1 January 2021	74,406
Repo made during the year	53,468
Repo settled during the year	(2,664)
At 31 December 2021	**125,210**

Repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 150,591(2020: BD 92,202) are pledged as collateral.

The carrying value of the investments at amortised cost pledged as collateral amounts to BD 7,628 (2020: Nil)

16. Customer accounts

These include settlement amounts payable to customers for completed trades and amounts received from customers to fund their trading activities.

For the year ended 31 December 2021 Bahraini Dinars '000

17. Other liabilities

	2021	2020
Accrued expenses	3,734	1,295
Provision for employee leaving indemnities	1,168	926
Employee share incentive scheme liability	2,636	2,318
Other payables	1,707	887
	9,245	5,426

18. Share capital

	2021	2020
Authorised share capital		
1,000,000,000 (2020: 1,000,000,000) shares of 100 fils each	**100,000**	100,000

	2021	2020
Issued and fully paid		
428,487,741 ordinary shares of 100 fils each	**42,849**	42,849

Proposed appropriations

The Board of Directors proposed, subject to shareholders and regulatory approvals, a cash dividend of 5 fils per share or 5% (2020: 5%) of the par value of BD 0.100 per share and 3% of the paid up capital to be paid by issue of bonus shares (1 share for every 33.33 shares held). This amounts to BD 3,428 thousands (2020: BD 2,142 thousands).

The shareholders are:	Nationality	**2021**		2020	
		Capital	% holding	Capital	% holding
Social Insurance Organisation	Bahrain	21,588.5	50.38	21,588.5	50.38
National Bank of Bahrain BSC	Bahrain	5,362.5	12.52	5,362.5	12.52
Bank Muscat SAOG	Oman	4,448	10.38	-	-
Ahli United Bank BSC	Bahrain	3,667	8.56	3,667	8.56
BBK BSC	Bahrain	3,390	7.91	3,390	7.91
Arab Banking Corporation BSC	Bahrain	2,366	5.52	2,366	5.52
Al Salam Bank – Bahrain BSC	Bahrain	-	-	591	1.38
Employee Stock Ownership Plan	Bahrain	2,027	4.73	2,027	4.73
SICO BSC (c) (Treasury shares)*	Bahrain	-	-	3,857	9.00
		42,849	100	42,849	100

* During the year, the treasury shares were swapped with Bank Muscat SAOG to acquire a majority stake in SCC (refer to note 36 for details).

For the year ended 31 December 2021 Bahraini Dinars '000

18. Share capital (continued)

Treasury shares and shares under employee share incentive scheme

	2021		2020	
	Number of shares	**Amount**	Number of shares	Amount
Treasury shares	**-**	**-**	38,563,893	5,322
Employee share incentive scheme (refer to note 28)	20,272,618	2,263	20,272,618	2,263
	20,272,618	**2,263**	58,836,511	7,585

19. Statutory reserve

In accordance with the Commercial Companies Law, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 652 (2020: BD 296).

20. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2021, no appropriations to general reserve are recommended.

21. Net investment income

	2021	2020
Net gain on investments at fair value through profit or loss*	2,322	212
Interest income from debt instruments	1,468	1,502
Dividend income	648	524
	4,438	2,238

* Net gain on investments carried at fair value through profit or loss comprises the following:

	2021	2020
Realised gain / (loss) on sale	1,132	(379)
Unrealised fair value gain	1,190	591
	2,322	212

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

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

For the year ended 31 December 2021 Bahraini Dinars '000

22. Net fee income

	2021	2020
Fee income from trust or other fiduciary activities		
- Management fee	4,248	2,971
- Performance fee	3,621	69
- Custody fee	568	462
- Advisory & Underwriting fee	362	163
	8,799	3,665
Fee expense		
- Custody fee	(47)	(46)
Net fee income	**8,752**	3,619

23. Brokerage and other income

	2021	2020
Brokerage income	1,645	1,704
Foreign exchange gain	760	926
Government grant	-	312
Other income	275	287
	2,680	3,229

24. Net interest income

	2021	2020
Interest income from:		
Placements, call deposits and reverse repos	2,249	2,189
Margin lending	531	417
	2,780	2,606
Interest expense on:		
Bank borrowings and repos	(939)	(1,159)
Net interest income	**1,841**	1,447

25. Staff cost

	2021	2020
Salaries, allowances and bonus	6,021	4,147
Post-employment benefit	177	215
Share based payments	246	128
Social security costs	245	213
Other costs	501	385
	7,190	5,088

As at 31 December 2021, the Group employed 74 (2020: 73) Bahrainis and 56 (2020: 37) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 244 (2020: BD 213).

For the year ended 31 December 2021 Bahraini Dinars '000

26. Other operating expenses

	2021	2020
Occupancy expenses	225	196
Communication expenses	63	59
Marketing expenses	150	109
Professional fees	431	193
Technology related expenses	1,056	768
Depreciation	661	534
Other operating expenses	1,007	988
	3,593	2,847

27. Related party transactions

Transactions with funds owned by the subsidiary companies

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:

	2021	2020
Fee income	1,350	478
Fee receivable	949	197
Securities bought under repurchase agreements	2,775	-
Investment in own funds	2,780	2,346
Funds under management	75,436	58,686

The details of the own funds under management are in note 29.

Transactions with shareholders

The Group obtained short-term borrowings from its bank shareholders for a total of BD 8,411 (2020: BD 7,400). During the year ended December 31, 2021 the Group entered into Repos with its bank shareholders and as of 31 December 2021, had 52,264 (2020: BD 41,261) of repurchase agreements with these related parties. The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilized credit facilities with certain of its shareholders that are local banks. All such transactions are in the ordinary course of business and on normal commercial terms.

The Group also provides discretionary portfolio management account services to two of its shareholders in the ordinary course of business. These services are provided on normal commercial terms and conditions and the related funds are held by the Group in a fiduciary capacity. The excess funds are placed with the other banks as deposits on normal commercial terms.

	2021	2020
Fee income	3,293	409
Fee receivable	2,634	103
Securities sold under repurchase agreements	52,263	41,261
Investment	3,819	3,005
Funds under management	101,146	46,525
Placements	7,178	11,154
Borrowings	8,411	7,400

For the year ended 31 December 2021 Bahraini Dinars '000

27. Related party transactions (continued)

Key Management Personnel
Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The key management personnel comprise members of the Board of Directors, Chief Executive Officer, Chief Capital Markets Officer, Chief Operating Officer, Chief Financial Officer and head of departments.

Compensation to key management personnel is as follows:

	2021	2020
Salaries and short term benefits	2,409	1,944
Post-employment benefits	106	72
Equity compensation benefits	388	181
	2,904	2,197

Attendance fees and remuneration to Board members and other related expenses amount to BD 292 (2020: BD 155).

28. Employee Share Ownership Plan

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.

The liability under the scheme has different vesting conditions based on the nature of incentive, which is based on the period of service with the Group. The liability vests pro-rata from the date of grant over a period of five years. 50% of the liability can be settled after five years at the option of the employee, while the remaining liability is settled after the employee leaves his employment. The settlement is based on the last net assets value as per the most recent audited annual financial statements of the Group.

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme account classified under equity.

The Group has recognised an employee liability of BD 2,636 (2020: BD 2,318) on the shares granted until date. This liability has been determined on the value of the Group's net assets as at 31 December 2021 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

There has been no movement in the shares under the scheme during the year. Total number of shares issued under the scheme is 20,272,618 (2020: 20,272,618).

For the year ended 31 December 2021 Bahraini Dinars '000

29. Involvement in unconsolidated structured entities

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	▪ To generate fees from managing assets on behalf of third-party investors. ▪ These vehicles are financed through issuance of units to investors.	▪ Investment in units issued by the fund ▪ Management fee ▪ Performance fee
Employee share incentive scheme trust	▪ To hold the shares in trust under employee share incentive scheme.	▪ None

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held and outstanding management and performance fee.

	2021	2020
Investments in funds		
Khaleej Equity Fund	1,683	1,264
Bahrain Liquidity Fund Company	1,097	1,082
	2,780	2,346

30. Contingencies, commitments and memorandum accounts

Investment commitment
The Group has committed to invest in SICO Khaleej Equity Fund a minimum of 10% of the net assets value at any time throughout its life. The Group has other investment commitments of BD 1,885 (2020: BD 1,056) and margin lending drawdown commitments of BD 1,488 (2020: BD 1,785).

Assets under management (net asset value)	**2021**	2020
SICO Khaleej Equity Fund	28,165	19,002
SICO Gulf Equity Fund	3,257	2,512
Bahrain Liquidity Fund Company	37,666	37,172
SICO Kingdom Equity Fund	4,663	3,417
SICO Fixed Income Fund	4,642	4,051
Al Masha'ar REIT Fund	50,620	-
Al Qasr Real Estate Fund	31,698	-
Riyadh Real Estate Fund	8,012	-
Discretionary portfolio management accounts	1,379,630	811,777
Total Net Asset Value **	**1,548,353**	877,931

The funds under discretionary portfolio management accounts were held in trust or in a fiduciary capacity and are not treated as assets of the Group and, accordingly, have not been included the consolidated financial statements.

** On a gross basis (including leverage of BD 152,873), SICO's total AUMs stands at BD 1,701,226 (2020: BD 951,762).

	2021	2020
Assets under custody	**3,105,858**	3,010,365

30. Contingencies, commitments and memorandum accounts (continued)

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2021, assets amounting to BD 3,105,858 (2020: BD 3,010,365) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 633,907 (2020: BD 568,926) were registered in the name of the Bank.

Contingencies
The Group has letters of guarantee in the amount of BD 3,593 (31 December 2020: BD 3,593) in favor of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

31. Net open foreign currency positions

	2021	2020
QAR	463	(13)
US Dollar	20,477	43,520
JOD	21	52
KWD	445	923
SAR	15,874	6,132
GBP	1	1
AED	8,021	7,048
OMR	1,306	645
EUR	2	3
EGP	(2)	(23)

All GCC currencies except KWD are effectively pegged to US Dollar.

32. Earnings per share

	2021	2020
Profit for the year	6,391	2,959
Weighted average number of equity shares (in 000's)	420,796	428,487
Less: Employee share incentive scheme shares	(20,272)	(20,272)
Add / (less): Treasury shares	-	(38,564)
Weighted average number of shares as at 31 December	400,524	369,651
Earnings per share (in fils)	**15.96**	8.00

The Bank does not have any dilutive instruments.

33. Maturity profile of assets and liabilities

The table below shows the maturity profile of the Group's assets and liabilities on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively.

For the year ended 31 December 2021 Bahraini Dinars '000

33 Maturity profile of assets and liabilities (continued)

31 December 2021	**Less than 1 year**	**1 to 5 years**	**Above 5 years**	**Total**
Assets				
Cash and bank balances	74,831	-	-	74,831
Treasury bills	2,998	-	-	2,998
Securities bought under repurchase agreements	117,938	-	-	117,938
Investments at fair value through profit or loss	11,276	5,051	10,621	26,948
Investments at fair value through other comprehensive income	-	4,426	6,188	10,614
Investments at amortised cost	-	4,983	4,952	9,935
Fees receivable	5,714	-	-	5,714
Other assets	12,431	-	-	12,431
Property and equipment	133	109	-	242
Intangible assets and goodwill	240	460	1,170	1,870
Total assets	**225,561**	**15,029**	**22,931**	**263,521**
Liabilities				
Short-term bank borrowings	8,411	-	-	8,411
Securities sold under repurchase agreements	125,210	-	-	125,210
Customer accounts	47,149	-	-	47,149
Other liabilities	9,054	-	-	9,054
Payable to other unit holders in consolidated funds	2,694	-	-	2,694
Total liabilities	**192,518**	**-**	**-**	**192,518**
Liquidity gap	**33,043**	**15,029**	**22,931**	**71,003**
Cumulative liquidity gap	**33,043**	**48,072**	**71,003**	

31 December 2020	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	54,393	-	-	54,393
Treasury bills	1,127	-	-	1,127
Securities bought under repurchase agreements	73,816	-	-	73,816
Investments at fair value through profit or loss	8,441	6,084	7,918	22,443
Investments at fair value through other comprehensive income	-	4,538	5,185	9,723
Investments at amortised cost	-	1,169	8,784	9,953
Investment property	-	-	427	427
Fees receivable	1,153	-	-	1,153
Other assets	7,323	-	495	7,818
Property and equipment	170	214	-	384
Intangible assets and goodwill	1	542	-	543
Total assets	146,424	12,547	22,809	181,780
Liabilities				
Short-term bank borrowings	7,400	-	-	7,400
Securities sold under repurchase agreements	74,406	-	-	74,406
Customer accounts	34,885	-	-	34,885
Other liabilities	5,426	-	-	5,426
Payable to other unit holders in consolidated funds	1,340	-	-	1,340
Total liabilities	123,457	-	-	123,457
Liquidity gap	22,967	12,547	22,809	58,323
Cumulative liquidity gap	22,967	35,514	58,323	

For the year ended 31 December 2021 Bahraini Dinars '000

34. Accounting classification and fair values

(i) The table below sets out the classification of each class of assets and liabilities:

31 December 2021	Fair value through profit or loss	Fair value through other comprehensive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	74,831	74,831
Treasury bills	-	-	-	2,998	2,998
Securities bought under repurchase agreements	-	-	-	117,938	117,938
Investments at fair value through profit or loss	26,948	-	-	-	26,948
Investments at fair value through other comprehensive income	-	10,614	-	-	10,614
Investments at amortised cost	-	-	-	9,935	9,935
Fees receivable	-	-	-	5,713	5,713
Other assets	-	-	-	12,094	12,094
	26,948	**10,614**	**-**	**223,509**	**261,071**
Short-term bank borrowings	-	-	-	8,411	8,411
Securities sold under repurchase agreements	-	-	-	125,210	125,210
Customer accounts	-	-	-	47,149	47,149
Other liabilities	-	-	-	9,245	9,245
Payable to other unit holders in consolidated funds	-	-	2,694	-	2,694
	-	-	**2,694**	**190,015**	**192,709**

For the year ended 31 December 2021 Bahraini Dinars '000

34. Accounting classification and fair values (continued)

31 December 2020	Fair value through profit or loss	Fair value through other comprehensive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	54,393	54,393
Treasury bills	-	-	-	1,127	1,127
Securities bought under repurchase agreements	-	-	-	73,816	73,816
Investments at fair value through profit or loss	22,443	-	-	-	22,443
Investments at fair value through other comprehensive income	-	9,723	-	-	9,723
Investments at amortised cost	-	-	-	9,953	9,953
Investment property	-	-	-	427	427
Fees receivable	-	-	-	1,153	1,153
Other assets	-	-	-	6,947	6,947
	22,443	9,723	-	147,816	179,982
Short-term bank borrowings	-	-	-	7,400	7,400
Securities sold under repurchase agreements	-	-	-	74,406	74,406
Customer accounts	-	-	-	34,885	34,885
Other liabilities	-	-	-	5,426	5,426
Payable to other unit holders in consolidated funds	-	-	1,340	-	1,340
	-	-	1,340	122,117	123,457

The carrying amount of assets and liabilities carried at amortized cost approximates the fair value in view of the short-term nature of these assets and liabilities.

For the year ended 31 December 2021 Bahraini Dinars '000

34. Accounting classification and fair values (continued)

(ii) Fair value hierarchy

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

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 table below analyses the fair value of financial assets and liabilities, by the level in the fair value hierarchy into which the fair value measurement is categorised.

As at 31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Fair value through other comprehensive income investments:				
- Equities	5,402	377	-	5,779
- Debt securities	4,835	-	-	4,835
Fair value through profit or loss:				
- Equities	8,182	-	-	8,182
- Debt securities	8,304	-	-	8,304
- Funds	8,328	-	2,134	10,462
	35,051	**377**	**2,134**	**37,562**

As at 31 December 2020	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	4,753	-	-	4,753
- Debt securities	4,970	-	-	4,970
Fair value through profit or loss:				
- Equities	7,092	-	-	7,092
- Debt securities	8,685	-	-	8,685
- Funds	5,523	-	1,143	6,666
	31,023	-	1,143	32,166

For the year ended 31 December 2021 Bahraini Dinars '000

34. Accounting classification and fair values (continued)

The Group recognises transfers between levels of fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

The following table analyses the movement in Level 3 financial assets during the year:

	2021	2020
At 1 January	1,143	832
Total gain:		
- in income statement	712	(101)
- in other comprehensive income	-	-
Purchases	-	-
Settlements	-	-
Transfers into/ (out) of level 3	279	412
At 31 December	**2,134**	1,143

Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category, which relates to fair value through other comprehensive income financial assets is assessed as not significant to the other comprehensive income and total equity.

(iii) Valuation technique and significant unobservable input

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Level 2			
Equity and Debt	Adjusted net asset value and market comparison technique: The valuation is based on observable market multiples derived from quoted prices of comparable instruments.	Not applicable	Not applicable
Funds	Net asset values of the funds obtained from the fund managers	Not applicable	Not applicable
Level 3			
Private equity funds	Net asset values of the funds obtained from the fund managers	Net assets of the funds and the valuations of the underlying investments	The estimated fair value would increase (decrease) if there are any changes in the net assets of the funds based on the performance of the underlying investments.
Equity	Adjusted net asset value	Net assets of the company adjusted for discounts on investment in real estate and venture capital	The estimated fair value would increase (decrease) if there are any changes in the net assets (equity) of the company.

For the year ended 31 December 2021 Bahraini Dinars '000

35. Comparatives

Certain comparatives have been regrouped where necessary to conform to the current year's presentation. The regrouping did not affect previously reported profit for the year or total equity of the Group.

36. Business combination

On 15 March 2021, the Bank acquired 72.7% stake in SCC 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 SCC.

The acquisition of SCC 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
It has been assessed that the consideration amounting to BD 5,785 is the fair value of consideration transferred.

Recognition of non-controlling interest
Non-controlling interest in SCC 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 SCC at the date of acquisition is summarised as below:

	Fair value on acquisition date
Assets	
Cash and bank balances	284
Investments at fair value through profit or loss ("FVTPL")	1,837
Fees receivable	287
Other assets	6,375
Property, plant and equipment	12
Intangible assets (intangible i.e. software)	89
Total assets	**8,884**
Liabilities	
Short-term bank borrowings	1,472
Other liabilities	749
Total liabilities	**2,221**
Identifiable net assets	**6,663**
Non-controlling interest	1,818
Purchase price consideration	5,785
Fair value of the consideration	**7,603**
Intangible assets and goodwill	**940**

36. Business combination (continued)

As per IFRS 3 – Business Combinations, adjustments are allowed for a period of one year following the acquisition date if related to facts and circumstances that existed as of that date. During the year goodwill has increased by BD 32 from the first reported period.

Identifiable intangibles assets

The intangibles that were identified as part of this acquisition transaction are the license values and the values that are attributable to the existing client relationship.

The acquisition broadens SICO's regional presence and provides the ability to actively penetrate the markets in the Kingdom of Saudi Arabia while being in compliance with the regulatory requirements. A value of BD 500 has been assigned to the various licenses that are currently being held by SCC. The value has been arrived at based on the replacement cost methodology. There is no foreseeable limit to the period over which the license is expected to generate cash inflows and thus this would have an indefinite life.

With respect to the existing client relationship, assuming a churning of the relationship under the new management over the next three years, a value of BD 300 has been arrived at by considering the net cash flows over the next three years and discounted to the present value. This intangible value would be amortised over the period of three years from the date of acquisition.

Impact on Group's results
The acquisition of SCC resulted in increase in assets of the Group by BD 13,172, increase in liabilities of the Group by BD 5,997 and increase in off balance sheet items e.g. assets under management by BD 250,616. If SCC was consolidated since beginning of the reporting period, the incremental net profits would amount to BD 606.

Goodwill impairment analysis
The recoverable amount of goodwill is based on value-in-use, calculated by discounting cash flow projections which are based on financial forecasts approved by management, projected for 5 years to arrive at the terminal value. A growth rate at a minimum of 5% and discount rate of 8.5% have been applied to the estimated cash flows.

A sensitivity analysis was conducted by increasing the discount rate by 2% and reducing earnings by 10% to assess the impact on the recoverable amount as compared to the carrying value of the CGU. The carrying value of goodwill and intangibles with indefinite life is lower than the reduced recoverable amount in the sensitivity analysis, further confirming no indications of impairment.

37. 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.

For the year ended 31 December 2021 Bahraini Dinars '000

37. Net stable funding ratio (continued)

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

31 December 2021	**Unweighted values (before applying factors)**				
	No specified maturity	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available stable funding (ASF):					
Capital:					
Regulatory capital	67,781	-	-	130	67,911
Retail deposits and deposits from small business customers:					
Less stable deposits	-	13,451	-	-	12,106
Other liabilities:					
All other liabilities not included in above categories	-	175,441	2,993	-	4,406
Total ASF					**84,423**
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	20,592	-	-	-	2,155
Performing loans and securities:					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	28,542	-	-	14,271
Other assets:					
All other assets not included in the above categories	7,915	194,000	-	-	44,076
Off-balance sheet items	6,966	-	-	-	348
Total RSF					**60,850**
NSFR %					**139%**

For the year ended 31 December 2021 Bahraini Dinars '000

37. Net stable funding ratio (continued)

31 December 2020	Unweighted values (before applying factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
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	-	111,844	-	-	4,213
Total ASF					71,186
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	20,307	-	-	-	1,987
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	-	23,269	-	-	11,635
Other assets:					
All other assets not included in the above categories	4,971	129,080	-	-	28,010
Off-balance sheet items	6,434	-	-	-	322
Total RSF					41,954
NSFR %					170%

Supplementary Disclosures – Financial Impact of COVID-19 (Unaudited)
For the year ended 31 December 2021 Bahraini Dinars '000

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, 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 in 2021 has improved considerably as compared to the year 2020. The year 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 6.5 million for the year ended 31 December 2021 against BD 3 million achieved in the previous year. Operating income for the year ended 31 December 2021 was BD 17,711 thousand as against BD 10,432 thousand achieved in the previous year.

Table of income components (BD '000):

	31 Dec 2021	31 Dec 2020
Net investment income	4,438	2,238
Net fee income	8,752	3,619
Brokerage and other income	2,680	3,229
Net other interest income	1,841	1,447
Loss from investment property	-	(101)
Total	**17,711**	10,432

In 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 previous year.

Fee based income experienced an increase of 142% when compared to the previous year, mainly due to increase in the Assets under Management and the improvements in the portfolio valuations which resulted in booking good management and performance fees.

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 27% 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.