

SICO Supplementary Public Disclosure – Financial Impact of COVID-19 At 30 September 2020

INTRODUCTION

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

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

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

CURRENT SITUATION

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

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

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

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

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

Overall, the Bank's financial performance for the first nine months of 2020 has got impacted due to the COVID-19 related economic shock and the extreme volatility experienced in the oil prices and its resultant impact on the market valuation of securities.

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

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

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

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

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

The **Proprietary book investment** portfolio took a significant hit due to the market conditions that prevailed during the first three to four months of 2020. The drop in market valuations were due to both the COVID-19 pandemic as well as the significant drop in the oil prices. A number of measures that includes revising asset allocations, implementing hedging strategies, have been put in place. The third quarter of 2020 witnessed some good recovery. As of 30 September 2020, there is a net investment gain amounting to BD 1.7 million in comparison to net income of BD 3.1 million booked for the same period in 2019, representing a decrease of about 47%.

Table of income components:

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

Others:

- The Bank continues to meet the regulatory requirement of CAR, LCR and NSFR.
- A detailed analysis of the ECL provisioning requirements has been carried out and considering the nature of the exposures, the stressed economic situation has not resulted in the need for any increase to the existing ECL provisions.
- The Bank decided to postpone certain internal technology projects mainly to avoid / restrict the movement of external vendors and consultants. This has resulted in the reduction of certain amounts of capital expenditure and the related depreciation.
- Strict cost control measures are in place; however due attention is given and necessary expenditure is incurred to ensure safety and well-being of staff personnel
- The overall Assets Under Management (AUM) as of September 2020 stood at USD 2.1 billion which is in similar lines as of December 2019. In the first half of 2020, there was a decrease of about 20% in the AUM due to reductions experienced in the overall portfolio valuations due to market turmoil as well as certain outflows that were effected by the clients to meet their liquidity needs. However, with the subsequent new subscriptions, the AUM has once again crossed the USD 2 billion mark as of September 2020.

Closing Note

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

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