CELEBRATING
20
YEARS OF SICO

Annual Report 2015

Integrity Insight Innovation
Our Journey Continues

بنك استثماري
sico
Investment Bank

CELEBRATING 20 YEARS OF SICO

Integrity Insight Innovation

Over the past 20 years, SICO has earned an enviable reputation for business integrity, market insight and product innovation. As our journey continues, these enduring competencies will guide the Bank's continued success.

Contents

Securities & Investment Company BSC (c)
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His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

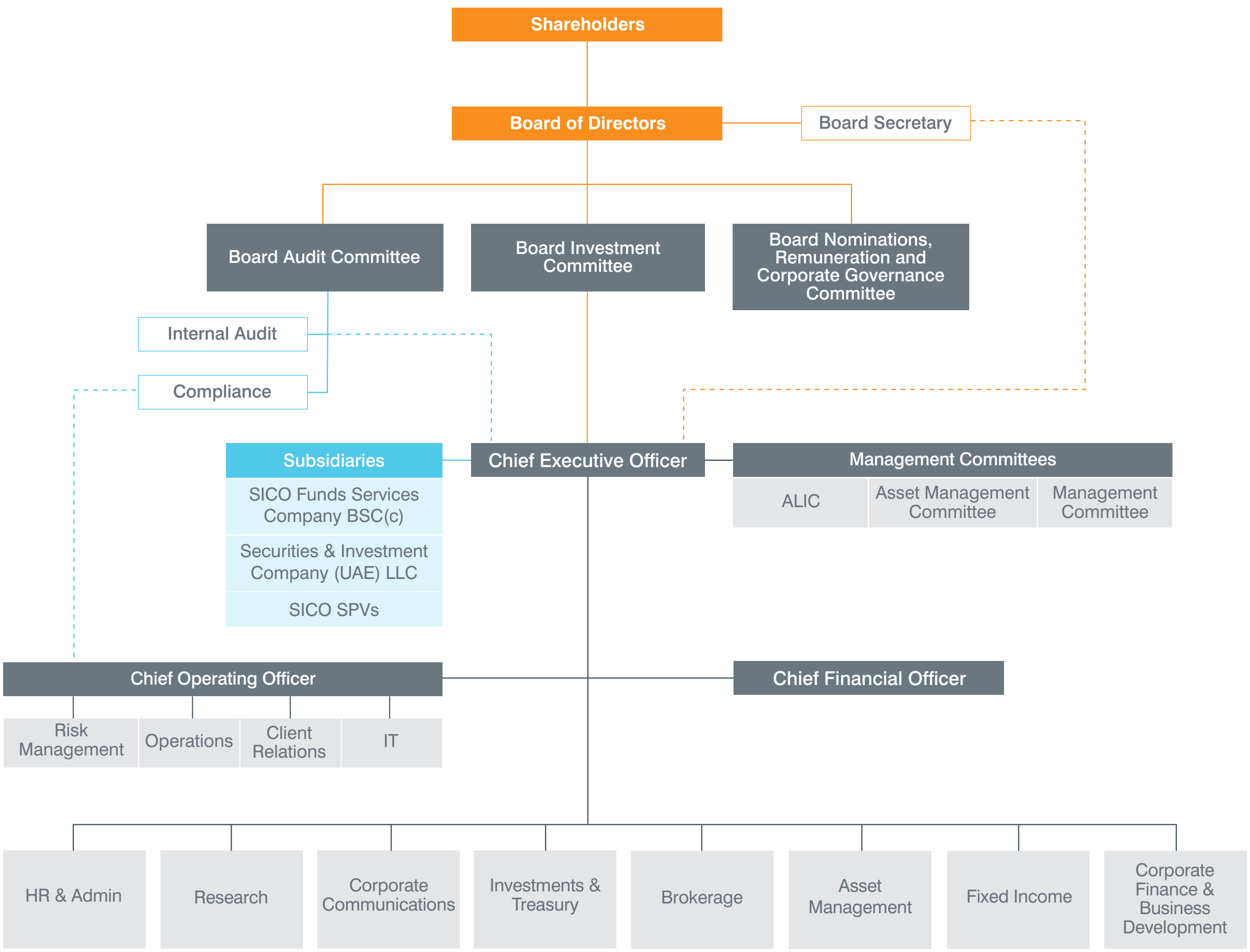
His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain

Governance Structure



Corporate Overview

Headquartered in the Kingdom of Bahrain, and with a growing regional presence and international footprint, Securities & Investment Company (SICO) is one of the premier wholesale banks in the MENA region.

Profile

Headquartered in the Kingdom of Bahrain, and with a growing regional presence and international footprint, Securities & Investment Company (SICO) is one of the premier wholesale banks in the GCC region. SICO provides a select range of investment banking solutions – brokerage, market making, treasury, equity and fixed income asset management, corporate finance, and custody and fund administration – which are underpinned by an independent, value-added research capability.

Established in 1995, and listed on the Bahrain Bourse in 2003 as a closed company, SICO operates under a conventional wholesale banking licence from the Central Bank of Bahrain. The Bank has two wholly-owned subsidiaries: SICO Fund Services Company (SFS) – a specialised regional custody house; and SICO UAE – an Abu Dhabi-based brokerage firm licensed by the Emirates Securities & Commodities Agency.

SICO's strong shareholding base comprises: The Social Insurance Organisation of The Kingdom of Bahrain, National Bank of Bahrain, Ahli United Bank, BBK, Bank ABC, Arab Investment Resources Company, Gulf Investment Corporation and Al Salam Bank; together with the Bank's staff through the SICO Employee Stock Ownership Plan.

Mission

SICO's mission is to be one of the leading GCC securities houses, offering a selective range of investment banking services, including brokerage, asset management and corporate finance. We aim to continuously provide innovative products and services that cater to the changing investment needs of our clients, while abiding to the highest ethical and professional standards of conduct. In doing so, we are committed to maximising shareholders' value.

Values

SICO's business operations and corporate relationships, and the professional and personal conduct of our team members, are governed by the following values:

- Acting prudently and professionally
- Upholding transparency in all dealings
- Pioneering new products and services
- Maintaining a client-focused approach

Major Milestones

1995

1995

- **Commenced operations in Bahrain with Brokerage, Market Making and Sell-side Research**

1997

- Investment banking licence from Bahrain Monetary Agency
- Corporate Finance established
- Bahrain Duty Free IPO – first privatisation through a primary offering in Bahrain

1998

- Asset Management and Custody & Administration introduced
- SICO Selected Securities Fund launched
- First rights issue in Bahrain to be managed by an investment bank

1999

- Ranked as leading Broker on Bahrain Stock Exchange (BSE)

2000

2001

- Expanded Brokerage activities to the GCC
- Discretionary Portfolio Management Accounts introduced

2002

- Al Dana Hotels Management Bahrain – first-of-its kind asset-collaterised floating rate note in the GCC

2003

- Listed on BSE as a closed company
- Aluminium Bahrain – US$ 200 million public offering of floating rate bond

2004

- Khaleej Equity Fund launched
- SICO Funds Services Company (SFS) subsidiary established

2005

2005

- **SICO Employee Share Ownership Scheme introduced**
- **Nass Group IPO – first family business to go public in the GCC (ex. Saudi Arabia)**

2006

- SICO Gulf Equity Fund launched
- Al Salam Bank IPO – set a new record for the largest IPO in the history of BSE

2007

- Seef Properties IPO – set new benchmark for privatisation in the MENA region
- Expanded Brokerage activities outside GCC to selective MENA markets

2008

- SICO's capital increased to BD 42.35 million through oversubscribed rights issue
- Conditional wholesale banking licence from Central Bank of Bahrain (CBB)
- Brokerage Agency Desk established
- Client Relations Unit created

2009

- SICO Executive Training Programme launched

2010

2010

- **Custodian status on Bahrain Bourse for SFS**

2011

- SICO Kingdom Equity Fund launched
- Unqualified wholesale banking licence from CBB
- Fixed Income Desk established

2012

- SICO UAE brokerage subsidiary in Abu Dhabi inaugurated

2013

- SICO Fixed Income Fund launched
- New interactive Research portal introduced
- New core banking system implemented

2014

- Fixed Income Division created
- Zain Bahrain – mandated as market maker for its shares on Bahrain Bourse following completion of IPO

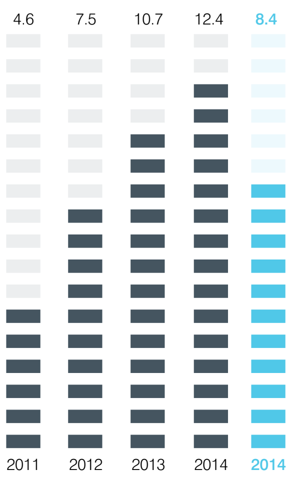
2015

2015

- **Mandated for first listing of a real estate investment trust (REIT) on the Bahrain Bourse**

Financial Highlights

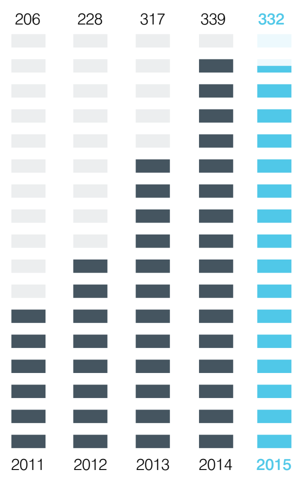
Against a backdrop of heightened volatility, SICO posted a positive financial performance in 2015. Net profit, which was BD 2.8 million compared with BD 5.4 million for 2014, marked seven consecutive years of profitability since the financial crisis.



Total Revenue
BD Milion

Total Assets
BD Milion

Shareholders' Equity
BD Milion



Assets Under Management
BD Milion

1.575m

2015 Net interest income

2014 1.362m

1.426m

2015 Net investment income

2014 3.928m

1.061m

2015 Brokerage income

2014 1.908m

3.602m

2015 Asset management & other fee income

2014 4.415m

0.111m

2015 Investment banking income

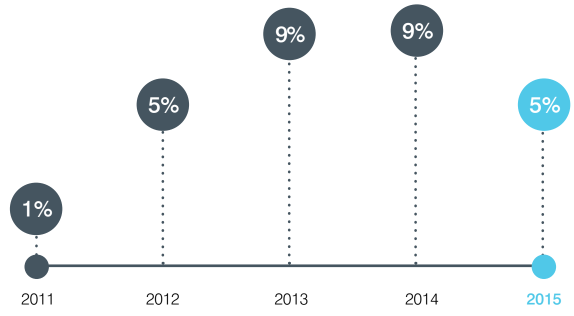
2014 0.175m

0.592m

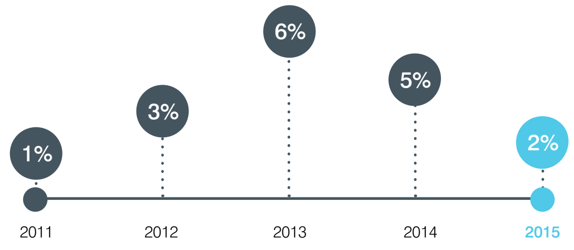
2015 Other income

2014 0.544m

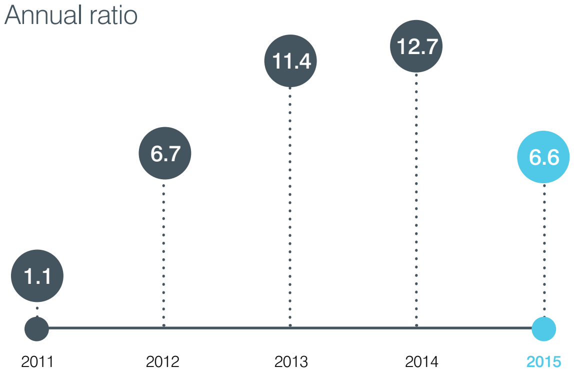
Return on average equity
Annual ratio



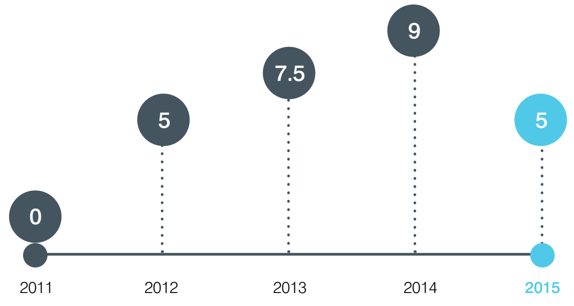
Return on average assets
Annual ratio



Earnings per share (Fils)
Annual ratio



Dividends per share (Fils)
Annual ratio



Chairman's Statement

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2015, which marked the Bank's 20th anniversary.

In what proved to be a very tough year for all asset classes SICO posted a commendable financial performance. Operating income was BD 8.4 million compared with BD 12.4 million in 2014, while total operating expenses amounted to BD 5.5 million against BD 6.4 million the previous year. Net profit for the year was BD 2.8 million compared with BD 5.4 million in 2014, with basic earnings per share of Bahraini fils 6.6 versus 12.68 fils for the prior year. At the end of 2015, total balance sheet footings stood at BD112.8 million compared with BD 115.7 million for the previous year. SICO continued to maintain a solid capital base, with shareholders' equity of BD 58.4 million against BD 61.1 million in 2014.

The Bank also maintained a very strong consolidated capital adequacy ratio of 53.6 per cent, which is substantially higher than the Central Bank of Bahrain's requirement.

Based on SICO's 2015 financial results and in accordance with the Bahrain Commercial Companies Law 2001, BD 285 thousand has been transferred to the Statutory Reserve.

Furthermore, the Board is recommending the following appropriations for approval by the shareholders at the annual general meeting to be held on 21 March 2016:

1. Payment of a cash dividend of BD 2.1 million to shareholders, representing 5 per cent of paid-up capital; and
2. Directors' remuneration of BD 42 thousand.

Total shareholders' equity after appropriation of the Statutory Reserve is BD 58.4 million compared with BD 61.1 million in 2014.The Bank is authorised to spend BD 30 thousand in 2016 on supporting charitable, cultural and educational activities.

SICO responded proactively to unfolding events during the second half of 2015, extending its provision of advisory services to help clients face the turmoil in regional markets. The Bank's financial results for 2015 reflect the positive performance and greater contribution from our annuity revenue streams, with fee-based income now accounting for 64 per cent of total income.

Our 20th anniversary constitutes a major milestone for the Bank. Over the past two decades SICO has successfully navigated through a series of global economic upheavals and financial crises, and escalating regional geo-political tensions. Our strategy and core values of integrity, insight and innovation have guided us on our journey from a domestic securities house to a regional wholesale bank. Our prudent and consistent strategy remains on course. This entails a firm focus on serving the GCC region and selective MENA markets; growing and diversifying our business lines and revenue streams; pursuing a best-in-class, client-focused business model; and maintaining a disciplined approach to managing our cost, risk and capital.

Looking ahead, 2016 will be another highly-challenging year. This will be marked by continued volatility of oil prices, and further economic and fiscal reforms by GCC governments to diversify revenues and reduce subsidies. Such measures will have an impact on corporate earnings and market valuations. However, they will be positive in the long-term for regional economies, by making them more sustainable in an era of low oil prices. In addition, interesting new investment opportunities will arise from market corrections, and SICO will take full advantage of such opportunities in the best interests of our clients.

Our loyal clients play a critical role in the continued success of the Bank, and we will continue to focus on serving their needs while managing shareholders' capital prudently, a commitment which is central to our long-term value proposition. The Board has full confidence in the ability of our high-calibre Management team to respond to the challenges of a new regional reality in a proactive and dynamic manner.

There was a change in the composition of the Board of Directors during 2015. The Board would like to thank outgoing director Ms. Sawsan Abdulhassan (representing Ahli United Bank) for her valuable contribution during the past seven years; and in turn welcome her replacement, Mr. Prakash Mohan, whose extensive banking experience will be of great benefit. The Board would also like to congratulate Ms. Najla Al Shirawi, Chief Executive Officer; Ms. Kulood Al Qatan, Independent Board Member of SICO Funds Services Company; Ms. Nadia Albinkhalil, Head of HR and Administration; and Ms. Hanan Sater, former Head of Financial Control; on being awarded and recognised by HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King and Chairperson of the Supreme Council for Women, for their efforts in supporting Bahrain's financial sector as part of the celebrations for Bahrain Women's Day 2015.

The Board takes this opportunity to acknowledge the continued confidence and encouragement of our shareholders; the trust and loyalty of our clients and business partners; and the commitment and professionalism of our management and staff. The Board also expresses its appreciation to the Central Bank of Bahrain and the Bahrain Bourse for their continued guidance and support; and to the Bahrain Economic Development Board for their relentless efforts in supporting the financial services industry in the Kingdom.

On behalf of the shareholders, management and staff of SICO, the Board conveys its best wishes and sincere gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership, visionary reform programme, and support of the Kingdom's financial sector.

Abdulla bin Khalifa Al-Khalifa
Chairman of the Board

Board of Directors

01

02

03

04

06

07

08

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1. **Shaikh Abdulla bin Khalifa Al Khalifa**
   Chairman – Non-independent and Executive
   Represents Social Insurance Organisation - Bahrain

2. **Mr. Hussain Al Hussaini**
   Vice Chairman – Non-independent and Executive
   Represents National Bank of Bahrain - Bahrain

3. **Mr. Anwar Abdulla Ghuloom Ahmadi**
   Director – Non-independent and Executive
   Represents Social Insurance Organisation - Bahrain

4. **Mr. Prakash Mohan**
   Director – Non-independent and Executive
   Represents Ahli United Bank - Bahrain

5. **Mr. Mohammed Abdulla Isa**
   Director – Non-independent and Executive
   Represents BBK - Bahrain

6. **Mr. Mahmoud Al Zewam Al Amari**
   Director – Independent and Non-executive
   Represents Bank ABC - Bahrain

7. **Mr. Fahad Murad**
   Director – Independent and Non-executive
   Represents Arab Investment Resources Company - Bahrain

8. **Mr. Waleed K. Al-Braikan**
   Director – Independent and Non-executive
   Represents Gulf Investment Corporation - Kuwait

9. **Mr Yusuf Saleh Khalaf**
   Director – Independent and Non-Executive

CELEBRATING
20
YEARS OF SICO

A Journey of Integrity

Guiding SICO's successful development over the past 20 years has been our unblemished reputation, which is based on a relentless commitment to operating at the highest standards of integrity, transparency and professionalism. This enviable reputation, together with our fortress balance sheet, prudent business philosophy and client-focused approach, has enabled us to navigate successfully through increasingly turbulent times.

Chief Executive's Report

In a year which saw oil prices, liquidity and asset values decline steeply, we are pleased to report that SICO maintained its profitability trend, with our core fee-based business lines continuing to contribute significantly to the bottom line.

Market background

All GCC markets, with the exception of Abu Dhabi, declined in double digits (14 to 17 per cent) in 2015. The turmoil was led primarily by concerns about falling oil prices, fading hopes of any meaningful recovery in the near-term, and the consequential impact on government revenues and spending in the foreseeable future. Key markets such as Saudi Arabia and Dubai declined 30 per cent and 25 per cent, respectively, from their mid-year highs; while Brent crude fell 45 per cent from its peak in May. Market sentiment was further affected by increasing geo-political tensions which led to limited involvement by market participants, especially in the second half of the year. Market turnover across the GCC was a mere fraction of 2014, especially in the second six months. On the other hand, the GCC fixed income market had a positive 2015, closing the year up 1.7 per cent. Bahrain and Saudi were clear underperformers compared with UAE and Qatari issues. Primary issuances dried up in the second half of the year, a consequence of limited investor appetite and weak regional sentiments.

Financial performance

Against such a challenging backdrop, we are pleased to report that SICO posted a highly-encouraging financial performance in 2015. Net profit, which was BD 2.8 million compared with BD 5.4 million for 2014, marked seven consecutive years of profitability since the financial crisis. Brokerage revenues were BD 1.0 million versus BD 1.9 million for 2014; while Asset Management contributed BD 3.6 million (2014: BD 4.4 million), and Corporate Finance BD 111 thousand (2014: BD 175 thousand). In terms of our proprietary book, net investment income was BD 1.4 million (2014: BD 3.9 million) and net interest income BD 1.6 million (2014: BD: BD 1.4 million). At the end of 2015, total assets under management stood at BD 332 million (US$ 882 million) compared with BD 339 million (US$ 899 million) the previous year; while total assets under custody with the Bank's subsidiary – SICO Funds Services Company (SFS) – were BD 1.70 billion (US$ 4.5 billion) versus BD 1.64 billion (US$ 4.34 billion) at the end of 2014.

Business achievements

Our core business lines showed great resilience during the year, posting another positive performance and continuing to contribute positively to the bottom line. Despite a drop in trading values across the region, which declined by 32 per cent from 2014 levels, SICO grew its Agency Brokerage client base; and capitalised on continued market volatility by expanding its provision of value-added advisory services to clients, including in-depth market, sector, and company research.

For Asset Management, the Bank's equity and fixed income funds continued to perform strongly against their respective benchmarks and peers. The star performer was the SICO Gulf Equity Fund, which returned a positive 1.8 per cent compared with a negative 17.5 per cent by the S&P GCC Ex-Saudi Index. Asset Management also introduced a new range of hybrid portfolios, which constitute a customised equities and fixed income allocation based on a client's specific risk tolerance.

Corporate Finance won a number of new mandates during the year. Some of these involve benchmark transactions that build upon SICO's track record in managing and advising on innovative structures with different investment instruments. A notable achievement was the mandate from Eskan Bank to lead arrange the first real estate investment trust (REIT) to be listed on the Bahrain Bourse. This reinforces SICO's reputation as a pioneering provider of investment banking solutions.

In terms of SICO's proprietary book, we started to de-risk our investment portfolio towards the end of the second quarter. This entailed reducing exposure to equities and increasing exposure to cash and fixed income; and also reallocating exposure from regional to developed markets. The continued adoption of proactive management and tactical asset allocation, combined with an opportunistic risk-averse approach, demonstrates our enduring commitment to protect shareholders' interests.

Institutional capability

Our robust support infrastructure has been a critical success factor in SICO's continued growth and development. Accordingly, in 2015, we continued to expand our institutional capability by enhancing our human capital and improving the functionality of our information technology systems. This is in line with our commitment to maintain the highest levels of operating efficiency and responsive customer service. We also further strengthened our corporate governance framework to facilitate ongoing compliance in the face of a changing regulatory environment. Our renewed focus on risk management continued to play a pivotal role in ensuring that SICO remains strong, methodical and consistent in the face of increasingly volatile economic and market conditions.

OUR FIRST 20 YEARS

Looking back over the past two decades, it really has been an incredible journey. SICO started with a clear vision to become a leading securities house, offering brokerage, market making and a selective range of investment banking solutions, across the GCC region. Supporting this vision were two key founding principles: adoption of the highest ethical and professional standards, and the continuous provision of innovative products and services.

"As one of the oldest wholesale banks in the MENA region, we have a wealth of experience and all the right elements in place to face the challenges of a new economic paradigm"

Niche opportunities

According to a well-known saying, 'The journey of a thousand miles begins with a single step'. And that is what we did. Rather than attempting to do everything at once, we gradually put the building blocks in place, and focused on niche opportunities to establish a strong foundation. We started in 1995 with brokerage, market making and sell-side research – all of which were the first in the region. Our initial objective was to increase liquidity on the Bahrain Stock Exchange (BSE), and help reduce unnecessary short-term price fluctuations and narrowing of spreads. Just a few years later, SICO had become the leading broker on the BSE and one of the GCC's premier market makers. Significantly, we have maintained this status for the past 17 consecutive years.

Corporate finance

Our next step was to obtain an investment banking licence in 1997 in order to widen the scope of our activities to include corporate finance and asset management. We did not start with real estate or private equity, but focused instead on landmark privatisations through initial public offerings (IPOs). Such an approach was designed to support our brokerage and research activities, and provide greater depth and liquidity for the BSE. This is the first example of a niche play by SICO, since back then the BSE was very concentrated on a single sector. We saw the opportunity to encourage new types of businesses to list and provide investors with new offerings; and support Bahrain's privatisation initiatives.

Asset management

In following niche plays, we pioneered the first-of-its-kind equity mutual fund in 1998, and the first discretionary managed portfolios in the GCC; and introduced fund custody and administration services to complement our brokerage and asset management businesses. SICO was also one of the earliest institutions in the region to recognise the opportunities in fixed income, first trading on its own behalf and subsequently for clients; and supporting the development of a bona fide fixed income market in the region. Importantly, the steady expansion of our brokerage and investment banking activities has resulted in diversified revenue streams. These have enabled us to better accommodate the cyclical nature of our business, and weather the worst of market volatility over the years.

Geographic expansion

At different stages during the past two decades, in line with our regional mandate, we took gradual steps to extend our brokerage activities outside Bahrain – first to the GCC in 2001, and then subsequently to MENA in 2007. This was followed in 2012 with the establishment of SICO UAE, a brokerage subsidiary based in Abu Dhabi, heralding our first physical presence outside Bahrain. Our asset management business followed a similar trend. SICO's first fund in 1998 invested in equities and debt securities on the Bahrain Stock Exchange, and was followed by others focused on stock markets across the wider GCC and MENA regions; as well as a fixed income fund investing in regional debt instruments.

Institutional focus

An important element in building a strong foundation was our focus on a sophisticated institutional clientele. SICO's diversified client base comprises institutions of all sizes, from corporates to financial institutions, as well as government ministries and government-related entities (GREs); together with family offices and ultra-high net-worth individuals This is important for a number of reasons – such clients seek to establish enduring relationships, they are not cost-sensitive, and they focus on long-term investments rather than short-term gains. Our loyal clientele has served as an enduring differentiator for the Bank.

Integrity

Another critical success factor has been our long-standing commitment to professionalism and integrity. One of our great strengths is that we have enjoyed an unblemished reputation, together with our transparent balance sheet and conservative approach to doing business, has enabled us to navigate successfully through turbulent times. SICO has survived the many international and regional crises, both financial and geo-political, and emerged even stronger. Uniquely, we did not suffer any loss of capital, reduce our headcount, or lose clients. Instead, we remained focused on our core business lines, and continued to invest in the business. As a result, we witnessed growing interest from potential clients and counterparties – both regional and international – to do business with SICO.

Consistent Performance

Over the past 20 years, SICO has delivered a consistent financial performance. Net profit averaged BD 2.7 million per annum over this period, peaking at BD 11.9 million in 2007; with only three years of net losses being reported during the crises of 1998, 2000 and 2008. Earnings per share averaged Bahraini fils 12.2, and dividends per share averaged Bahraini fils 5; while the average return on equity was 9 per cent. Total assets have increased from BD 13.4 million in 1996 to BD 112.8 million in 2015, with shareholders' equity growing from BD 13.3 million to BD 58.4 million. SICO's capital was BD 12.5 million at inception and stands at BD 41.2 million today, following a successful rights issue in 2008. Assets under management during this period have grown from BD 3.8 million (US$ 10.1 million) to BD 332.3 million (US$ 881.5 million); while assets under custody have risen from BD 15.2 million (US$ 40.5 million) to BD 1.7 billion (US$ 4.5 billion).

Innovation

This review of our history would not be complete without a reference to another critical success factor – innovation. SICO has consistently set a benchmark for the regional investment banking industry since commencing operations twenty years ago. We have continuously introduced 'first-of-their-kind' products and services that anticipated the ever-growing investment needs of institutional clients across the region. As a result, SICO today is one of the most prominent brokers and market makers in the GCC; a successful regional asset manager in both equities and fixed income; a leading full-range provider of corporate finance solutions; a reputed custodian and fund administrator; and a widely-recognised source of high-quality independent research.

Looking ahead

Without any doubt, 2016 will be an extremely tough year. At the moment, there is still uncertainty about a number of critical issues across the region. These include market performance, oil prices, asset classes and liquidity; and government measures to reduce expenditure and offset the impact of declining oil revenues on their fiscal budgets. It is therefore difficult – if not impossible – to forecast the near-term future with any degree of certainty or accuracy. For SICO, our journey continues. As one of the oldest wholesale banks dedicated to investing in the region and from the region, we have a wealth of experience and all the right elements in place to face the challenges of a new economic paradigm, and continue to compete on a regional level. As we enter our third decade of operations, we will continue to navigate through increasingly turbulent times with the same professionalism, integrity and pioneering spirit that have characterised our first twenty years.

Acknowledgements

The enlightened policies of the Government of Bahrain have enabled SICO to prosper over the past 20 years, and we would to like to pay special tribute to the Central Bank of Bahrain, the Bahrain Bourse and the Economic Development Board for the many initiatives they have introduced over the years. The vision, guidance and confidence of our shareholders – all of whom are founding members – continues to be a source of great strength for the Bank. In addition, we are particularly grateful to the Board of Directors for its unwavering support and encouragement.

We value highly the trust and confidence placed in us by our loyal clients, who have played a critical role in the success of the Bank; together with the long-standing collaboration of our business partners. Special thanks are also due to our management and staff – many of whom have been with us since the early days – for their commitment, professionalism and innovation; together with their readiness to embrace change and adapt to changing economic and market conditions.

In conclusion, we are extremely grateful for the valuable contribution by all stakeholders during SICO's successful first 20 years, and look forward to continuing our mutually-beneficial partnership in the future.

Najla M. Al Shirawi
Chief Executive Officer

Management Team

1. **Najla M. Al Shirawi**
   Chief Executive Officer
2. **Anantha Narayanan**
   Chief Operating Officer
3. **Abdulrahman Saif**
   Head of Investments & Treasury
4. **K. Shyam Krishnan**
   Chief Financial Officer
5. **Fadhel Makhlooq**
   Head of Brokerage
6. **Shakeel Sarwar**
   Head of Asset Management
7. **Ali Marshad**
   Head of Fixed Income
8. **Wissam Haddad**
   Head of Corporate Finance
9. **Nishit Lakhotia**
   Head of Research
10. **Amal Al Nasser**
    Head of Operations
11. **Nadia Albinkhalil**
    Head of HR & Administration
12. **Nadeen Oweis**
    Head of Corporate Communications
13. **Ismail Sabbagh**
    Head of Information Technology
14. **Amr Galal**
    Head of Client Relations
15. **Joseph Thomas**
    Head of Internal Audit

SUBSIDIARIES

16. **Sreenivasan Konnat**
    Acting General Manager
    SICO Funds Services Company
17. **Bassam Khoury**
    General Manager
    SICO UAE

CELEBRATING 20 YEARS OF SICO

A Journey of Insight

Based on our in-depth knowledge of the regional marketplace developed over the past 20 years, we have consistently provided our clients with positive returns, and helped them benefit from attractive growth opportunities in the GCC and other MENA markets. As the investment banking partner-of-choice, we offer well-researched guidance and unique market insights from a dedicated professional team, to help our clients make the most informed investment decisions.

Review of Operations

The leading broker for 17 consecutive years and sole market maker since 1995 on the Bahrain Bourse, SICO also ranks among the leading providers of brokerage and market making services in the MENA region.

BROKERAGE

Key Milestones

1995

First business division of SICO with Market Making and Sell-side Research.

1999

Ranked as the leading broker on the Bahrain Stock Exchange (BSE) – a status held for 17 consecutive years.

2000

Set a new record for largest transaction on the BSE with a value of BD 18 million (US$ 48mn).

2001

Extended brokerage operations outside Bahrain to cover the GCC region.

2007

- In a unique tender-offer transaction, acted as buy-side broker for Dubai Financial Group's acquisition of a 60% stake in Taib Bank.
- Extended brokerage operations outside the GCC to selected markets in MENA region.

2008

- Set another record for largest transaction on the BSE valued at BD 120 million (US$ 318mn).
- Established the first agency brokerage desk in Bahrain, and one of very few in the GCC.

2012

SICO UAE established as a wholly-owned brokerage subsidiary in Abu Dhabi. This marked the first investment by SICO in establishing a physical presence in the GCC outside Bahrain, and underscored the Bank's commitment to its regional and international clients.

Scope of Activities

SICO's Brokerage product lines comprise direct brokerage services offered out of Bahrain and Abu Dhabi; nominee accounts across the GCC, plus Egypt and Jordan; and agency services covering GCC markets. Brokerage also provides value-added advisory services to clients, supported by SICO's in-depth market research and analysis capabilities.

The Agency Brokerage Desk enables clients such as regional and international fund managers, institutions and ultra-high net-worth individuals, to execute trades on all GCC stock exchanges, including access to the fixed income market. This one-stop-shop service, provided by a dedicated team, offers competitive commissions with no mark-up of official market rates. Having established a significant share of overall GCC market trades, SICO is now firmly placed among the leading brokers in the region.

2015 Highlights

The majority of GCC markets ended the year in double-digit negative growth, and witnessed trading values declining by 32 per cent compared with 2014. Despite this, Brokerage grew its client base and made a positive contribution to the bottom line. Capitalising on continued market volatility, Brokerage expanded its provision of value-added advisory services to clients, including in-depth market research, during 2015.

Through its focus on serving active institutional investors with large trading books, SICO maintained its status as the leading broker on the Bahrain Bourse for the 17th consecutive year. The Bank continued to be the preferred broker for large trades, and executed most of the major deals on the Bourse during the year. This included managing the purchase of 25.6 million ordinary shares of Takaful International Company in two tranches, equivalent to 41 per cent of the company's outstanding shares. During 2015, SICO handled 4,651 transactions involving 270 million shares with a total value of BD 71.23 million, constituting a market share of 32.4 per cent.

The Agency Brokerage Desk was not as active as in 2014 due to the market slowdown. However, it was successful in signing up new accounts and further expanding its regional network of correspondent brokers.

Despite a very difficult market environment, SICO UAE witnessed an active third full year of operations in 2015, during which it made good progress in implementing its new institutionally-focused strategy. Due to concerted marketing activities, the Company attracted new clients and opened new relationships across the MENA region. SICO UAE also continued to invest in growing the business, expanding its team with the recruitment of additional professionals with institutional backgrounds, and further strengthening control and support units. As a result, the Company rose higher in the ranking of UAE-based brokers during 2015.

Over the past 20 years, the performance of SICO's Brokerage operations has been recognised by numerous industry awards. At the 2015 AFE Equities Summit, SICO received the award for the 'Highest Traded Shares on the Bahrain Bourse'. This highly-regarded annual conference, which is hosted by the Arab Federation of Exchanges in partnership with Thomson Reuters, brings together leaders of Arab financial markets and regional and international experts.

Performance on Bahrain Bourse 2015

	Amount	Market share	Ranking
Total Value of Shares Traded	BD71.23 million	32.38%	1
Total Volume of Shares Traded	270 million	26.16%	1
Total Number of Transactions	4,651	20.7%	2

Source: Bahrain Bourse 2015 Annual Trading Bulletin

MARKET MAKING

Key Milestones

1995

SICO pioneered the concept of market making in the GCC with its appointment as sole official market maker on the Bahrain Stock Exchange (BSE). The objective was to provide greater depth and liquidity for the stock market, and help reduce unnecessary short-term price fluctuations and narrowing of spreads.

1998

Mandated as sole official market maker for the first Bahrain Government bonds.

2006

Awarded mandate to make a market on the shares of an Islamic financial institution on the BSE and Dubai International Financial Exchange (DIFX). This was the first listing of a Bahrain-based entity, and the first Sharia-compliant financial institution, to offer its shares on the DIFX. SICO became the first member of any GCC stock exchange to make a market in shares on the DIFX.

Scope of Activities

The Bank's market making activities are conducted strictly on an arm's length's basis from the Brokerage and Asset Management divisions. SICO makes a market for selected stocks on the Bahrain Bourse, post-IPO listings, cross listings, matured listings, and global depository receipts (GDRs).

SICO has also developed considerable expertise in managing, placing and advising on fixed income issues – both sovereign and corporate – and is active in Bahrain and across the region. SICO's growing strength in this area stems from its in-house research capability, and its one-stop-shop service that provides end-to-end solutions for an increasing number of fixed income investors.

Since pioneering the market making concept on the Bahrain Stock Exchange in 1995, SICO has maintained its status as the sole official market maker on the Bahrain Bourse, and one of the GCC's premier market makers.

2015 Highlights

Despite volatile market conditions, SICO's market making activities witnessed an active year in 2015. The Bank won new mandates and renewed some maturing mandates.

SICO's corporate finance is the leading provider of investment banking solutions in Bahrain, and one of the few wholesale banks in the MENA region to cover the entire spectrum of investment banking products and services.

CORPORATE FINANCE

Key Milestones

1997

- Corporate Finance division established
- Bahrain Duty Free IPO – first privatisation through a primary offering in Bahrain
- Arab Insurance Group IPO – largest IPO in the history of Bahrain Stock Exchange (BSE).

1998

- Q-Tel IPO – first privatisation in Qatar
- Bahrain Kuwait Insurance Company rights offering – first in Bahrain to be managed by an investment bank.

2001

- Investcorp – first in a series of rights issues.
- BCFC – first in a series of rights issues.

2002

Dana Hotels Management Company – first asset-collateralised floating rate note of its kind in the GCC.

2005

- Nass Corporation IPO – first family business to go public in the GCC (except Saudi Arabia)
- Raya Holding for Technology & Telecoms, Egypt – private placement and listing.

2006

- Al Salam Bank IPO – set a new record for the largest IPO in the history of Bahrain Bourse.
- European Islamic Investment Bank – first listing of a Sharia-compliant financial institution on the Alternative Investment Market of the London Stock Exchange.

2007

Seef Properties IPO – set new benchmark for privatisation in the MENA region, featuring a pioneering structure to protect retail investors.

2010

First-of-its-kind mandate as financial adviser to independent shareholders of Arab Banking Corporation in a fully-subscribed priority rights issue.

2015

- Mandated by Eskan Bank to manage the first listing of a real estate investment trust (REIT) on the Bahrain Bourse.
- Mandated by Gulf Hotels Group to undertake a takeover by share swap with Bahrain Tourism Company.

Scope of Activities

With a successful track record spanning 18 years, SICO is a leading provider of both conventional and Sharia-compliant corporate finance solutions in the Kingdom of Bahrain and the MENA region. SICO ranks among the very few regional investment banks that cover the entire spectrum of corporate finance-related products and services with a comprehensive range of investment banking services including asset management, brokerage, custody and fund administration, and research.

These include managing and advising on issuances of equity and debt capital; mergers and acquisitions; privatisations; listings and cross-listings; and fairness opinions. SICO also advises companies and family businesses on strategic initiatives such as financing, capital restructuring, expansion, consolidation and going public.

Corporate Finance adds value by partnering with clients to fully understand their needs, providing them with unbiased professional advice, and creating the most effective and innovative solutions to help them achieve their objectives. Integrating idea origination with research and distribution, SICO is capable of addressing clients' capital requirements by providing optimum sources of funding.

With a primary focus on the GCC, SICO possesses an in-depth understanding of the regional banking and investment environment, and a unique insight into the activities of regional capital markets. Corporate Finance is supported by SICO's in-depth research capability, which provides comprehensive coverage and analysis of regional companies, sectors, markets and economic trends.

SICO's Corporate Finance clients in the public sector include government ministries and government-related entities (GREs). Private sector clients are active in banking, insurance and consumer finance; contracting, construction and engineering; industry and commerce; hotels, restaurants and leisure; and real estate, retail and telecommunications sectors.

2015 Highlights

Corporate Finance enjoyed a very busy year in 2015, winning a number of new mandates and developing a healthy pipeline of deals. Some of the mandates involve new types of transactions that are very different to those in which SICO has been involved in the past; and entail managing and advising on unique structures with different investment instruments.

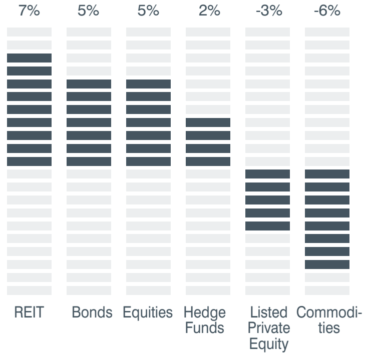
The division also made good progress during the year in broadening its product offering in order to generate recurring income through retainer and success fees from origination deals, rather than just one-off advisory fees. This includes the planned development of non-speculative, income-generating real estate in-house managed products.

In a notable development, Eskan Bank appointed SICO as lead arranger for the first real estate investment trust (REIT) to be listed on the Bahrain Bourse, and only the second Sharia-compliant listed REIT in the Gulf region. This follows new listing rules for REITs issued by the Bahrain Bourse in May 2015, with requirements including a minimum of two properties with a combined asset value of no less than US$ 20 million. REITs are regulated by the Central Bank of Bahrain (CBB), and must be authorised by the CBB before they can be listed. According to CBB regulations, the dividend pay-out ratio of a REIT has to be at least 90 per cent of its net realised income.

As arranger, SICO is responsible for managing the entire process, which includes internal property valuations along with independent real estate valuers; legal structure and regulatory submissions; and the initial public offering. The Sharia-compliant REIT is expected to have a total value of BD 20 million, with a tranche that will be offered to the public through the IPO that is planned to take place in 2016. The Eskan Bank REIT will consist of two income-generating and unleveraged properties.

Other noteworthy mandates include advising on a potential takeover through a 100% voluntary conditional offer on the basis of a share swap between Gulf Hotels Group and Bahrain Tourism Company on the Bahrain Bourse; and managing a capital increase by a prominent financial institution to comply with Basel 3 requirements via a convertible security – one of the first in Bahrain in recent history. Additional mandates include an IPO in the industrial sector; a private rights issue in the healthcare sector; and valuations in the insurance and telecommunications sectors.

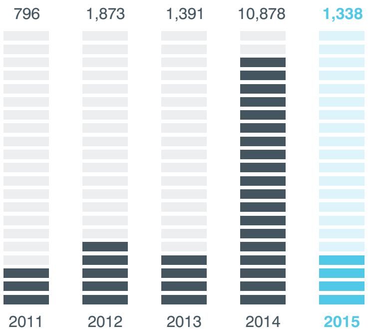
Comparative asset class growth rates between 2005 - 2015*



*Index value compound annual growth rates

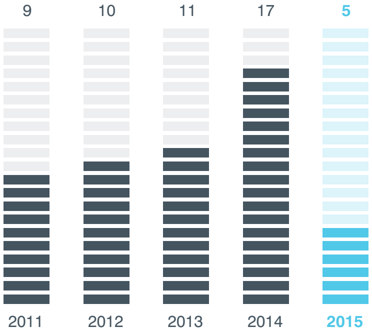
Source: SICO analysis from Bloomberg data

IPO Values in the GCC
US$ Million



Source: SICO analysis from Zawya data

No. of IPOs in the GCC



Source: SICO analysis from Zawya data

SICO is a pioneering regional fund manager with a proven track record since 1998, underlined by a solid reputation for the quality, innovation and performance of its MENA-focused asset management business.

ASSET MANAGEMENT

Key Milestones

1998
- Asset Management division established.
- SICO Selected Securities Fund launched.

2001
Discretionary Portfolio Management Account (DPMA) service introduced.

2004
Khaleej Equity Fund launched.

2005
SICO was awarded its first mandate for managing the entire or country-specific components of GCC funds sponsored by other regional and international institutions.

2006
SICO Gulf Equity Fund launched.

2007
SICO Arab Financial Fund launched.

2010
SICO Money Market Fund launched.

2011
- Fixed Income Desk established.
- SICO Kingdom Equity Fund launched.

2013
SICO Fixed Income Fund launched.

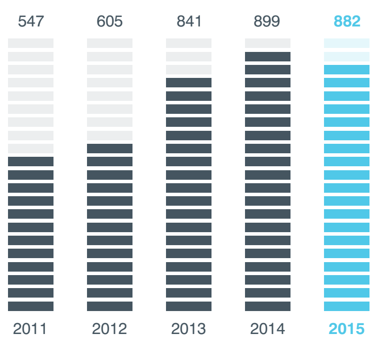
2014
Dedicated Fixed Income division created.

Overview

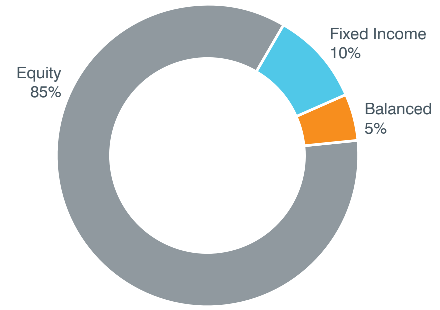
At the end of 2015, total assets under management stood at BD 332.3 million (US$ 881.5 million) compared with BD 339 million (US$ 898.7 million) at the end of the previous year. This positions the Bank as one of the largest boutique investment managers in the region, outside Saudi Arabia, focused on managing GCC equities and fixed income.

During the year, SICO introduced a new range of balanced portfolios for its discretionary portfolio management account clients. These hybrid portfolios, which combine equities and fixed income, are designed to provide consistent recurring revenue and less volatility in returns. To date, they have attracted considerable interest, especially from more conservatively-minded clients.

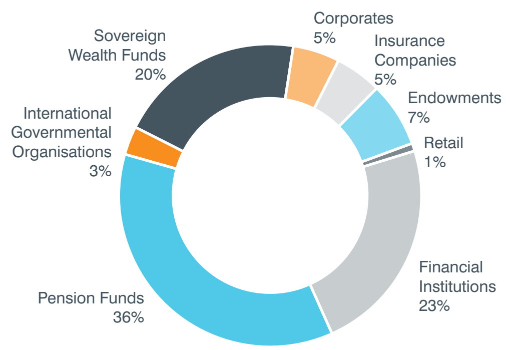
AUM Growth - US$ million



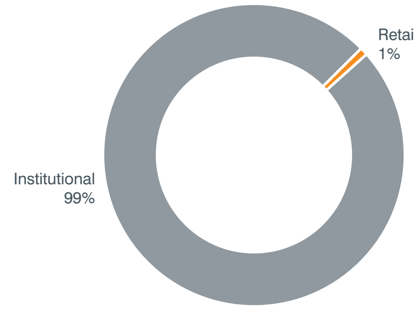
AUM by Asset Class



Composition of AUM



AUM Breakdown



EQUITIES

Scope of Activities

SICO's equity asset management business comprises four equity funds and three external funds, together with a number of discretionary portfolio management accounts. Since 1998, SICO has earned a solid reputation for the quality, innovation and performance of its equity asset management business. Focused exclusively on the GCC and MENA, the Bank possesses an in-depth understanding of the regional equity investment environment; and a unique insight into regional stock markets, key growth sectors and major listed companies. SICO's success stems from its disciplined investment strategy and conservative approach; one of the most stable and highly-professional asset management teams in the region; and the quality of its comprehensive research capability.

2015 Highlights

At the end of the year, total equity assets under management stood at BD 269 million (US$ 714mn) compared with BD 297.8 million (US$ 789.9mn) at the end of 2014. SICO's four equity funds continued to outperform their respective benchmarks and peers by considerable margins (see table overleaf).

Developments during 2015 include extending the coverage mandate of the Khaleej Equity Fund and SICO Gulf Equity Fund to include the wider MENA region (including Egypt) with the flexibility to invest up to 10 per cent of their portfolios outside the GCC.

FIXED INCOME

Scope of Activities

SICO's fixed income asset management business provides clients with a range of advisory, discretionary management, brokerage and repo services – both conventional and Sharia-compliant – to partner with clients in pursuing opportunities and delivering market-leading results. With a growing range of products and services, SICO has developed into a full-fledged regional fixed income player, with distinctive capabilities in MENA and Turkish fixed income; as well as providing a gateway to European, Asian and US markets.

An extensive collaborative network enables the most efficient execution, together with an edge in the 'over-the-counter' fixed income market. SICO's growing strength in fixed income stems from a skilled and experienced team backed by a comprehensive in-house research capability. A cost-effective platform delivers a one-stop-shop service that provides end-to-end solutions for an increasing number of Sukuk and fixed income investors.

2015 Highlights

In a particularly active year, the division produced a strong performance, with fixed income assets under management increasing to BD 46.37 million (c. US$ 123mn), and comprising 13.8 per cent of total AUM. In 2015, SICO was ranked as the leading fixed income player on the Bahrain Bourse for 2015; and was particularly active in short- and long-term issuances by the Central Bank of Bahrain, raising in excess of BD110 million (c. US$ 300mn). The SICO Fixed Income Fund, which was launched in April 2013 as the first-of-its-kind to be managed by a Bahrain-based fund manager, completed its second full year of operations in 2015, returning 1.9 per cent versus 1.7 per cent by the Barclays Emerging Markets GCC Bond Index. The Fund actively invests in government and corporate fixed income, Sukuk, money market and other fixed income instruments for hedging purposes. The primary objective is to generate income and seek capital appreciation over the medium- and long-term.

SICO's first-of-their-kind mutual funds have consistently outperformed their respective regional market benchmarks and peers consistently since the Bank's first equity fund was launched in 1998.

SICO FUNDS PERFORMANCE 2015

Fund Name	Launch Date	Principal Investment Focus	Benchmark	Peer Group	Return (January - December 2015)	Annualised Return (Last five years)
Khaleej Equity Fund	March 2004	Equity securities listed on stock markets of GCC countries	S&P GCC Index	GCC	- 6.2% versus benchmark -17.4%	4.7% versus benchmark -.0.1%
SICO Gulf Equity Fund	March 2006	Equity securities listed on stock markets of GCC countries, excluding Saudi Arabia	S&P GCC Ex-Saudi Index	GCC	1.8% versus benchmark -17.5%	6.5% versus benchmark -1.1%
SICO Kingdom Equity Fund	February 2011	Equity securities listed in Kingdom of Saudi Arabia	Tadawul	Equity Saudi	- 5.5% versus benchmark -17.1%	11.0% versus benchmark 0.5%*
SICO Selected Securities Fund	May 1998	Equity and debt securities listed, or expected to be listed, on the Bahrain Bourse	Bahrain Bourse All Share Index	Equity Bahrain	- 6.2% versus benchmark -14.8%	3.1% versus benchmark - 3.2%
SICO Fixed Income Fund	April 2013	Government and corporate fixed income, Sukuk, repo, money market instruments, and other fixed income-related instruments	Barclays Emerging Markets GCC Bond Index	Fixed Income GCC	1.9% versus benchmark 1.7%	3.5% versus benchmark 2.9%**

* Last 3 years ** Last 33 months

SICO Funds and Benchmark Returns for January - December 2015

SICO Fund	Fund Return	Benchmark Index	Benchmark Return
Khaleej Equity Fund	- 6.2%	S&P GCC	- 17.4%
Gulf Equity Fund	1.8%	S&P GCC Ex-Saudi	- 17.5%
Selected Securities Fund	- 6.2%	Bahrain All Share	- 14.8%
Kingdom Equity Fund	- 5.5%	Tadawul	- 17.1%
Fixed Income Fund	1.9%	Barclays EM GCC Bond	1.7%

INVESTMENTS AND TREASURY

TREASURY

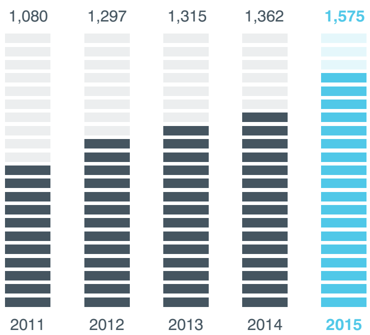
2015 Highlights

SICO's treasury function is responsible for managing the Bank's liquidity as well as providing value-added services to clients. Treasury services for clients include money market and foreign exchange (FX); together with collateralised lending through repurchase agreements (repos) to provide liquidity. In terms of short-term funding, SICO offers very competitive rates for repos and reverse repos, and handles all sizes of transactions, not just large ones, to meet clients' specific needs. FX services cover the diverse currency requirements of clients, with SICO handling all transactions across the GCC to make it easier for them to trade; and providing timely execution of all transactions, regardless of settlements and market cut-offs. The Bank's research capability underlines the team's knowledge of the regional markets, and facilitates the provision of customised solutions.

Treasury posted another profitable performance in 2015. Interbank business was further enhanced through strengthening existing counterparty relationships, and establishing new lines with local Islamic banks as well as regional institutions. This resulted in improved rates on foreign exchange and money market trades.

Due to the Bank's cautious approach of maintaining deposits with high-quality financial institutions on short-term placements, net interest income for 2015 was BD 1.6 million compared with BD 1.4 million for the previous year. SICO maintained a sound and liquid balance sheet, with a capital adequacy ratio of 53.6 per cent, which is considerably higher than the requirements of the Central Bank of Bahrain.

Net Interest Income 2011-2015
BD `000



INVESTMENTS

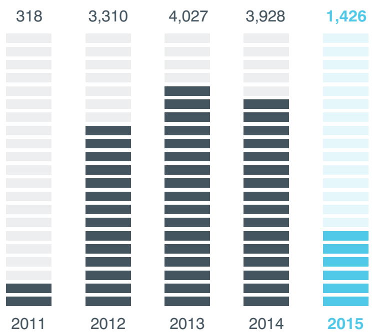
2015 Highlights

In a year of divergence in global monetary policies and a very challenging scenario for investments, most global and regional markets posted flat to low single-digit gains during the first half of 2015, but which turned negative in the second half. SICO's investment strategy focused on tactically allocating to equity markets in the first quarter, with exposure to the GCC, Europe, Asia and the US. The Bank tactically traded its exposure in these markets during the second quarter, which helped reduce investment volatility during the Greek crisis and the market sell-off in Asia, led by China.

In the third quarter of 2015, there was a sharp sell-off across all global and regional markets – triggered by the sell-off in commodities and in anticipation of the first interest rate hike by the US Federal Reserve for almost ten years – with investors heading for safe havens and hedging their market risk. Anticipating a tough quarter, SICO had already started to de-risk its proprietary book, reducing its exposure to equities and increasing exposure to cash and fixed income, targeting floaters and specific credit. The Bank also reduced its exposure to regional markets and increased its exposure to developed markets.

The expected moderate market rally in the fourth quarter did not materialise, and the majority of GCC markets ended the year in double-digit negative territory. The adoption of proactive management and tactical asset allocation, combined with an opportunistic risk-averse approach, enabled SICO to minimise losses in its proprietary book, outperforming regional as well as international markets. Net investment income for the year was BD 1.4 million compared with BD 3.9 million for 2014.

Net Investment Income 2011-2015
BD `000



SICO has two wholly-owned operating subsidiaries: SICO Fund Services Company (SFS) – a specialised regional custody and fund administration house, and SICO UAE – a UAE brokerage firm based in Abu Dhabi.

SUBSIDIARIES

SICO FUNDS SERVICES COMPANY (SFS)

Key Milestones

1998

SICO established an in-house custody unit to complement its Brokerage and Asset Management businesses.

2004

Spun off the in-house custody unit to create SICO Funds Services Company (SFS) – the Bank's first operating subsidiary – as an independent, specialised custody and fund administration firm.

2010

- SFS received approval from the Central Bank of Bahrain to change its licence from a service provider to an investment business.
- Signed a Depository Participant Agreement with the Bahrain Bourse to provide custody of listed securities to local, regional and international investors, making SFS the first local company to obtain Custodian status on the Bourse.
- This agreement also enabled SFS to act as a Security Agent and Mortgage Agent, providing custody and agency of securities involved in transactions between two parties.

2011

Commenced acting as a custodian for over-the-counter (OTC) securities by major clearing houses such as Euroclear.

2012

- Expanded safe-keeping and over-the-counter settlements with various global institutions to include instruments such as exchange traded funds (ETFs).
- Signed service level agreement (SLA) with the Bahrain Bourse.

Scope of Activities

While benefiting from the solid foundation and mature market presence of SICO, the operations and services of SFS are totally independent and fully segregated from its parent company. The relationship of SFS with SICO's brokerage and asset management businesses is conducted strictly on an arm's length basis.

The core solutions provided by SFS cover all aspects of custody, fund administration, registrar and reporting functions. A wide-ranging custodian solution, embracing the entire life cycle of an investment, covers both collective investment schemes and private portfolios, in line with regional regulatory requirements. A comprehensive fund administration solution, covering all necessary bookkeeping and reporting activities, helps to streamline the day-to-day management of investment funds and portfolios. A detailed fund registrar service constitutes a critical element of the fund administration solution provided by SFS; while a high-quality reporting service – which is fully automated and customisable – meets clients' requirements for both format and frequency of reports.

With a key fiduciary responsibility for safeguarding clients' assets, the Company's main activities comprise settlement of securities transactions; safekeeping of custody assets and securities servicing (such as corporate actions); and comprehensive administration services including valuations and reporting. The utilisation of advanced technology tools, processes and delivery platforms enables SFS to offer clients a seamless and flexible service.

2015 Highlights

Despite regional and international fund markets not being as active in 2015 compared with previous years, SFS posted another successful performance, maintaining its focus on quality and client service, and expanding its team of professionals. The winning of new regional mandates resulted in total assets under custody increasing to BD 1.7 billion (US$ 4.5bn) at the year-end from BD 1.6 billion (US$ 4.3bn) at the end of 2014. During the year, SFS introduced a fixed income custody service to support SICO's fast-growing fixed income asset management activities. The Company has developed a healthy pipeline of new mandates which are expected to materialise during 2016.

SECURITIES & INVESTMENT COMPANY UNITED ARAB EMIRATES (SICO UAE)

Key Milestones

2011

SICO received approval from the Emirates Securities & Commodities Authority (ESCA) to fully acquire an existing licensed brokerage house and change its name to SICO UAE.

2012

- February: Increased capital, moved to new premises, and commenced recruitment and investment in state-of-the-art information technology infrastructure.
- June: ESCA restored the brokerage licence following regulatory approval of key personnel, and rigorous inspection of the new premises and operating infrastructure.
- July: Officially commenced operations

2013

- Extended range of client services with the introduction of online trading (Web BORSAT) for individual clients.
- Awarded margin trading licence by ESCA.

2014

Reviewed and revised strategy with a greater focus on institutional clients to enhance synergies with SICO's brokerage function in the Kingdom of Bahrain.

2015

Accredited by Dubai Financial Market (DFM) to provide direct market access (DMA) for global brokers. This permits DFM-licensed brokerage companies to mandate a global broker to use its DMA access point to place buy-and-sell orders in the form of electronic trading via the internet, allowing global brokers to trade directly on the market. This development underlines the growing interest from international investors towards DFM-listed securities.

Scope of Activities

The establishment of SICO UAE as a wholly-owned brokerage subsidiary in the United Arab Emirates marks the first investment by SICO in establishing a physical presence in the GCC outside Bahrain; and underscores the Bank's commitment to its regional and international clients.

Located in Abu Dhabi, the Company is licensed by the Emirates Securities & Commodities Authority (ESCA) to provide brokerage services in the United Arab Emirates. SICO UAE executes trades on the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM) for institutional and high net-worth clients.

SICO UAE is committed to providing the highest quality client service and execution capability. The Company offers online trading and margin trading facilities for both institutional and individuals clients, together with direct market access for global brokers on the DFM.

2015 Highlights

Despite a very difficult market environment, SICO UAE witnessed an active third full year of operations in 2015, during which it made good progress in implementing its new institutionally-focused strategy. Due to concerted marketing activities, the Company attracted new clients and opened new relationships across the MENA region.

SICO UAE also continued to invest in growing the business, expanding its team with the recruitment of additional professionals with institutional backgrounds, and further strengthening control and support units. As a result, the Company rose higher in the ranking of UAE-based brokers during 2015.

Since pioneering sell-side research in the GCC in 1995, SICO has continuously enhanced the quality and scope of its in-depth proprietary research and analysis, providing clients with an independent insights as part of its value-added service.

RESEARCH

Key Milestones

1995

- SICO pioneered the provision of sell-side research in the GCC. Detailed coverage of the Bahrain Stock Exchange was supplemented by regular reports on other GCC markets. Research reports were made widely available in line with SICO's commitment to support the development of the region's capital markets, and Bahrain in particular, by providing useful and timely market and economic information.
- Over the past 20 years, SICO has continuously enhanced the scope and quality of its in-depth proprietary research. This provides clients with an independent, value-added service, and acts as a key competitive differentiator for the Bank.

2011

- Invested in state-of-the-art publishing platform to automate the research process.
- Initiated industry analyst conference calls for a leading Bahrain listed company.

2013

- Introduced an innovative new Research Portal, offering convenient, flexible and interactive access to one of the most comprehensive research databases in the MENA region.
- SICO's database covers more than 90 per cent of major listed GCC companies, of which approximately half are blue-chip, top-tier entities. The coverage universe currently totals 65 companies from 10 sectors.

RESEARCH REPORTS

GCC Morning Call
Covers company updates, regional news, stock recommendations and market performance.

GCC Market Watch
Published daily, provides and interprets latest market-related information.

Bahrain Market Watch
Published weekly, provides and interprets information on the Bahrain equity market.

GCC Economics – The Numbers
Published monthly, analyses data from the region's central banks.

Petrochemicals Round-up
Published fortnightly, offers an insight into this key industrial sector.

Oil Markets Update
Published monthly, tracks important data points for this major industrial sector.

Company & Sector Reports
Published regularly, tracks actively-traded companies and major sectors in the GCC.

GCC Strategic Outlook Reports
Published periodically, provide SICO's views and outlook on the GCC markets.

GCC Stock Coverage & Recommendations
Published semi-annually, summarises SICO's view of stocks under coverage.

GCC Equities – Quarterly Results Preview
Provides profit estimates for GCC-listed companies under SICO coverage.

GCC Equities – Quarterly Profit Consensus
Provides profit consensus estimates for GCC-listed companies covered by SICO.

GCC Equities – Results Snapshot in Charts
Published quarterly, analyses quarterly profits of GCC-listed companies in chart format.

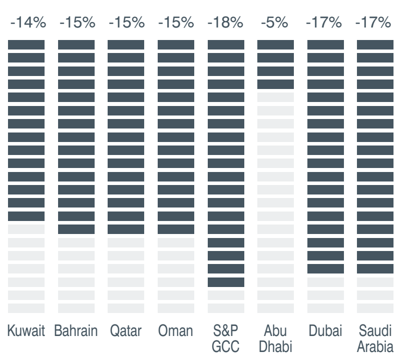
2015 highlights

Research initiated coverage on 16 new companies in 2015, and also added two new sectors – building materials and healthcare – to the coverage universe. A total of 761 reports were published during the year. SICO also continued to act as the official research partner for the Oxford Business Group's 'Bahrain – The Report' annual publication.

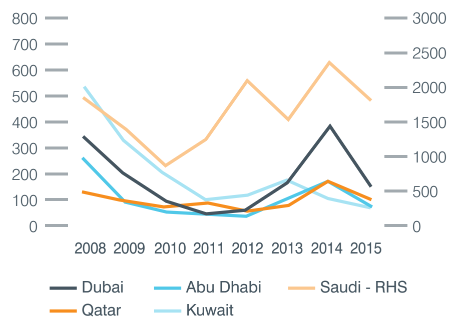
GCC MARKET SNAPSHOT 2015

The fortunes of GCC markets were primarily influenced by the continuous fall in the price of crude oil, which declined by 35 per cent during the year. Most GCC markets (with the exception of Abu Dhabi) declined between 14 and 17 per cent in 2015. While investors did see some strength in the market in the second quarter, this was shortlived as Brent crude, which recovered by 15 per cent during this quarter, declined c.42 per cent during the second half of the year. Not surprisingly, CDS spread has been on an upward trend across the GCC region. Index turnover has also fallen considerably for all markets (again with the exception of Abu Dhabi), particularly in the second six months of 2015.

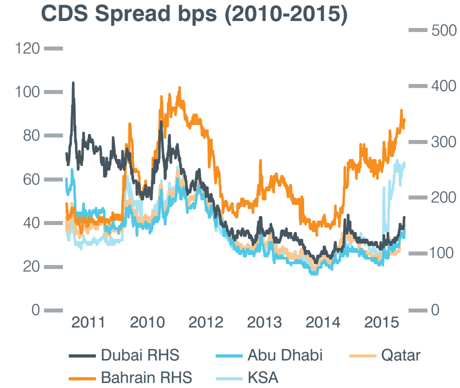
Index Returns - 2015



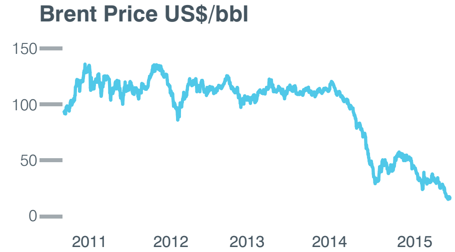
Average Turnover US$ Million



CDS Spread bps (2010-2015)



Brent Price US$/bbl

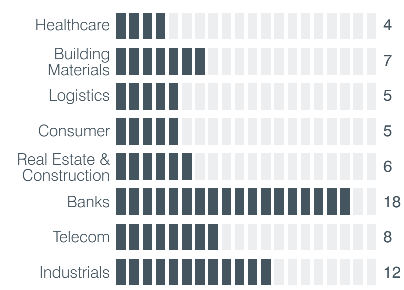


Source: Bloomberg, SICO Research

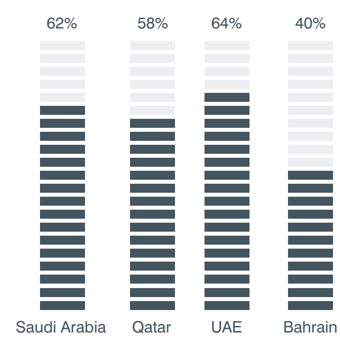
SICO Coverage Universe

SICO covers 65 listed companies across the GCC, with strong coverage in key markets such as Saudi Arabia, the UAE and Qatar.

Sector-wise Coverage Breakdown



SICO Research Coverage - Key GCC Countries



Note: As at 31 December 2015

With a robust support and control infrastructure firmly in place, SICO operates at the highest levels of efficiency, effectiveness, transparency and regulatory compliance.

SUPPORT FUNCTIONS

Client Relations

Client Relations is the first point of contact for existing and potential clients. A dedicated team deals promptly and responsively with queries and complaints in all non-trading issues; and also acts as a conduit for passing on suggestions, requests and ideas from clients to the business divisions. The scope of activities includes opening new accounts, negotiating agreements with clients and counterparties, and handling various requests and queries by clients. During 2015, Client Relations adopted new procedures to counter fraud in order to protect clients; and to monitor new regulatory requirements in GCC markets. Significantly, no formal complaints were received during the year, reflecting the Bank's commitment to continuously improve its customer service and satisfaction standards.This was underlined by the highly-positive results of a client satisfaction survey conducted during the year.

Human Resources

SICO continued to strengthen its human capital framework during 2015. Key developments include Ministry of Labour verification and Board approval for the Bank's updated HR policies and procedures; shareholders' approval for SICO's new variable remuneration policy for employees in line with the CBB's new sound remuneration policy guidelines; and the implementation of a new human resources management system (HRMS).

SICO maintained its substantial investment in recruitment and human capital development during 2015. The total headcount of the Group increased to 99 employees at year-end from 96 at the end of 2014. The strength of SICO's succession planning was illustrated in 2015 with the appointment of Head of Fixed Income and Acting General Manager of SICO Funds Services Company (SFS) from within the Bank.

Comprehensive training and development opportunities continued to be provided, including technical training at the Bahrain Institute of Banking & Finance; selected external development courses; mandated regulatory-related training; and sponsoring staff to achieve professional qualifications. During the year, four participating members of the SICO Executive Training Programme took up permanent positions with Asset Management, Corporate Finance, Research and Investments and Treasury; and two additional university graduates joined the programme.

Information Technology

During 2015, SICO continued to strengthen its information and communications technology (ICT) services. Focus was placed on further enhancing system functionality, and continuing to develop customised and integrated solutions for the business and clients, using internal and external resources. Key developments during the year include implementation of a new human resources management system (HRMS); and appointment of a vendor for implementing a new order management system (OMS) to enable electronic and online trading by clients. A two-phase implementation of OMS commenced, with completion of a gap analysis and data capture. The first phase is expected to be completed in the first half of 2016. In addition, the Research system was upgraded to facilitate the distribution of reports to clients; and a new desktop management and infrastructure monitoring solution was provided for Client Relations. SICO's disaster recovery site was successfully tested as part of the Bank's business continuity planning (BCP) process.

Operations

Operations is responsible for processing all transactions by the Bank's business lines. Its main activities comprise opening accounts and booking cash for clients; managing daily reconciliations and the settlement cycle; and issuing reports to Client Relations and the Business divisions. Implementation of the core banking system has enabled all processes and procedures to be fully automated and integrated with SWIFT, resulting in improved efficiency and accuracy, and more timely reporting. The new Order Management System (OMS), which is currently being implemented, will provide seamless integration of front and back office platforms.

CONTROL FUNCTIONS

Compliance & Anti-Money Laundering

As a licensed conventional wholesale bank and listed company, SICO has put in place comprehensive policies and procedures to ensure full compliance with all relevant rules and regulations of the Central Bank of Bahrain (CBB), the Bahrain Bourse, and other regulatory authorities. In keeping with Basel and CBB guidelines, the Bank has established an independent Compliance department, which acts as the central coordinator for all matters related to regulatory reporting and other requirements. The department is also responsible for ensuring compliance with CBB regulations for anti-money laundering (AML) and counter- terrorism financing (CFT), which are managed by a designated Money Laundering Reporting Officer (MLRO) and Deputy MLRO. During 2015, SICO complied with the latest regulatory requirements of the CBB, including Basel III, FATCA and Sound Remuneration Practices.

Risk Management

SICO's independent Risk Management department is responsible for establishing the risk management framework and appropriate risk structures to assist the Bank in achieving its strategic and business objectives. The department provides leadership, direction and coordination in applying risk management across the entire organisation. This entails a systematic process for identifying, assessing and mitigating the principal business risks facing SICO by establishing appropriate controls to manage these risks; and ensuring that all appropriate monitoring and reporting processes are in place. During 2015, Risk Management continued to play a pivotal role in ensuring that SICO remains strong, methodical and consistent in the face of increasingly volatile economic and market conditions.

Internal Audit

During 2015, the Internal Audit department met quarterly with the Audit Committee, and presented the results of internal audits performed in line with the Board-approved risk-based internal audit plan. The department also carried out a number of spot checks and reviews on an ad hoc basis covering various areas based on Management's request, with the results being presented to Senior Management and the Audit Committee. Key operational, business and management processes and divisions, including the subsidiaries SICO UAE and SFS, were audited in line with the Audit Committee approved audit plan. Internal Audit also conducted a comprehensive review of the Bank's corporate governance framework; and assisted Management inputs and reviews at various stages of the implementation of the new order management system (OMS). During 2015, an internal quality review (IQR) of the Internal Audit function was conducted in line with the standards of the Institute of Internal Auditors, with the results being reported to the Audit Committee.

Financial Control

During 2015, the Financial Control department prepared quarterly and annual financial statements of SICO in compliance with regulations of the Central Bank of Bahrain (CBB), and in conformance with international accounting standards; together with external reports, including prudential information reporting to the CBB. The planned implementation of the Temenos Insight reporting application will enhance SICO's management information system (MIS), as well as its reporting to the CBB on areas such as liquidity and large exposures.

The Internal Control Unit (ICU) is responsible for ensuring that the Bank's daily operations run smoothly in a risk-free and compliant manner; all policies and procedures are followed correctly; any operational weaknesses are identified; and conformity gaps are closed. As such, ICU complements the activities of Internal and External Audit, Compliance and Risk Management. Additionally, ICU is closely involved in contingency planning, and plays a coordinating role between the Control functions Information Technology and Business Lines, to ensure the successful functioning of the business recovery site in the event of a disaster.

Corporate Social Responsibility Review

SICO strongly believes that businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate.

SICO strongly believes that businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate.

SICO has long recognised its responsibility to contribute to the social well-being and economic prosperity of the Kingdom of Bahrain; and to support the less privileged and challenged sections of society. Accordingly, the Bank implements an annual Corporate Social Responsibility programme that is based on four core pillars:

1. Improve the social well-being and quality of life of the local community, with a particular focus on education, healthcare and social welfare.
2. Help young Bahrainis develop leadership skills and enhance their career prospects; and provide career opportunities for high-calibre university graduates with SICO.
3. Support the development of Bahrain's banking sector, and contribute to the Kingdom's development of the GCC region's capital markets.
4. Actively promote the greater empowerment of women in Bahrain's banking sector.

Improving the social well-being and quality of life of the local community, and supporting the less privileged and challenged sections of society

During 2015, SICO continued to support a variety of charitable institutions engaged in improving the healthcare, education and social welfare of citizens, including the following:

- Al Noor Charity Welfare
- Bahrain Breast Cancer Society
- Bahrain Child Care Home
- Bahrain Down Syndrome Society
- UCO Parents Care Centre for Elderly Patients
- 17th Bahrain Annual Six-a-Side Charity Football Tournament
- In collaboration with the Dream Society Bahrain, SICO hosted a special day out for children suffering from sickle cell disease, thalassemia and cancer

Supporting the development of Bahrain's Banking Sector, and the Kingdom's contribution to the growth of the GCC region's capital markets

During 2015, SICO either sponsored or participated in a number of financial industry conferences and high-level events, including the following:

- AFE Equities Summit 2015
- CFA Bahrain Annual Forecast Dinner & Charter Award Ceremony
- 13th Annual Middle East Conference in London
- Euromoney – The GCC Financial Forum 2015
- Official Research Partner for Oxford Business Group's 'The Report - Bahrain'

Helping young Bahrainis develop leadership skills and enhance their career prospects, and providing career opportunities for graduates

In 2015, SICO's support for developing young Bahrainis included the following:

- The Bank provided ongoing support for initiatives by AISEC Bahrain, including a special women's empowerment event.
- SICO provided a six-month internship for the first winning student of the CFA Society Bahrain Mutamahin (Apprentice) Graduate Development Programme to be placed with a participating financial institution.
- SICO sponsored a five-day trading simulation course for 10 students from the University of Bahrain and Bahrain Polytechnic at the Dealing Room of the Bahrain Institute of Banking and Finance.
- Three graduates from the SICO Executive Training Programme were hired by the Bank in 2015, and two additional high-calibre university graduates joined the programme.
- SICO provided two-month summer internships for Bahraini students studying at local and overseas universities in their 'practical experience' year.

Supporting initiatives to promote the growth of women's empowerment in Bahrain's banking and financial services sector

The Bank's activities during 2015 to promote women's empowerment in the banking sector of the Kingdom of Bahrain, included the following:

- SICO sponsored an initiative by the Central Bank of Bahrain (CBB) and the Supreme Council for Women (SCW) to promote the role of women in Bahrain's financial and banking sector as the focus of the Bahrain Women's Day 2015 Programme.
- SICO CEO, Ms. Najla Al Shirawi, was a keynote speaker at the following women's empowerment-related events:
    - CBB/SCW roundtable discussion on 'The Challenges Facing Women in Reaching Positions of Authority in the Financial Sector' in Bahrain
    - Panel on 'Women in Islamic Finance' at the 11th World Islamic Funds & Financial Markets Conference (WIFFMC) in Bahrain
    - Panel on 'Female Empowerment in the Middle East' at the 13th Annual Middle East Conference in London
    - University of Bahrain 'Women in Banking' Awards Ceremony
    - Bahrain Economic Development Board presentation on 'Women's Empowerment in Bahrain and in the Banking Sector'
- SICO organised a special women's empowerment workshop for the Bank's female staff which explored how emotional intelligence, self-awareness, and social and communications skills, can help promote greater personal and professional success.
- Four female members of the SICO team were awarded and recognised by HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King and Chairperson of the Supreme Council for Women, at a special women's empowerment event, for 'their relentless efforts in supporting Bahrain's financial sector':
    - Ms. Najla Al Shirawi, Chief Executive Officer
    - Ms. Nadia Albinkhalil, Head of HR & Administration
    - Ms. Hanan Sater, ex-Head of Financial Control, and current Board Member of SICO Funds Services Company and SICO Funds Company
    - Ms. Kulood Al Qatan, Independent Board Member of SICO Funds Services Company

During 2015, SICO continued to support a variety of charitable institutions engaged in improving the healthcare, education and social welfare of citizens.

CELEBRATING 20 YEARS OF SICO

A Journey of Innovation

SICO has consistently set a benchmark for the regional investment banking industry since commencing operations 20 years ago. We have continuously pioneered new products and services that have anticipated the ever-growing investment needs of institutional clients across the GCC and MENA. These innovative, award-winning investment banking solutions cover brokerage, market making, equity and fixed income asset management, corporate finance, custody and administration, and research.

CELEBRATING 20 YEARS OF SICO

REGULATORY DISCLOSURES

بنك استثماري
Investment Bank sico

Independent Auditors' Report to the Shareholders

Securities and Investment Company BSC (c)
PO Box 1331
Manama
Kingdom of Bahrain

KPMG

Report on the financial statements

We have audited the accompanying consolidated financial statements of Securities and Investment Company BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

As required by the Bahrain 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 Board of Directors' report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, 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.

KPMG

KPMG Fakhro
Partner Registration No. 100
18 February 2016

Consolidated Statement of Financial Position

as at 31 December 2015 Bahraini Dinars '000

	Note	2015	2014
Assets			
Cash and cash equivalents	7	**60,974**	61,427
Treasury bills		**750**	-
Investments at fair value through profit or loss	8	**14,258**	17,340
Available-for-sale investments	9	**30,244**	28,811
Fees receivable	10	**1,138**	1,192
Other assets	11	**3,968**	5,399
Furniture, equipment and intangibles	12	**1,435**	1,500
Total assets		**112,767**	115,669
Liabilities and equity			
Liabilities			
Short-term bank borrowings	13	**19,777**	16,220
Customer accounts	14	**28,805**	32,878
Other liabilities	15	**2,910**	3,301
Payable to other unit holders in consolidated funds	6	**2,836**	2,172
Total liabilities		**54,328**	54,571
Equity			
Share capital	16	**42,849**	42,849
Shares under employee share incentive scheme		**(1,599)**	(1,599)
Statutory reserve	17	**6,427**	6,142
General reserve	18	**3,217**	2,642
Available-for-sale investments fair value reserve		**(567)**	1,118
Retained earnings		**8,112**	9,946
Total equity (page 57)		**58,439**	61,098
Total liabilities and equity		**112,767**	115,669

The consolidated financial statements were approved by the board of directors on 18 February 2016 and signed on its behalf by

Abdulla Bin Khalifa Al Khalifa Chairman	**Hussain Al Hussaini** Vice Chairman	**Najla M. Al Shirawi** Chief Executive Officer

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

for the year ended 31 December 2015

Bahraini Dinars '000

	Note	2015	2014
Net investment income	19	**1,426**	3,928
Net fee and commission income	20	**3,602**	4,415
Brokerage and other income	21	**1,764**	2,627
Interest income	22	**1,630**	1,436
Total income		**8,422**	12,406
Staff and related expenses	23	**(3,760)**	(4,539)
Interest expense	22	**(55)**	(74)
Other operating expenses	24	**(1,715)**	(1,818)
Impairment of available-for-sale investments		**(140)**	(366)
Share of (profit)/loss of other unit holders in consolidated funds	6	**94**	(175)
Profit for the year		**2,846**	5,434
Basic and diluted earnings per share (fils)	30	**6.64**	12.68

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015 Bahraini Dinars '000

	2015	2014
Profit for the year	**2,846**	5,434
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
Fair value reserve (available-for-sale investments):		
- Net change in fair value	**102**	764
- Net amount transferred to statement of profit or loss on sale / impairment	**(1,787)**	(1,734)
- Profit on part disposal of consolidated fund	**-**	(368)
Total other comprehensive income for the year	**(1,685)**	(1,338)
Total comprehensive income for the year	**1,161**	4,096

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015 | Bahraini Dinars '000

2015	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2015	**42,849**	**(1,599)**	**6,142**	**2,642**	**1,118**	**9,946**	**61,098**
- Transfer to general reserve	**-**	**-**	**-**	**575**	**-**	**(575)**	**-**
- Transfer to Statutory reserve	**-**	**-**	**285**	**-**	**-**	**(285)**	**-**
Comprehensive income for the year:							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**2,846**	**2,846**
Other comprehensive income:							
Fair value reserve (available-for-sale investments):							
Net change in fair value	**-**	**-**	**-**	**-**	**102**	**-**	**102**
Net amount transferred to profit or loss on sale / impairment	**-**	**-**	**-**	**-**	**(1,787)**	**-**	**(1,787)**
Unrealized loss on consolidated funds transferred to retained earnings	**-**	**-**	**-**	**-**	**-**	**36**	**36**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(1,685)**	**-**	**(1,685)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(1,685)**	**2,882**	**1,197**
Transaction with owners recognised directly in equity:							
- Dividends declared for 2014	**-**	**-**	**-**	**-**	**-**	**(3,856)**	**(3,856)**
Balance at 31 December 2015	**42,849**	**(1,599)**	**6,427**	**3,217**	**(567)**	**8,112**	**58,439**

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

for the year ended 31 December 2015 Bahraini Dinars '000

2014	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2014	42,849	(1,599)	5,567	2,100	2,456	8,892	60,265
- Transfer to general reserve	-	-	-	542	-	(542)	-
- Transfer to statutory reserve	-	-	575	-	-	(575)	-
Comprehensive income for the year:							
Profit for the year	-	-	-	-	-	5,434	5,434
Other comprehensive income:							
Fair value reserve (available-for-sale investments):							
Net change in fair value	-	-	-	-	764	-	764
Net amount transferred to profit and loss on sale / impairment	-	-	-	-	(1,734)	-	(1,734)
Profit on part disposal of consolidated fund	-	-	-	-	(368)	368	-
Unrealized gain on consolidated funds transferred to retained earnings	-	-	-	-	-	(417)	(417)
Total other comprehensive income	-	-	-	-	(1,338)	-	(1,338)
Total comprehensive income for the year	-	-	-	-	(1,338)	5,385	4,047
Transaction with owners recognised directly in equity:							
- Dividends declared for 2013	-	-	-	-	-	(3,214)	(3,214)
Balance at 31 December 2014	42,849	(1,599)	6,142	2,642	1,118	9,946	61,098

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2015 Bahraini Dinars '000

	Note	2015	2014
Operating activities			
Net interest received		**1,540**	1,356
Sale of investments at fair value through profit or loss		**40,999**	187,880
Purchase of investments at fair value through profit or loss		**(39,062)**	(184,487)
Sale of available-for-sale investments		**31,728**	35,063
Purchase of available-for-sale investments		**(33,063)**	(30,713)
Purchase of Treasury Bills		**(750)**	-
Net (decrease) / increase in customer accounts		**(4,073)**	13,258
Dividends received		**701**	1,054
Brokerage and other fees received		**6,892**	5,878
Payments for staff and related expenses		**(4,292)**	(4,098)
Payments for other operating expenses		**(1,361)**	(2,011)
Net cash (used in) / from operating activities		**(741)**	23,180
Investing activities			
Net capital expenditure on furniture and equipment		**(213)**	(39)
Net cash used in investing activities		**(213)**	(39)
Financing activities			
Net proceeds from short-term bank borrowings		**3,557**	9,126
Net proceeds / (payments) from issue / (redemption) of units		**828**	(425)
Distribution to other unit holders in consolidated funds		**(28)**	-
Dividends paid		**(3,856)**	(3,214)
Net cash from financing activities		**501**	5,487
Net (decrease) / increase in cash and cash equivalents during the year		**(453)**	28,628
Cash and cash equivalents at the beginning of the year		**61,427**	32,799
Cash and cash equivalents at the end of the year	7	**60,974**	61,427

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

1. Reporting entity

Securities and Investment Company 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 licence from the Central Bank of Bahrain. On 7 May 2003, the Bank was listed on the Bahrain Stock Exchange as a closed company.

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;
- To offer financial advisory and underwriting services, such as advising corporations and family businesses on going public, and structuring transactions for privatization programs, mergers and acquisitions.

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of investments at fair value through profit or loss and available-for-sale investments.

(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 3 (c).

(d) New standards, amendments and interpretations effective from 1 January 2015

The following standards, amendments and interpretations, which became effective as of 1 January 2015, are relevant to the Group

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

The adoption of this amendment had no significant impact on the (consolidated financial statements).

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

IFRS 9 - Financial Instruments

IFRS 9 published in July 2014, replaces the existing IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS *18 Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is not expecting a significant impact on the consolidated financial statements from the adoption of this standard.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The above amendments will not have a significant impact on the consolidated financial statements of the Group.

Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle

The annual improvements to IFRSs to 2010-2012 and 2011-2013 include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The amendments are not expected to have a significant impact on the consolidated financial statements of the Group.

(f) Early adoption of standards

The Group did not early adopt new or amended standards in 2015.

3. 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.

(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.

(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) Foreign currencies

(i) 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.

(ii) Transactions and balances

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 except with regards to available-for-sale investments which are taken to equity.

(c) Critical accounting estimates and judgments in applying accounting policies

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.

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, held-to-maturity or available-for-sale. The classification of each investment reflects the management's intention 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.

(c) Critical accounting estimates and judgments in applying accounting policies (continued)

Estimations

Impairment of available-for-sale equity investments
The Group determines that available-for-sale equity investments is impaired when there is objective evidence of impairment. A significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. This determination of what is significant or prolonged requires judgment. The Group considers a decline of more than 30% in the fair value below cost as significant and considers a decline below cost which persists for more than 9 months as prolonged. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Group evaluates among other factors, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(d) 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 taking. The Group designates investments at fair value through profit or loss when the investments are managed, evaluated and reported internally on a fair value basis.

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. These include investments in quoted and unquoted equity securities, floating rate bonds and certain managed funds.

(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.

(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 re-measured to fair value at each reporting date with any resultant gain or loss recognised in the statement of profit or loss.

Available-for-sale investments (AFS investments) are initially recognised at fair value, with transaction costs recognised directly in the statement of profit or loss. Unrealised gains and losses arising from changes in the fair values of AFS investments are recognised in the statement of comprehensive income. In the event of sale, disposal, collection or impairment, the cumulative gains and losses recognised in other comprehensive income are transferred to the profit or loss. Unquoted AFS equity investments whose fair value cannot be reliably measured are carried at cost less impairment.

(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.

3 Significant accounting policies (continued)

(d) Investment securities (continued)

***(iv) Fair value measurement** (continued)*

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 minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and ask price, then the Group measures assets at a bid prices and liabilities at an ask price.

For investments in the debt instruments that are not quoted in an active market, the Group uses information from the pricing services such as Bloomberg for use as inputs in their fair value measurement that maximise the use of relevant observable inputs.

For investments in funds not quoted in an active market the Group uses net asset values as provided by the fund managers as their fair value.

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

(v) Impairment

The carrying amount of the Group's financial assets, except investment at fair value through profit or loss, is reviewed at each reporting period to determine whether there is objective evidence that a specific asset may be impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that the financial assets are impaired includes significant financial difficulty of the issuer, default of the issuer, indicators that the issuer will enter bankruptcy and the disappearance of an active market for a security.

Available-for-sale investments

In the case of investments in equity securities and managed funds classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from fair value reserve to profit or loss. Impairment losses recognised in profit or loss on AFS equity instruments are subsequently reversed through other comprehensive income. For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

In case of debt securities classified as available-for-sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principle repayment and amortization, and the current fair value, less impairment loss previously recognised in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

(e) De-recognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(f) Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits and placements with banks 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.

(g) 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 amortization 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 and points paid or received that are an integral part of the effective interest rate.

(h) Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

(i) Furniture, equipment and core banking software

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

Core banking software	10 years
Furniture and equipment	3 years

(j) Bank borrowings

Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(k) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecongnized. 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.

(l) Customer accounts

These are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3 Significant accounting policies (continued)

(m) Employee benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organization 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 International Accounting Standard (IAS) 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the balance sheet date.

(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 of five years 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.

(n) Dividends

Dividend to shareholders is recognised as a liability in the period in which such dividends are declared.

(o) 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.

(p) Fiduciary activities

The Group administers and manages 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.

(q) Settlement date accounting

All "regular way" purchases and sales of financial assets except for derivatives are recongnized 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.

(r) 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 realize the asset and settle the liability simultaneously.

(s) 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.

3 Significant accounting policies (continued)

(t) 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.

Interest income and expense presented in the statement of profit or loss include interest on financial assets and financial liabilities at amortised cost, available-for-sale debt securities and debt securities at fair value through profit or loss calculated on an effective interest rate basis.

(u) Fee and commission

Fee and commission income comprises custody fee, investment management fee and performance fee earned from Discretionary Portfolio Management Activity (DPMA) services offered by the Bank. Custody and investment management fees are recognised as the related services are performed and the Bank becomes entitles to the fee.

Performance fee is recognised in accordance with investment management agreements where the bank 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 Bank 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 relate mainly to custody fee which is expensed as the service is provided.

(v) Net investment income

Net investment income includes all realised and unrealised fair value changes on investment at fair value through profit or loss and on the available for sale investments and the related dividend.

(w) Dividend income

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

(x) Brokerage and other income

Brokerage and other income consist of brokerage income, investment banking income and marketing income. These fees are recognised when the related services are performed.

(y) Operating Segments

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 Bank's "chief operating 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, corporate finance, market making and custody business. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in these consolidated financial statements.

4. 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 Investment 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 maximizing returns and shareholder value.

The Audit 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 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 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 Brokerage Department, counterparty credit risk arises vis-a-vis trading counterparties and counterparty brokers. In Asset Management and Investment and Treasury Departments, deals routed through counterparty brokers gives rise to counterparty credit risk.

Management of credit risk

The Group limits its credit risk by applying well-defined credit policies and procedures laid down by the Board of Directors and the Investment Committee.

The Group manages the Counterparty Risks for brokerage clients by conducting a credit evaluation of the clients and counterparty brokers of GCC and other exchanges using financial and other parameters.

The risks in proprietary 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 Board, as appropriate. Additionally, the Group strictly adheres to the large exposure norms prescribed by the Central Bank of Bahrain.

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

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Exposure to credit risk

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

	2015	2014
Cash and cash equivalents	**60,974**	61,427
Treasury bills	**750**	-
Debt securities at fair value through profit or loss	**8,721**	10,289
Available-for-sale debt securities	**12,517**	8,705
Fee receivable	**1,138**	1,192
Other receivables	**3,759**	3,597
	87,859	85,210

Currently only the Margin Trading Lending on the GCC Stock Exchange is subject to formal collateral arrangement. This scheme is undertaken in accordance with the related regulation issued by the Central Bank of Bahrain. 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.

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.

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, or counterparty, or group of closely related counterparties as of 31 December 2015 was BD 10,018 (2014: BD 8,244), relating to "cash and cash equivalents, investments at fair value through profit or loss and available for sale investments".

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4. Financial risk management (continued)

(b) Credit risk (continued)

Geographical Exposure Distribution

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

2015	**Middle East & Asia countries**	**North America**	**Europe**	**Total**
Assets				
Cash and cash equivalents	**53,706**	**-**	**7,268**	**60,974**
Investments at fair value through profit or loss	**12,834**	**-**	**1,424**	**14,258**
Available-for-sale investments	**17,866**	**4,003**	**8,375**	**30,244**
Fees receivable	**1,118**	**-**	**20**	**1,138**
Other assets	**6,114**	**-**	**39**	**6,153**
Total assets	**91,639**	**4,003**	**17,125**	**112,767**
Liabilities				
Short-term bank borrowings	**19,777**	**-**	**-**	**19,777**
Customer accounts	**27,975**	**4**	**826**	**28,805**
Other liabilities	**2,910**	**-**	**-**	**2,910**
Payable to unit holders	**2,836**	**-**	**-**	**2,836**
Total liabilities	**53,498**	**4**	**826**	**54,328**

2014	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	58,505	-	2,922	61,427
Investments at fair value through profit or loss	15,814	-	1,526	17,340
Available-for-sale investments	13,880	6,338	8,593	28,811
Fees receivable	1,192	-	-	1,192
Other assets	6,808	46	45	6,899
Total assets	96,199	6,384	13,086	115,669
Liabilities				
Short-term bank borrowings	6,810	-	9,410	16,220
Customer accounts	31,652	568	658	32,878
Other liabilities	3,301	-	-	3,301
Payable to unit holders	2,172	-	-	2,172
Total liabilities	43,935	568	10,068	54,571

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

2015	**Financial services**	**Others**	**Total**
Total assets	**82,219**	**30,548**	**112,767**
Total liabilities	**35,571**	**16,757**	**54,328**

2014	Financial services	Others	Total
Total assets	85,408	30,261	115,669
Total liabilities	35,787	18,784	54,571

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 Investments and Treasury and its subsidiary company SICO Funds Services Company BSC (c).

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 Bank.

At present, the Group's liquidity risk exposure is minimal because a high proportion of funds is placed with banks as short-term deposits and, on maturity, deposits are transferred to current accounts based on expected requirements.

The Bank faces three types of liquidity risks as follows:

- Funding Risk – 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 - need to compensate for low liquidity of investments or markets and non-receipt of expected inflows of funds;
- Call Risk - due to crystallization 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 banks and financial institutions to be drawn upon in case of need. The Bank has set up the ALIC (Asset-Liability Investment Committee) to closely supervise the liquidity management and associated risks.

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4. Financial risk management (continued)

(c) Liquidity risk (continued)

The residual contractual maturity of financial liabilities is as follows:

2015	**Carrying value**	**Gross outflow**	**Less than 1 year**	**1 to 5 years**	**Above 5 years**
Short-term bank borrowings	**19,777**	**19,794**	**19,794**	**-**	**-**
Customer accounts	**28,805**	**28,805**	**28,805**	**-**	**-**
Other liabilities	**2,910**	**2,910**	**2,910**	**-**	**-**
Payable to unit holders in consolidated funds	**2,836**	**2,836**	**2,836**	**-**	**-**
	54,328	**54,345**	**54,345**	**-**	**-**

2014	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short-term bank borrowings	16,220	16,232	16,232	-	-
Customer accounts	32,878	32,878	32,878	-	-
Other liabilities	3,301	3,301	3,301	-	-
Payable to unit holders in consolidated funds	2,172	2,172	2,172	-	-
	54,571	54,583	54,583	-	-

(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 trading and available-for-sale securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio and Market Making Policies and Guidelines set by the 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.

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 Trading as well as Available-for-Sale 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 unrealised 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 on a monthly 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.

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(i) Equity Price Risk *(continued)*

Sensitivity Analysis of a 1% change in market prices on the unrealised profit or loss for the investments at fair value through profit or loss and AFS reserve for available-for-sale investments is given below:

	Investments at fair value through profit or loss		**Available-for-sale investments**	
	2015	2014	**2015**	2014
Increase of 1%	**143**	173	**302**	288
Decrease of 1%	**(143)**	(173)	**(302)**	(288)

(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 minimizes 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 portfolios. There is no ready market for selling some of these instruments and these can only 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 Standardized 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 and the discounted cash flow for fair valuation of the fixed income securities.

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4. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate re-pricing profile

2015	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	17,649	17,649
Call deposits*	-	2,900	-	-	2,900
Placements with banks	1.45%	40,425	-	-	40,425
Treasury Bills	-	750	-	-	750
Investments at fair value through profit or loss	6.50%	899	7,820	5,539	14,258
Available-for-sale investments	5.09%	-	12,517	17,727	30,244
Fees receivable		-	-	1,138	1,138
Other assets		-	-	3,968	3,968
Furniture, equipment and intangibles		-	-	1,435	1,435
Total assets		44,974	20,337	47,456	112,767
Short-term bank borrowings	0.95%	19,777	-	-	19,777
Customer accounts		-	-	28,805	28,805
Other liabilities		-	-	2,910	2,910
Payable to unit holders in consolidated funds		-	-	2,836	2,836
Total liabilities		19,777	-	34,551	54,328
Equity		-	-	58,439	58,439
Total liabilities and equity		19,777	-	92,990	112,767
Interest rate sensitivity gap		25,197	20,337	(45,534)	-
Cumulative interest rate sensitivity gap		25,197	45,534	-	-

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Interest rate re-pricing profile

2014	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	20,263	20,263
Call deposits*	-	1,267	-	-	1,267
Placements with banks	1.04%	39,897	-	-	39,897
Investments at fair value through profit or loss	7.03%	903	9,387	7,050	17,340
Available-for-sale investments	4.91%	307	8,398	20,106	28,811
Fees receivable		-	-	1,192	1,192
Other assets		-	-	5,399	5,399
Furniture, equipment and intangibles		-	-	1,500	1,500
Total assets		42,374	17,785	55,510	115,669
Short-term bank borrowings	0.84%	16,220	-	-	16,220
Customer accounts		-	-	32,878	32,878
Other liabilities		-	-	3,301	3,301
Payable to unit holders in consolidated funds		-	-	2,172	2,172
Total liabilities		16,220	-	38,351	54,571
Equity		-	-	61,098	61,098
Total liabilities and equity		16,220	-	99,449	115,669
Interest rate sensitivity gap		26,154	17,785	(43,939)	-
Cumulative interest rate sensitivity gap		26,154	43,939	-	-

* At 31 December 2015 the effective interest rate on Bahraini Dinar call deposits is 0.425% (2014: 0.422%) and on USD call deposits is 0.15% (2014: 0.15%).

(iii) Exchange risk

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 United States 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 KWD are effectively pegged to the US Dollar, currency risk is minimal.

(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.

4. Financial risk management (continued)

(e) Operational risk (continued)

The Bank has a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organizational structure, policies and procedures guidelines, and segregation of duties, approval authorities, reconciliations, and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provides 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 (STP) to enable seamless processing and reduce operational errors and optimize productivity. There is a well laid out plan to introduce middle office functionalities to ensure better compliance management. The Bank upgraded the core banking system and office automation which was implemented during 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.

Corporate Finance 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 Asset Liability Investment Committee (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 Central Bank of Bahrain (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 recognizes 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 Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new 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 branches. The Bank has complied with regulatory capital requirements throughout the year.

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

Based on year end balances	**2015**	2014
Risk weighted exposure		
Credit risk	**73,214**	61,033
Market risk	**19,673**	24,188
Operational risk	**16,108**	11,610
Total risk weighted assets	**108,995**	96,831
CET 1 / Tier 1 Capital	**58,438**	61,141
AT 1 / Tier 2 Capital	**-**	484
Total regulatory capital	**58,438**	61,625
Capital adequacy ratio	**53.62%**	63.64%

Based on full year average balances	**2015**	2014
Risk weighted exposure		
Credit risk	**68,389**	58,076
Market risk	**25,065**	25,139
Operational risk	**16,108**	11,610
Total risk weighted assets	**109,562**	94,825
CET 1 / Tier 1 Capital	**59,016**	57,303
AT 1 / Tier 2 Capital	**-**	4,263
Total regulatory capital	**59,016**	61,566
Capital adequacy ratio	**53.87%**	64.93%

The capital adequacy ratio as at 31 December 2015 has been calculated in accordance with Basel 3 (as at 31 December 2014 under Basel 2) and the Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method. Due to a change in methodology for calculation of regulatory capital due to migration from Basel 2 regime in 2014 to Basel 3 regime in 2015, the prior period numbers are not comparable.

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 maximize 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.

5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2015. 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 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. The country of incorporation or registration is also their principal place of business:

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5 Group subsidiaries (continued)

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 VII BSC (c)	100%	2010	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. Securities and Investment Company(UAE) LLC	100%	2011	UAE	Brokerage services
9. SICO Kingdom Equity Fund	57%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
10. SICO Fixed Income Fund	65%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks

6. 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.

SICO Kingdom Equity Fund

	2015	2014
Other unit holders' share	**57%**	37%
Cash and cash equivalents	**534**	28
Investment at fair value through profit or loss	**3,051**	3,370
Other assets	**-**	2
Other liabilities	**49**	22
Net assets	**3,536**	3,378
Carrying amount of payable to other unit holders	**1,531**	1,256
Investment income	**(202)**	341
(Loss) / profit	**(272)**	268
Total comprehensive income	**(272)**	268
(Loss) / profit allocated to other unit holders	**(118)**	100
Cash flows from operating activities	**76**	(404)
Cash flows from financing activities	**429**	340
Net increase / (decrease) in cash and cash equivalents	**505**	(64)

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SICO Fixed Income Fund

	2015	2014
Other unit holders' share	**65%**	28%
Cash and cash equivalents	**915**	750
Investment at fair value through profit or loss	**3,422**	3,204
Other assets	**46**	58
Short-term bank borrowings	**696**	693
Other liabilities	**10**	10
Net assets	**3,677**	3,309
Carrying amount of payable to other unit holders	**1,305**	916
Investment income	**(97)**	107
Interest income	**210**	206
Profit	**66**	273
Total comprehensive income	**66**	273
Profit allocated to other unit holders	**23**	75
Cash flows from operating activities	**(138)**	574
Cash flows from financing activities	**303**	(760)
Net increase / (decrease) in cash and cash equivalents	**165**	(186)

7. Cash and cash equivalents

	2015	2014
Cash and bank balances	**17,649**	20,263
Call deposits	**2,900**	1,267
Short-term placements	**25,472**	26,394
Due from other institutions	**14,953**	13,503
	60,974	61,427

Cash and cash equivalents include bank balances amounting to BD 6,582 (2014: BD 4,395) held on behalf of discretionary customer accounts.

Due from other institutions of BD 14,953 (2014: BD 13,503) represent repurchase agreements transactions.

8. Investments at fair value through profit or loss

	2015	2014
Equity securities – quoted (listed)		
- Consolidated funds	**3,050**	3,369
- Parent	**2,201**	2,496
Funds – quoted	**286**	1,186
Debt securities – quoted		
- Parent	**5,299**	7,085
- Consolidated funds	**3,422**	3,204
	14,258	17,340

Investments at fair value through profit or loss as at 31 December 2015 include securities amounting to BD 5,297 (31 December 2014: 3,124), sold under agreement to repurchase (note 13).

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9. Available-for-sale investments

	2015	2014
Equity securities		
- Quoted (listed)	**5,356**	5,842
- Unquoted	**322**	2,197
	5,678	8,039
Funds		
- Quoted	**7,417**	7,614
- Unquoted	**4,632**	4,453
	12,049	12,067
Debt securities		
-Quoted	**11,357**	8,398
-Unquoted	**1,160**	307
	12,517	8,705
	30,244	28,811

10. Fees receivable

Fees receivable mainly represent the management, custody and performance fee receivable by the Bank from its DPMA clients and own funds.

	2015	2014
Management and administration fees	**651**	675
Performance fee	**459**	478
Custody fee	**28**	39
	1,138	1,192

11. Other assets

	2015	2014
Receivables from clients and brokers	**2,568**	4,221
Guarantee deposit with the Bahrain Stock Exchange	**500**	500
Prepaid expenses	**209**	243
Interest receivable	**288**	262
Other receivables	**403**	173
	3,968	5,399

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12. Furniture, equipment and intangibles

	Software	Furniture and Equipment	2015 Total	2014 Total
Cost				
At 1 January	**2,016**	**985**	**3,001**	2,976
Additions	**159**	**54**	**213**	38
Disposals	**-**	**(4)**	**(4)**	(13)
At 31 December	**2,175**	**1,035**	**3,210**	3,001
Depreciation				
At 1 January	**669**	**832**	**1,501**	1,164
Charge for the year	**199**	**79**	**278**	350
Disposals	**-**	**(4)**	**(4)**	(13)
At 31 December	**868**	**907**	**1,775**	1,501
Net book value at 31 December 2015	**1,307**	**128**	**1,435**	-
Net book value at 31 December 2014	**1,347**	**153**	**-**	1,500
Cost of fully depreciated assets in use	**-**	**-**	**1,091**	845

13. Short-term bank borrowings

Short-term bank borrowings include borrowings under repurchase agreements of BD 17,777 (2014: BD 16,220) and time deposits of BD 2,000 (2014: NIL). The fair value of the investments at fair value through profit or loss and available-for-sale investments pledged as collateral amounts to BD 5,297 (2014: BD 3,124) (refer to note 8 and 9). Additionally repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 15,649 (2014: 17,052) are pledged as collateral.

14. Customer accounts

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

15. Other liabilities

	2015	2014
Accrued expenses	**189**	249
Provision for employee indemnities	**448**	382
Employee share incentive scheme liability	**1,435**	1,233
Other payables	**838**	1,437
	2,910	3,301

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16. Share capital

	2015	2014
Authorized share capital		
1,000,000,000 (2014: 1000,000,000) shares of 100 fils each	**100,000**	100,000

	2015	2014
Issued and fully paid		
At 1 January 2015: 428,487,741 ordinary shares of 100 fils each (2014: 428,487,741 ordinary shares of 100 fils each)	**42,849**	42,849
Issue of shares to employee share incentive scheme trustees during the year	**-**	-
As at 31 December 2015: 428,487,741 ordinary shares of 100 fils each (2014: 428,487,741 ordinary shares of 100 fils each)	**42,849**	42,849

During the year, the Bank did not issue any shares under the employee share incentive scheme.

Appropriations	2015	2014
Proposed dividend 5 %(2014: 9%)	**2,142**	3,856
General reserve	**-**	575

The shareholders are:	Nationality	2015		2014	
		Capital	**% holding**	Capital	% holding
Pension Fund Commission	Bahrain	**9,322.5**	**21.76**	9,322.5	21.76
General Org. for Social Insurance	Bahrain	**6,600.0**	**15.40**	6,600.0	15.40
National Bank of Bahrain BSC	Bahrain	**5,362.5**	**12.51**	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	**5,115.0**	**11.94**	5,115.0	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	**4,125.0**	**9.63**	4,125.0	9.63
Arab Investment Resources Co EC	Bahrain	**3,300.0**	**7.70**	3,300.0	7.70
Bank ABC	Bahrain	**3,300.0**	**7.70**	3,300.0	7.70
Gulf Investment Corporation GSC	Kuwait	**3,300.0**	**7.70**	3,300.0	7.70
Al Salam Bank – Bahrain BSC	Bahrain	**825.0**	**1.93**	825.0	1.93
Volaw Trust & Corp Service Ltd.	Jersey	**1,599.0**	**3.73**	1,599.0	3.73
		42,849	**100.0**	42,849	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.136 (2014: BD 0.143).

17. Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 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 285 (2014: BD 575).

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18. 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.

19. Net investment income

	2015	2014
Net (loss) / gain on investments carried at fair value through profit or loss	**(1,202)**	752
Gain on sale of available-for-sale investments	**1,927**	2,122
Dividend income on investments carried at fair value through profit or loss	**280**	473
Dividend income on available-for-sale investments	**421**	581
	1,426	3,928

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

	2015	2014
Realised (loss) / gain on sale	**(210)**	1,165
Unrealised fair value loss	**(992)**	(413)
	(1,202)	752

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.

20. Fee and commission income/ expense

	2015	2014
Fee and commission income from trust or other fiduciary activities		
- Management fee	**2,592**	2,721
- Performance fee	**625**	1,343
- Custody fee	**411**	413
	3,628	4,477
Fee and commission expense		
- Custody fee	**(26)**	(62)
Net fee and commission income	**3,602**	4,415

21. Brokerage and other income

	2015	2014
Brokerage income	**1,061**	1,908
Investment banking income	**111**	175
Foreign exchange gain	**433**	515
Other income	**159**	29
	1,764	2,627

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22. Interest income/ expense

	2015	2014
Interest income from:		
Placements and call deposits	**361**	315
Investments in debt instruments	**1,106**	983
Margin lending	**163**	138
	1,630	1,436
Interest expense on:		
Bank borrowings	**55**	74
Net interest income	**1,575**	1,362

23. Staff and related expenses

	2015	2014
Salaries, allowances and bonus	**3,498**	4,250
Social security costs	**157**	151
Other costs	**105**	138
	3,760	4,539

As at 31 December 2015, the Group employed 66 (2014: 56) Bahrainis and 33 (2014: 40) expatriates.

The Group's contributions for the year to the General Organization for Social Insurance in respect of its employees amounted to BD 157 (2014: BD 151).

24. Other operating expenses

	2015	2014
Rent	**206**	210
Communication expenses	**342**	289
Marketing expenses	**148**	167
Professional fees	**133**	184
Other operating expenses	**608**	617
Depreciation	**278**	351
	1,715	1,818

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25. Related party transactions

Transactions with funds owned by the Subsidiary Companies
The Group provides management services to the funds owned by the subsidiary companies namely SICO Funds Company BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC, SICO Funds Company VI BSC (c), SICO Funds Company VII BSC (c) and SICO Ventures Company SPC. In the ordinary course of business and also has investments in certain funds.

	2015	2014
Fee and commission income	**600**	884
Fee receivable	**120**	255
Investments:		
Available-for-sale investments		
- Khaleej Equity Fund	**979**	1,044
- SICO Selected Securities Fund	**171**	190
Investments at fair value through profit or loss		
SICO Money Market Fund	**-**	1,186

The details of the own funds under management are in Note 28.

Transactions with shareholders
The Group obtained short term borrowings from its bank shareholders for a total of BD 2,000 (2014: NIL). 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.

	2015	2014
Fee and commission income	**505**	1,393
Fee receivable	**105**	339
Funds under management	**55,361**	74,002
Placements	**1,000**	4,923
Borrowings as at 31 December	**2,000**	-
Borrowings obtained during the year	**2,000**	-
Borrowings repaid during the year	**-**	3,885

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25. 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 of the members of the board of directors, chief executive officer, chief operating officer, chief corporate officer and head of departments.

Compensation to key management personnel is as follows:

	2015	2014
Short term benefits	**868**	912
Post employment benefits	**40**	46
Equity compensation benefits	**96**	205
	1,004	1,163

Other operating expenses include BD 68 (2014: BD 147) towards attendance fees, remuneration and other related expenses for members of the Board and Investment Committee.

26. Employee Share Ownership Plan

The Group has established an Employee Share Incentive scheme ("the Scheme") which is operated through a Trustee. The Trustee 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.

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme advance account classified under other assets. The employee share incentive scheme share advance account as at 31 December 2015 amounted to BD 1,559 (2014: 1,559).

The Group has recognised an employee liability of BD 1,435 (2014: 1,233) on the shares granted till date. This liability has been determined on the fair value of the Group's net assets as at 31 December 2015 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

The movement in the shares issued under the Scheme is as follows:

	2015		2014	
	No. of shares issued	**Value**	No. of shares issued	Value
As at 1 January	**15,987,741**	**1,559**	15,987,741	1,559
Shares issued during the year *	**-**	**-**	-	-
	15,987,741	**1,559**	15,987,741	1,559

* During the year, the Bank did not issue new shares under the Scheme.

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27. 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 the issue 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.

	2015	2014
Investments in funds		
SICO Selected Securities Fund	**171**	190
Khaleej Equity Fund	**979**	1,044
SICO Money Market Fund	**-**	1,186
	1,150	2,420

28. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in SICO Selected Securities Fund a minimum of 5% of the fund's net asset value and 10% of the net assets value of the Khaleej Equity Fund at any time throughout its life. The Group has other investment commitments of BD 106 (2014: 115) and margin lending drawdown commitments of BD 1,356 (2014: 1,414).

	2015	2014
Funds under management (net asset value)		
SICO Selected Securities Fund	**1,773**	3,112
Khaleej Equity Fund	**17,184**	25,555
SICO Gulf Equity Fund	**9,663**	10,883
SICO Money Market Fund	**-**	1,186
SICO Kingdom Equity Fund	**3,536**	3,378
SICO Fixed Income Fund	**3,677**	3,308
Discretionary Portfolio Management Account	**296,506**	291,466

The net asset values of these funds are based on financial statements as prepared by the management.

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

	2015	2014
Assets under custody	**1,696,650**	1,636,473

28. Contingencies, commitments and memorandum accounts (continued)

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2015, assets amounting to BD 1,696,650 (2014: BD 1,636,473) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 290,895 (2014: BD 310,357) were registered in the name of the Bank.

Legal claims

During the year 2013, the Group's subsidiary "Securities and Investment Company (UAE) LLC" (the "Subsidiary") was served notice of legal action brought against it jointly with a third party by one of the Subsidiary's old customers.

The plaintiff claimed damages of BD 1 million resulting from a fraudulent transaction carried out by the third party and allegedly one of the old employees of the Subsidiary. The transaction took place prior to the acquisition of the Subsidiary by the Bank when the Subsidiary's name was CI Capital Gulf Financial Brokerage Company LLC.

The sale and purchase agreement includes clauses that exonerate the Bank from any legal action related to any incident prior to the purchase date of 15 September 2011 and places the liability on the old shareholders.

At this stage of the action, the Group's lawyers believe the subsidiary is in a strong position to defend itself and no liability is likely to arise from this claim

29. Significant net open foreign currency positions

	2015	2014
QAR	**11,932**	10,225
US Dollar	**49,652**	48,516
JOD	**32**	35
KWD	**73**	1,057
SAR	**4,088**	5,965
GBP	**2**	36
AED	**11,698**	9,598
OMR	**(26)**	(202)
EUR	**25**	-
EGP	**6**	-

All the GCC Currencies except KWD are effectively plegged to the US Dollar at USD 1 = BD 0.377

30. Basic earnings per share

	2015	2014
Profit for the year	**2,846**	5,434
Weighted average number of equity shares (In 000's)	**428,487**	428,487
Earnings per share (in fils)	**6.64**	12.68

Diluted earnings per share have not been presented as the Group has no commitments that would dilute the earnings per share.

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31. Maturity profile of assets and liabilities

31 December 2015	**Less than 1 year**	**1 to 5 Years**	**Above 5 Years**	**Total**
Assets				
Cash and cash equivalents	**60,974**	**-**	**-**	**60,974**
Treasury bills	**750**	**-**	**-**	**750**
Investments at fair value through profit or loss	**6,438**	**6,079**	**1,741**	**14,258**
Available-for-sale investments	**-**	**5,151**	**25,093**	**30,244**
Furniture, equipment and intangibles	**-**	**238**	**1,197**	**1,435**
Fees receivable	**1,138**	**-**	**-**	**1,138**
Other assets	**3,968**	**-**	**-**	**3,968**
Total assets	**73,268**	**11,468**	**28,031**	**112,767**
Liabilities				
Short-term bank borrowings	**19,777**	**-**	**-**	**19,777**
Customer accounts	**28,805**	**-**	**-**	**28,805**
Other liabilities	**2,910**	**-**	**-**	**2,910**
Payable to other unit holders	**2,836**	**-**	**-**	**2,836**
Total liabilities	**54,328**	**-**	**-**	**54,328**
Liquidity gap	**18,940**	**11,468**	**28,031**	**58,439**
Cumulative liquidity gap	**18,940**	**30,408**	**58,439**	**58,439**

31 December 2014	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	61,427	-	-	61,427
Investments at fair value through profit or loss	7,954	5,992	3,394	17,340
Available-for-sale investments	307	5,286	23,218	28,811
Furniture, equipment and intangibles	-	158	1,342	1,500
Fees receivable	1,192	-	-	1,192
Other assets	5,399	-	-	5,399
Total assets	76,279	11,436	27,954	115,669
Liabilities				
Short-term bank borrowings	16,220	-	-	16,220
Customer accounts	32,878	-	-	32,878
Other liabilities	3,301	-	-	3,301
Payable to other unit holders	2,172	-	-	2,172
Total liabilities	54,571	-	-	54,571
Liquidity gap	21,708	11,436	27,954	61,098
Cumulative liquidity gap	21,708	33,144	61,098	61,098

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32. Accounting classification and fair values

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

31 December 2015	**Fair value through profit or loss**	**Available for sale**	**Loans and receivables**	**Liabilities at fair value**	**Others at amortised cost**	**Total carrying value**
Cash and cash equivalents	**-**	**-**	**60,974**	**-**	**-**	**60,974**
Treasury Bill	**-**	**-**	**-**	**-**	**750**	**750**
Investments at fair value through profit or loss	**14,258**	**-**	**-**	**-**	**-**	**14,258**
Available-for-sale investments	**-**	**30,244**	**-**	**-**	**-**	**30,244**
Fees receivable	**-**	**-**	**1,138**	**-**	**-**	**1,138**
Other assets	**-**	**-**	**3,759**	**-**	**-**	**3,759**
	14,258	**30,244**	**65,871**	**-**	**750**	**111,123**
Short-term bank borrowings	**-**	**-**	**-**	**-**	**19,777**	**19,777**
Customer accounts	**-**	**-**	**-**	**-**	**28,805**	**28,805**
Other liabilities	**-**	**-**	**-**	**-**	**2,910**	**2,910**
Payable to unit holders in consolidated funds	**-**	**-**	**-**	**2,836**	**-**	**2,836**
	-	**-**	**-**	**2,836**	**51,492**	**54,328**

31 December 2014	Fair value through profit or loss	Available for sale	Loans and receivables	Liabilities at fair value	Others at amortised cost	Total carrying value
Cash and cash equivalents	-	-	61,427	-	-	61,427
Investments at fair value through profit or loss	17,340	-	-	-	-	17,340
Available-for-sale investments	-	28,811	-	-	-	28,811
Fees receivable	-	-	1,192	-	-	1,192
Other assets	-	-	5,196	-	-	5,196
	17,340	**28,811**	**67,815**	**-**	**-**	**113,966**
Short-term bank borrowings	-	-	-	-	16,220	16,220
Customer accounts	-	-	-	-	32,878	32,878
Other liabilities	-	-	-	-	3,301	3,301
Payable to unit holders in consolidated funds	-	-	-	2,172	-	2,172
	-	**-**	**-**	**2,172**	**52,399**	**54,571**

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

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(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 financial assets carried at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorized.

As at 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale investments				
- Funds	**10,635**	**1,161**	**256**	**12,052**
- Equities	**5,356**	**-**	**319**	**5,675**
- Debt securities	**8,270**	**4,247**	**-**	**12,517**
Fair value through profit or loss:				
- Funds	**286**	**-**	**-**	**286**
- Equity	**5,251**	**-**	**-**	**5,251**
- Debt securities	**8,721**	**-**	**-**	**8,721**
Liabilities				
- Payable to unit holders in consolidated funds	**(2,836)**	**-**	**-**	**(2,836)**
Total	**35,683**	**5,408**	**575**	**41,666**

The Group recognizes 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:

	Level 3 2015
At 1 January 2015	**515**
Total loss :	
- in statement of profit or loss	**-**
- in other comprehensive income	**60**
Purchases	**-**
Settlements	**-**
Transfers into / (out) of level 3	**-**
At 31 December 2015	**575**
Total gain / (loss) for the year included in statement of profit or loss for assets / liabilities held as at 31 December 2015	**(140)**

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32. Accounting classification and fair values (continued)

(ii) Fair value hierarchy (continued)
Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category which relates to available-for-sale financial assets is assessed as not significant to the other comprehensive income and total equity.

As at 31 December 2014	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale investments				
- Funds	7,615	4,249	203	12,067
- Equities	5,842	-	312	6,154
- Debt securities	8,398	307	-	8,705
Fair value through profit or loss:				
- Funds	1,186	-	-	1,186
- Equity	5,865	-	-	5,865
- Debt securities	10,289	-	-	10,289
Liabilities				
- Payable to unit holders in consolidated funds	(2,172)	-	-	(2,172)
	37,023	4,556	515	42,094

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

	Level 3 2014
At 1 January 2014	2,131
Total loss :	
- in statement of profit or loss	(225)
- in other comprehensive income	(58)
Purchases	-
Settlements	(1,333)
Transfers into / (out) of level 3	-
At 31 December 2014	515
Total gain / (loss) for the year included in statement of profit or loss for assets / liabilities held as at 31 December 2014	(366)

(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			
Debt instruments	Market Comparison technique: The valuation is based on observable market multiples derived from quoted prices of comparable debt 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.

33. Comparatives

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

Commitment
SICO is committed to upholding the highest standards of corporate governance. This entails complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value, and achieving organisational efficiency. The Bank has Board-approved policies for risk management, compliance and internal controls, in accordance with the latest rules and guidelines from the Central Bank of Bahrain (CBB).

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors. The Board is committed to excellence in corporate governance, and adheres to rules of the High Level Controls Module (HC Module) of the Central Bank of Bahrain; and the principles of the Corporate Governance Code of the Kingdom of Bahrain issued by the Ministry of Industry and Commerce.

Shareholder Information
The Bank's shares are listed on Bahrain Bourse as a closed company. As at 31 December 2015, the Bank had issued 428,487,741 ordinary shares of Bahraini fils 100 each. The last Annual General Meeting was held on 30 March 2015.

Responsibilities of the Board Of Directors
The Board is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. The Board works together as a team to provide strategic leadership to staff, ensure the organisation's fitness for purpose, set the values and standards for the organisation, and ensure that sufficient financial and human resources are available.

The Board's role and responsibilities are outlined in the Board Charter of the Bank. The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes strategic issues and planning; review of management structure and responsibilities; monitoring management performance; acquisition and disposal of assets; investment policies; capital expenditure; authority levels; treasury policies; risk management policies; the appointment of auditors and review of the financial statements; financing and borrowing activities; reviewing and approving the annual operating plan and budget; ensuring regulatory compliance; and reviewing the adequacy and integrity of internal systems and controls framework.

The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Bank's shareholders. The Chairman also ensures that new Directors receive a formal and tailored induction to facilitate their contribution to the Board.

The Board has delegated certain responsibilities to Board Committees, without abdicating its overall responsibility. This is to ensure sound decision-making, and facilitate the conduct of business without unnecessary impediment, as the speed of decision-making in the Bank is crucial. Where a Committee is formed, a specific Charter of the Committee has been established to cover matters such as the purpose, composition and function of the Committee. The Board has three Committees to assist it in carrying out its responsibilities: the Investment Committee, the Audit Committee, and the Nominations, Remuneration and Corporate Governance Committee. The Internal Audit function reports directly to the Board through the Audit Committee. The Board receives reports and recommendations from Board Committees and Management, from time to time, on matters it considers significant to the Bank.

Board Composition and Election
The Board's composition is guided by the Bank's Memorandum of Association. As at 31 December 2015, the Board consisted of nine Directors, four of whom are Independent and Non-executive directors, and five are Executive directors including the Chairman and Vice-Chairman. The Bank recognises the need for the Board's composition to reflect a range of skills and expertise. Profiles of Board Members are listed later in this review. The Board Secretary is Mathew B. Hansen.

The appointment of Directors is subject to prior approval by the CBB. The classification of 'Executive' Directors, 'Non-executive' Directors and 'Independent and Non-independent' Directors is per the definitions stipulated by the CBB. Directors are elected by the shareholders at the AGM, subject to the approval of the CBB, for a period of three years, after which they shall be eligible for re-election for a further three-year period.

Independence of Directors
In line with the requirements of the CBB's HC Module, the Bank has put in place Board-approved criteria to determine 'Test of Independence' using formal requirements as specified in the CBB rule book and other relevant requirements as assessed by the Board of SICO. The purpose of the Test is to determine whether the Director is: 'Independent of management, and any business or other relationships, which could materially interfere with the Director's ability to exercise objective, unfettered or independent judgement, or the Director's ability to act in the best interests of SICO'. Based on an assessment carried out for 2015, the Board of Directors resolved that the four Non-executive Directors of SICO met the relevant requirements of the 'Test of Independence', and accordingly, they were classified as 'Independent' Directors and Committee Members of SICO's Board of Directors.

Board and Committee Evaluation

The Board performs a self-evaluation on an annual basis. The Board annually reviews its Charter and its own effectiveness; and initiates suitable steps for any amendments. The Board also reviews self-evaluations of the individual Board members, Chairman and the Board Committees, and considers appropriately any recommendations arising out of such evaluation.

Remuneration of Directors Policy

The Board of Directors' remuneration is governed by provisions of the Commercial Companies Law 2001 and the CBB. The Directors' remuneration is approved by the shareholders at the annual general meeting. In addition, the members are paid sitting fees for the various sub committees of the Board. The Board's remuneration is reviewed by the Nomination, Remuneration & Corporate Governance Committee as per the remuneration policy. Directors' remuneration is accounted as an expense as per international accounting standards and CBB regulations.

Board Meetings and Attendance

According to the Bahrain Commercial Companies Law and the CBB rules, Board meetings will be conducted at least four times a year (on a quarterly basis). All Board members must attend at least 75 per cent of all Board meetings within a calendar year. At least five Directors must attend each Board meeting, including the Chairman or the Vice-Chairman. During 2015, five Board meetings were held in Bahrain, and the members' attendance is noted in the table below:

Directors' Attendance: January to December 2015

	Board Meetings Total held 5				
Board Members	**12 February 2015**	**30 March 2015**	**11 May 2015**	**26 July 2015**	**10 November 2015**
Shaikh Abdulla bin Khalifa Al Khalifa Chairman of the Board	✓	✓	✓	✓	✓
Mr. Hussain Al Hussaini Vice Chairman	✓	✓	✓	✓	✓
Mr. Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	✓	✓
Mr. Mahmoud Al Zewam Al-Amari	✓	✓	✓	✓	✓
Mr. Fahad Murad	✓	✓	✓	✓	✓
Ms. Sawsan Abulhassan (Director till July 2015)	✓*	✓	✓		
Mr. Prakash Mohan (Director from Nov. 2015)					✓
Mr. Waleed Al Braikan	✓	✓	✓	✗	✓
Mr. Mohammed Abdulla Isa	✓	✓	✓	✓	✓
Mr. Yusuf Saleh Khalaf	✓	✓	✓	✓	✓

* denotes attendance through tele conference

✗ denotes absence

✓ denotes attendance

N/A

	Investment Committee Meetings Total held 5				
Board Committee Members	**19 January 2015**	**21 April 2015**	**25 June 2015**	**13 October 2015**	**9 November 2015**
Shaikh Abdulla bin Khalifa Al Khalifa Chairman of the Investment Committee	✓	✓	✓	✓	✓
Mr. Hussain Al Hussaini	✓	✓	✓	✓	✓
Ms. Sawsan Abulhassan*	✓	✓	✓		
Mr. Prakash Mohan**				#	✓

* denotes Director effective till July 2015

✓ denotes attendance

invited by the Board as an observer

** denotes Director joined w.e.f November 2015

N/A

Audit Committee Meetings
Total held 4

Board Committee Members	11 February 2015	10 May 2015	26 July 2015	9 November 2015
Mr. Anwar Abdulla Ghuloom Ahmadi*		✗	✓	✓
Mr. Waleed Al Braikan	✓	✓	✗	✓
Mr. Mahmoud Al Zewam Al-Amari **	✓			
Mr. Yusuf Saleh Khalaf Chairman of the Audit Committee	✓	✓	✓	✓

* denotes committee member w.e.f May 2015
** denotes committee member effective till March 2015
✓ denotes attendance
✗ denotes absence
N/A

Nominations, Remuneration and Corporate Governance Committee Meetings
Total held 4

Board Committee Members	4 February 2015	8 March 2015	24 June 2015	7 October 2015
Mr. Anwar Abdulla Ghuloom Ahmadi*	✓	✓		
Mr. Mahmoud Al Zewam Al-Amari**			✓	✓
Mr. Fahad Murad Chairman of the NRCGC committee	✓	✓	✓	✓
Mr. Mohammed Abdulla Isa	✓	✓	✓	✓

* denotes committee member effective till March 2015
** denotes committee member joined w.e.f June 2015
✓ denotes attendance
N/A

Board Committees

Investment Committee

Objective

- Review investment policies, and procedures to monitor the application of, and compliance with, the investment policies
- Approve and recommend (where appropriate) to the Board relevant investment decisions (as defined in the Investment Policy Guidelines and Restrictions)
- Review strategic and budget business plans prior to submission to the Board
- Review and approve the Bank's monthly financials
- Oversee the financial and investment affairs of the Bank
- Review major organisational changes

Audit Committee

Objective

- Review the Bank's accounting and financial practices
- Review the integrity of the Bank's financial and internal controls and financial statements
- Recommend the appointment, compensation and oversight of the Bank's External Auditors
- Recommend the appointment of the Internal Auditor
- Review the Bank's Compliance procedures and Regulatory matters
- Review the Bank's Risk Management systems

Nominations, Remuneration and Corporate Governance Committee

Objective

- Identify and screen suitable and qualified candidates as members of the Board of Directors, Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the Bank considered appropriate by the Board, and as and when such positions become vacant; with the exception of the appointment of the Internal Auditor, which shall be the responsibility of the Audit Committee
- Submit its recommendations, including candidates for Board membership, to the whole Board of Directors, which in turn should include them in the agenda for the next Annual Shareholder Meeting
- Review and recommend the remuneration policy of SICO in line with CBB sound remuneration principles
- Review the Bank's remuneration policies for the approved persons and material risk-takers, which must be approved by the shareholders and be consistent with the corporate values and strategy of the Bank
- Approve the remuneration policy and amounts for approved persons and material risk-takers, as well as the total variable remuneration to be distributed taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits
- Approve, monitor and review the remuneration system to ensure the system operates as intended
- Recommend Board members' remuneration based on their attendance and performance and in compliance with Article 188 of the Company Law
- Review the Bank's existing Corporate Governance policies and framework
- Advise the Board on the Bank's public reporting of information on Corporate Governance practices and issues
- Provide a formal forum for communication between the Board and management on Corporate Governance issues

Directors' Profiles

Shaikh Abdulla bin Khalifa Al Khalifa Chairman Director since 2011 (Non-independent and Executive)	Represents Social Insurance Organisation (Bahrain) Chairman of SICO Investment Committee Chief Executive Officer: Osool Asset Management BSC(c) Chairman: Muharraq Mall Company Board Director: BBK, BFC Holdings Limited, Amlak and Amanat Holding PJSC **Professional experience:** 16 years **Educational qualifications**: BSc in Business Administration, George Washington University, Washington DC, USA
Mr. Hussain Al Hussaini Vice Chairman Director since 1997 (Non-independent and Executive)	Represents National Bank of Bahrain - Bahrain Member of SICO Investment Committee General Manager: Treasury Overseas Branches & Operation Group, National Bank of Bahrain Board Director: Esterad **Professional experience:** 34 years **Educational qualifications:** PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing & Management Change, DePaul University; BA in Economics, Concordia University, Montreal, Canada
Mr. Anwar Abdulla Ghuloom Ahmadi Director since 2002 (Non-independent and Executive)	Represents Social Insurance Organisation - Bahrain Member of SICO Audit Committee Board Director: Al Seef Properties **Professional experience:** 34 years **Educational qualifications:** ACPA, CIPA; BSc in Accounting

Mr. Prakash Mohan Director since 2015 (Non-independent and Executive)	Represents Ahli United Bank BSC - Bahrain Member of SICO Investment Committee Group Head of Corporate Banking: Ahli United Bank Board Director: Kuwait & Middle East Financial Investment Company **Professional experience:** 23 years **Educational qualifications:** MBA from McCombs School of Business, The University of Texas at Austin, USA; MS in Chemical Engineering from Iowa State University, Ames, USA; and BTech in Chemical Engineering from Indian Institute of Technology, Kanpur, India
Mr. Mohammed Abdulla Isa Director since 2009 (Non-independent and Executive)	Represents BBK - Bahrain Vice Chairman of SICO Nominations, Remuneration and Corporate Governance Committee Chief Financial Officer: BBK Board Director: Benefit **Professional experience:** 24 years **Educational qualifications:** Certified Public Accountant, American Institute of Certified Public Accountants- Delaware State Board of Accountancy (2001)
Mr. Mahmoud Al Zewam Al- Amari Director since 2004 (Independent and Non-executive)	Represents Bank ABC - Bahrain Member of SICO Nominations, Remuneration and Corporate Governance Committee First VP & Head: Portfolio Department, Bank ABC **Professional experience:** 31 years **Educational qualifications:** AIBD; MA in Macro Economics
Mr. Fahad Murad Director since 2011 (Independent and Non-executive)	Represents Arab Investment Resources Company – Bahrain Chairman of SICO Nominations, Remuneration and Corporate Governance Committee Managing Director - Head of Placement for Bahrain: Investcorp **Professional experience:** 31 years **Educational qualifications:** BBA and MBA in Finance from the University of Houston, Texas, USA
Mr. Waleed K. Al Braikan Director since 2014 (Independent and Non-executive)	Represents Gulf Investment Corporation – Kuwait Vice Chairman of the Audit Committee Director: GCC Equities Division, Gulf Investment Corporation Board Director: Ithmar Capital, UAE **Professional Experience:** 30 years **Educational qualification:** BA in Finance from Kuwait University
Mr. Yusuf Saleh Khalaf Director since 2012 (Independent and Non-executive)	Chairman of SICO Audit Committee Founder & Managing Director: Vision Line Consulting Independent Board Director: BBK and Eskan Bank **Professional experience:** 35 years **Professional Qualifications:** Associate Chartered Certified Accountant (ACCA), UK

Management

The Board delegates the authority for the day-to-day management of the business to the Chief Executive Officer, who is supported by a qualified senior management team, and three management committees: Management Committee; Asset Management Committee and Assets, Liabilities and Investments Committee (ALIC). Profiles of the Management are listed later in this review.

Membership of Management Committees

Managers	Management Committee	Asset Management Committee	Assets, Liabilities & Investments Committee
Chief Executive Officer			
Chief Operating Officer			
Chief Finance Officer			
Head of Internal Audit	✗	✗	✗
Head of Brokerage			
Head of Asset Management			
Head of Corporate Finance			
Head of Investments & Treasury			✗
Head of Research			
Head of Fixed Income		✗	

Voting committee members
✗ Non-voting Member

Management Committees

Management Committee

Objective
To review the overall performance of the Bank; review the implementation and implications of new initiatives and products; and contribute to developing an ongoing strategy for the Bank.

Asset Management Committee

Objective
To review the investment strategy of the Bank's funds and portfolios; review and approve asset allocations; and review subscription and redemptions, and compliance.

Assets, Liabilities and Investments Committee (ALIC)

Objective
ALIC acts as the principal policy making body responsible for overseeing the Bank's capital and financial resources. It is also responsible for managing the balance sheet and all proprietary investment activities, including investment strategy; and asset, country and industry/sector allocations. The committee is specifically responsible for managing the balance sheet risk; capital and dividend planning; forecasting; and monitoring interest rate risk positions, liquidity and funds management. The committee is also responsible for formulating and reviewing the Bank's investment policies (subject to approval by the Board), strategies, and performance measurement and assessment.

Management Profiles

Najla M. Al Shirawi - Chief Executive Officer
Joined SICO in 1997

Najla has more than 19 years' investment banking experience. Her appointment as Chief Executive Officer in March 2014 was preceded by her promotion to Deputy CEO in June 2013. Prior to this, she held various positions in the Bank, including Chief Operating Officer for seven years, Head of Asset Management, and Head of Investments & Treasury. Najla also worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust, where she was responsible for establishing private banking operations for the Group in the Gulf region. Her career also embraces a Lectureship in Engineering at the University of Bahrain. Najla is Chairperson of the Board of Directors of SICO Funds Services Company (SFS) and SICO UAE; and an Independent Board Member of Eskan Bank, Bahrain. A Board Member of the Deposit Protection Scheme, Bahrain; and a Member of the Board of Trusties of the Human Resources Development Fund, Bahrain. Najla holds an MBA and a Bachelor's degree in Civil Engineering, and attended the Management Acceleration Programme at INSEAD, France. She was ranked 19th regionally and third in Bahrain in the Forbes Middle East Most Powerful Arab Businesswomen list for 2015; and was honoured by HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King and Chairperson of the Supreme Council for Women, for her contribution to the Kingdom's banking sector, as part of Bahrain Women's Day 2015.

Anantha Narayanan - Chief Operating Officer
Joined SICO in 2008

Anantha has more than 25 years' experience in the areas of operations, audit and risk in the banking industry. He was Head of Internal Audit at SICO for six years before appointment to his present position in 2014. Prior to joining SICO, he worked for Credit Agricole Corporate & Investment Bank; BBK; Commercial Bank of Oman/Bank Muscat; and PricewaterhouseCoopers. Anantha is a Chartered Accountant and Cost Accountant (India); a Certified Information Systems Auditor and Financial Risk Manager (USA); and an Associate Member of the Institute of Financial Studies (UK). He holds a BSc Honours degree from the University of Manchester, UK.

Abdulrahman Saif - Head of Investments & Treasury
Joined SICO in 2003

Abdulrahman has over 16 years' experience in investments and treasury. Prior to joining SICO, he was with the Asset Management team at Taib Bank. He has also worked for Gulf International Bank and Bank ABC. A Certified Investment Representative, Abdulrahman holds a MSc in Finance from DePaul University – Charles H. Kellstadt Graduate School of Business, a BSc in Accounting from the University of Bahrain, and a Treasury & Capital Markets Diploma from the Bahrain Institute of Banking & Finance. He has also undertaken specialised training at INSEAD, France.

K. Shyam Krishnan - Chief Financial Officer
Joined SICO in 2015

Shyam has 25 years' experience in finance, accounting, audit, investments and risk management, with the majority of his career spent in Investment, conventional and Sharia-compliant banking. Prior to joining SICO, he was Group Head of Finance at Al Salam Bank-Bahrain. Before this, he was Head of Hedge Funds' Operational Risk Management at Investcorp, Bahrain; and Audit Supervisor at the Bahrain office of Ernst & Young. Shyam is a Chartered Accountant and Management Accountant from India. He is a Chartered Financial Analyst, Certified Internal Auditor and also a Certified Information Systems Auditor. He holds a Bachelor of Commerce degree from Madras University, India.

Fadhel Makhlooq - Head of Brokerage
Joined SICO in 2004

Fadhel has over 33 years' professional experience. He was Head of Brokerage at SICO for five years before being appointed as Head of Investments & Treasury in 2008. He was re-appointed Head of Brokerage in 2010. Prior to joining SICO, he worked for a number of leading financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase). Fadhel holds an MBA from Glamorgan University, UK.

Shakeel Sarwar - Head of Asset Management
Joined SICO in 2004

Shakeel has over 21 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with the asset management division of Riyad Bank, and was part of the team that managed over US$ 3 billion in Saudi equities. Previous experience includes working with ABN Amro Asia Securities in the UK and Pakistan. Shakeel holds an MBA in Banking and Finance from IBA, Karachi, Pakistan.

Ali Marshad - Head of Fixed Income
Joined SICO in 2008

Ali has over 9 years' experience in asset management, investments, treasury and brokerage. Joining SICO in 2008 as an Analyst in the Investments & Treasury division, he then headed up the newly-established Fixed Income Desk in 2012, before being promoted to his current position in January 2015. Prior to joining SICO, he worked in the UK as an Analyst with Mercer Investment Consulting, and as a Performance Analyst with UBS Global Asset Management - London. A Chartered Financial Analyst, Ali holds a BSc (Honours) degree in Banking, Finance & Management from Loughborough University, UK.

Wissam Haddad - Head of Corporate Finance
Joined SICO in 2014

Wissam has more than 14 years' experience in conventional and Sharia-compliant investment banking and private equity in the GCC. Prior to joining SICO, he was a Director with Gate Capital in Dubai. Previously, he held senior positions with UAE-based Najd Investments, Unicorn Capital, EmiratesNBD's NBD Sana Capital, and Saudi's National Commercial Bank's NCB Capital and Eastgate Capital. He also worked with Gulf Finance House, Shamil Bank and BDO Jawad Habib in Bahrain during the early part of his career. Wissam holds a BCom degree from Concordia University, Canada.

Nishit Lakhotia - Head of Research
Joined SICO in 2009

Nishit has over 11 years' diversified investment experience in the fields of risk management, hedge funds, private equity and sell-side research. Joining SICO Research in January 2009 as a senior analyst, he was responsible for actively tracking the telecommunications, aviation, construction and cement sectors in the GCC. Nishit was promoted to Head of Research in 2013. Prior to SICO, he worked for an Iceland-based private equity firm with a focus on the Indian infrastructure sector. Nishit is a Chartered Financial Analyst, a Chartered Alternative Investment Analyst, and a Financial Risk Manager from the Global Association of Risk Professionals. He holds an MBA (specialising in Finance) from the Narsee Monjee Institute of Management Studies, Mumbai, India.

Amal Al Nasser - Head of Operations
Joined SICO in 1997

Amal has more than 27 years' banking experience. She was Head of Operations at SICO for 10 years before being appointed General Manager of SFS, a wholly-owned subsidiary of SICO, on its establishment in 2006. Amal resumed her role as Head of Operations at SICO in 2010. Before joining SICO, she spent 10 years with ALUBAF Arab International Bank in Bahrain, working in the areas of credit, investment and commercial banking operations. Amal holds a BA degree in Economics from Poona University, India.

Nadia Albinkhalil - Head of HR & Administration
Joined SICO in 1995

Nadia has more than 32 years' professional experience. She has been with SICO since its establishment, during which time she established the HR & Administration department as well as being responsible for Board meetings administration. Prior to joining SICO, she provided administrative support for the Private Banking Unit of Chase Manhattan Bank. Nadia holds a Diploma in Office Management from Bahrain University. She was honoured by HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King and Chairperson of the Supreme Council for Women; and also by the University of Bahrain; for her contribution to the Kingdom's banking and financial sector, as part of Bahrain Women's Day 2015.

Nadeen Oweis - Head of Corporate Communications
Joined SICO in 2008

Nadeen has over 16 years' professional experience. Prior to joining SICO, she was in charge of corporate communications and public relations for Microsoft in Bahrain. Before this, she handled regional accounts for Lowe Contexture, a regional branding and communications consultancy based in Bahrain. Previous experience includes working for Proctor & Gamble Jordan and managing the advertising and promotions account for Radio Fann FM in Jordan. Nadeen holds a Master's degree in Diplomatic Studies from the Jordan Institute of Diplomacy; and a Bachelor's degree in Law from Jordan University.

Ismail Sabbagh - Head of Information Technology
Joined SICO in 2007

Ismail has over 19 years' experience in the fields of Management consulting and Information technology. Prior to joining SICO, he worked with BDO Consulting as Management Consulting Manager; Microsoft Cooperation as Technical Consultant for Dynamics ERP and CRM solutions , and Program Manager; and New Horizons as senior IT Trainer and business consultant. Ismail holds a Bachelor degree in Computer Science from the Lebanese American University of Beirut, Microsoft certified professional in MCSE , MCSA, and Project Management Professional (PMP).

Amr Galal - Head of Client Relations
Joined SICO in 2004

Amr has over 20 years' experience in banking and information technology. He joined SICO as a Systems and Network Administrator, and was appointed to his present position in 2006. Prior to SICO, he spent eight years working for IT and computer companies in Egypt and Bahrain. Amr holds a BSc degree in Commerce and Business Administration from the University of Helwan, Cairo, Egypt.

Joseph Thomas - Head of Internal Audit
Joined SICO in 2015

Joseph has over 13 years' experience in internal audits, assurance engagements and other financial advisory services. Prior to joining SICO, he was Head of Internal Audit at Global Banking Corporation. Before this, he worked with the Risk Consulting division of KPMG Bahrain, where he led risk-based internal audits for conventional and Sharia-compliant investment banks, firms and other entities. He began his career with Bharat Overseas Bank in India, followed by an internal audit role at the South Indian Bank. He later led assurance engagements as Audit Manager for a Dubai-based auditing firm, and also held the position of Partner in their Bahrain office. Joseph is a Chartered Accountant, a Certified Internal Auditor, and a Member of the Institute of Internal Auditors (USA); and holds a Bachelor of Commerce degree.

Sreeni Konnat - Acting General Manager
SICO Funds Services Company (SFS)
Joined SICO in 1998

Sreeni has a total of 23 years' professional experience, with the majority of this time spent in funds administration, financial control and accounting, and back office operations. He joined SICO in 1998 in the Financial Control department; and was appointed Head of Asset Administration with the Bank's subsidiary, SICO Funds Services Company (SFS) in 2007. Prior to SICO, Sreeni was Back Office Supervisor and Systems Administrator with GWK Bank-Bahrain; and Chief Accountant with Al Namal Group of Companies in Bahrain. He holds a BSc degree in Chemistry (with Maths and Physics) from the University of Calicut, India; and has completed Intermediate Level certification from the Institute of Chartered Accountants, India.

Bassam A. Khoury - General Manager
SICO UAE
Joined SICO in 2008

Bassam has over 30 years' international experience in brokerage, investments and financial consultancy. He was Head of Brokerage at SICO from 2008 to 2010, before leaving to join QInvest, Qatar as Head of Regional Brokerage. Prior to rejoining SICO in 2013 as General Manager of SICO UAE, Bassam was Chief Executive Officer of Bahrain-based ABC Securities. Previously, he worked with Banque Saudi Fransi in Saudi Arabia; BMB Investment Bank and Lehman Brothers in Bahrain; a private family office in Paris; and M Sternburg & Company in the USA. Bassam holds a BSc degree in Business Administration & Economics from King's College, New York, USA.

Governance Framework

SICO's Corporate Governance framework comprises Board and Committee Charters; Directors' Handbook; Code of Business Conduct; operational policies and procedures; internal controls and risk management systems; compliance procedures; internal and external audit; effective communications and transparent disclosure; and measurement and accountability.

Code of Business Conduct

SICO conducts itself in accordance with the highest standards of ethical behaviour. A Code of Conduct for SICO Staff has been developed to govern the personal and professional conduct of all employees. The Code of Conduct outlines areas of conflict of interest; confidentiality; fair and equitable treatment; ethics and acting responsibly, honestly, fairly and ethically; and managing customer complaints. A Whistleblowing Policy and Procedures is included within the Code of Conduct for SICO Staff.

Compliance And Anti-Money Laundering

As a licensed conventional wholesale bank and listed company, SICO has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse. The Bank has an independent Compliance unit in keeping with Basel and CBB guidelines. The Compliance unit acts as the central coordinator for all matters relating to regulatory reporting and other requirements.

The Kingdom of Bahrain's Government has agreed to sign Intergovernmental Agreement Model 1 with the United States of America. SICO has therefore registered itself as Registered Deemed-Compliant Financial Institution (including a Reporting Financial Institution under a Model 1 IGA) with the Internal Revenue Service, and obtained a Global Intermediary Identification Number for the Bank and its subsidiaries.

Anti-money laundering measures are also an important area of the Compliance unit, with a designated Money Laundering Reporting Officer (MLRO) and Deputy MLRO. The Bank has documented anti-money laundering and combating the financing of terrorism procedures, in conformity to the regulatory requirements in the Kingdom of Bahrain. SICO has implemented a risk-based automated transaction monitoring system, which further enhances the Bank's anti-money laundering measures in line with the regulations of the CBB.

Corporate Communications

SICO conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate website, and regular announcements in the appropriate local media. To ensure disclosure of relevant information to all shareholders on a timely basis, the Bank publishes its annual report and the past ten years' financial statements on the corporate website - www.sicobahrain.com.

Related Party Transactions & Conflict of Interest

The Directors make every practicable effort to arrange their personal and business affairs to avoid a conflict of interest situation with the Bank. The Directors disclose their interests in other entities or activities to the NRCG committee on an annual basis, and inform the Bank of any conflict of interest whenever it arises, and abstain from voting on any related subject matter. The Bank reviewed all such transactions during 2015, and there were no transactions involving potential conflicts of interest which need to be brought to the shareholders' attention. The related party transaction details are disclosed in Note 25 to the Consolidated Financial Statements.

Remuneration of Board Members and Senior Management, and Fees Paid to External Auditors

The remuneration paid to Board members and senior management personnel are disclosed in Note 25 to the Consolidated Financial Statements. The information on fees paid to External Auditors for audit and other services will be available to the CBB and shareholders upon request, provided such disclosure does not impact the interest of Bank.

Compliance with CBB's High Level Controls Module

Every conventional bank licensee is expected to comply with rules and guidance mentioned in the High Level Control Module issued by the CBB under Rulebook Volume 1. Any non-compliance with the HC Module needs to be explained by disclosure in the annual report to shareholders and the CBB.

SICO is in compliance with HC Module except for the following:

As per **HC 1.4.6& 1.4.8,** the Chairman of the Board of Directors should be an independent and non-executive director.

SICO's Chairman, Shaikh Abdulla bin Khalifa Al Khalifa is considered as a non-independent and executive director as he is representative of the major shareholder of SICO. The Bank obtained exemption from the CBB for complying with the above-mentioned requirement.

SICO's total compensation approach, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and Senior Management, and the key factors that are taken into account in setting the policy.

The current revised policy framework and incentive components were approved by the shareholders at the Annual General Meeting held on 23 March 2015. The policy is to be effective from the 2014 annual performance incentives onwards

The key features of the approved remuneration framework are summarised below.

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. SICO's variable remuneration policy will be driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. SICO's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (NRCGC).

The Bank's remuneration policy in particular considers the role of each employee, and has set guidance on whether an employee is a Material Risk Taker and/or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if he/she is the Head of a significant business line, or any individuals within their control who have a material impact on the SICO's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term, but also importantly on how it is achieved, since the NRCGC believes the latter contributes to the long-term sustainability of the business.

NRCGC role and focus

The NRCGC has oversight of all reward policies for the Bank's employees. The NRCGC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRCGC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRCGC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for Approved Persons and Material Risk-Takers, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks, and that the remuneration system takes into consideration employees who earn the same short-run profit, but take different amounts of risk on behalf of the Bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits.

- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCGC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board Members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law 2001.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent. The NRCGC comprises the following members:

NRCGC Member Name	Number of meetings attended
Mr. Anwar Abdulla Ghuloom Ahmadi @	2
Mr. Fahad Murad Chairman of the NRCGC committee	4
Mr. Mohammed Abdulla Isa	4
Mr. Mahmoud Al Zewam Al Amari #	2

@ denotes committee member effective till May 2015

# denotes committee member joined w.e.f May 2015

The aggregate remuneration paid to NRCGC members during the year in the form of sitting fees amounted to BHD X [2014: BHD 7,000].

External consultants

The NRCGC appointed consultants during the year to perform a pay benchmarking exercise to assist it in reviewing the total compensation offered by the Bank.

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a Group-wide basis. However, application of deferral requirements and issue of non-cash instruments for each subsidiary of the Bank will be determined by applicable local regulations and market norms.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies Law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRCGC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity, risk diversification, strategy implementation and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

Variable remuneration for staff (continued)

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRCGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

SICO uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRCGC.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows SICO to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives, and is not to be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environment, apart from value-adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits, but take different amounts of risk on behalf of the bank, are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, SICO considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The NRCGC considers whether the variable remuneration policy is in line with the SICO's risk profile, and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues' timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the strategic measures. SICO undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Bank's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

1. The cost and quantity of capital required to support the risks taken;
2. The cost and quantity of the liquidity risk assumed in the conduct of business; and
3. Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRCGC keeps itself abreast of the Bank's performance against the risk management framework. The NRCGC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

Risk adjustments
The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met, and hence employee performance ratings will be lower.
- Reduction in the value of deferred shares or awards.
- Possible changes in vesting periods and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRCGC, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework
The Bank's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted, or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer-term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's awards can only be taken by the Bank's NRCGC. The NRCGC takes into account the advice of the CEO, and Risk, Finance and HR Departments as appropriate.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation or where his/her actions have amounted to misconduct, incompetence or negligence.
- The employee's business unit suffers a material downturn in its financial performance or a material restatement of the financial statements of the Bank.
- The employee's business unit suffers a material risk management failure.
- An employee deliberately misleading the market and/or shareholders in relation to the financial performance of the Bank.
- A significant deterioration in the financial health of the Bank.
- If the Bank and/or relevant line of business is incurring losses in any year during the vesting period, any unvested portions will be subject to malus.

Components of Variable remuneration

Variable remuneration has following main components:

Upfront cash — The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.

Deferred Cash — The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years

Deferred share linked awards — The portion of compensation that is awarded and paid in the form of share linked instruments. The conditions for granting and vesting of shares vary in accordance with the Banks ESOP policy. These awards are granted in following categories:

Salary based awards Provides for up to 5% of annual salary in the form of share awards which are settled at the end of employment.

Bonus based awards Granted to employees as a percentage of annual variable compensation in the form of deferred share awards which rateably vests based on completion of predefined service conditions.

All deferred awards are subject to malus provisions. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's ESOP Scheme. Any dividend on these shares is released to the employee as and when it is declared.

Deferred compensation

All employees above a defined grade shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, her deputies and other 5 most highly-paid business line employees	Deferral period	Retention	Malus	Clawback
Upfront cash	40%-80%	immediate	-	-	Yes
Deferred share awards	20%-60%	Minimum 3 years and up to end of employment	Minimum 6 months and up to end of employment	Yes	Yes

The NRCGC, based on its assessment of role profile and risk taken by an employee, could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

	2015	2014
• Sitting Fees		37
• Remuneration		130
• Others		10

(b) Employee remuneration

2015

BD 000's	Number of staff	Total Fixed Remuneration		Sign on bonuses	Guaranteed bonuses	Variable Remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / shares	(Cash / shares)	Cash	Shares	Cash	Shares	Others	
Approved persons		965,									
- Business lines											
- Control & support											
Other material risk takers											
Other staff of Bahrain Operations											
Staff of subsidiaries											
TOTAL											

2014

BD 000's	Number of staff	Total Fixed Remuneration		Sign on bonuses	Guaranteed bonuses	Variable Remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / shares	(Cash / shares)	Cash	Shares	Cash	Shares	Others	
Approved persons	9										
- Business lines	9										
- Control & support											
Other material risk takers	15										
Other staff of Bahrain Operations	55										
Staff of subsidiaries	21										
TOTAL	107										

Notes:
The amounts reported above represent actual awards for 2015 and 2014 rather than accruals and changes in value of prior period awards. Accordingly, the numbers and amounts reported above may not necessarily agree with numbers/ amounts reported in the financial statements.

(c) Deferred awards

2015

BD 000's	**Cash** (BHD)	**Shares** Number	**Shares** (BHD)		
Opening balance					
Awarded during the period					
Paid out / released during the period					
Service, performance and risk adjustments					
Changes in value of unvested opening awards					
Closing balance					

2014

BD 000's	Cash (BHD)	Shares Number	Shares (BHD)		
Opening balance		13,033,753	1,876,860		
Awarded during the period		3,060,467	446,828		
Paid out / released during the period		656,873	84,939		
Service, performance and risk adjustments			15,103		
Changes in value of unvested opening awards					
Closing balance		15,437,347	2,253,853		

Notes:

1. The above table summarises the movement in all categories of share awards (i.e. fixed and variable remuneration) issued by the Bank to its employees.
2. The amounts and number of shares reported above include the gross value of awards and are not based on the proportion based charge recognised in the financial statements over the vesting period of awards.

EXECUTIVE SUMMARY

This Risk and Capital Management Disclosures encompass the qualitative and quantitative disclosures required by the CBB in compliance with the Basel III guidelines.

The information presented herein pertains to Securities and Investment Company BSC (c) consolidated with its subsidiaries (together termed as "SICO" or the "Bank").

The report contains a description of the Bank's risk management and capital adequacy practices, including detailed information on the capital adequacy process.

The disclosures have been prepared in accordance with the Public Disclosure Module ("PD") of the CBB Rule Book, Volume I for Conventional Banks. These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank's Consolidated Financial Statements for the same period.

These disclosures have been reviewed by the Bank's external auditors KPMG, based on agreed upon procedures as required under Para PD-A.2.4 of the PD Module.

Contents

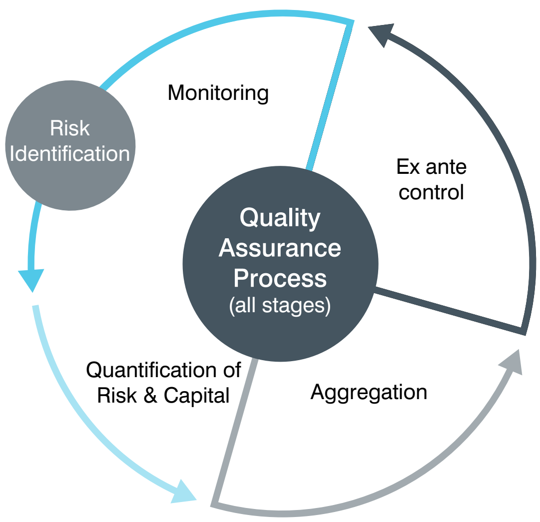
1. OVERVIEW AND STRUCTURE OF RISK MANAGEMENT

Risk management is the systematic process of identifying, assessing and mitigating the principal business risks to which SICO is exposed. Risk management is essential to the Bank's success, as risk is inherent in its activities, and risks are mitigated by having established appropriate controls; and ensuring that all appropriate monitoring and reporting processes are in place.

The major risks types to which SICO is exposed are:

- Market risk
- Credit risk
- Concentration risk
- Liquidity risk
- Operational risk
- Compliance risk
- Fiduciary risk

The Bank maintains a strong focus on its risk management framework, capital management and risk governance structure; and adopts a structured, consistent and disciplined methodology to align business strategy, processes, people, technology and knowledge, in order to evaluate and manage its risks. The Bank's approach is based on a simplified risk management framework for active investment banks with non-complex activities or transactions. The stages in the risk management process are as follows:



- **Risk identification:** Identification of the various risks that impact the various business activities of SICO.
- **Quantification of risks and capital coverage:** This step is to quantify the risks identified in the risk identification process. It creates the objective basis for decision-making, and enables Senior Management to make decisions regarding SICO's risk-bearing capacity within the framework.
- **Aggregation:** Once risks have been identified and quantified, individual risks are aggregated to determine SICO's risk exposure and impact.
- **Ex ante control:** SICO has established various tolerance limits based on the overall risk strategy of the Bank. These limits are revised periodically, taking into account the changing market and economic conditions. SICO has established a comprehensive limit framework to monitor its exposure to all significant applicable risks.
- **Risk monitoring and ex post control:** The risk monitoring process ensures that SICO's risk profile remains in line with its risk preferences. In this context, there is a standardised procedure for dealing with increasing levels of limit utilisation and limit overruns.

The Bank also applies a rigorous framework of limits to control risk across multiple transactions, products, businesses and markets. This includes setting credit and market risk limits at a variety of levels, and monitoring these limits on a daily basis. Limits are typically set at levels that may be periodically exceeded, rather than at levels which reflect the Bank's maximum risk appetite.

2. RISK GOVERNANCE STRUCTURE

SICO has established a well-disciplined control functions organisational structure to support the business strategy and risk management of the Bank.

SICO's Board and Senior Management are responsible for understanding the nature and level of risks faced by the Bank, and for ensuring that the risk management process chosen is appropriate, considering the risk profile of SICO. Senior Management are responsible for ensuring that there is a process to relate the business risk to an adequate level of capital; setting the tolerance for various risks, and putting in place the framework and process for measuring and monitoring compliance.

BOARD

↓

Board Committees		
Audit Committee	Board Investment Committee	Nominations, Remuneration & Corporate Governance Committee

↓

Management Committees		
Assets, Liabilities and Investment Committee	Management Committee	Assets Management Committee

↓

Control Units		
Risk Management Department	Compliance	Internal Audit

- **Board of Directors (BOD):** The BOD is primarily responsible for approving the Bank's risk strategy/appetite, sound policies, guidelines and procedures to manage risks arising out of SICO's business activities. These policies are consistent with the Bank's broader business strategies, capital strength, management expertise, and ability to control risk.
- **Board Investment Committee (BIC):** The BIC is the second point where decision making of SICO's investment activities is considered. This committee approves investments within its discretionary powers as delegated by the Board; and in some cases the BIC recommends proposals to the Board for its approval.
- **Audit Committee:** In addition to its overview of Internal Audit, the Audit Committee provides sound support to the compliance framework, which includes internal, regulatory and operational Risk.
- **Nominations, Remuneration and Corporate Governance Committee (NRCGC):** The NRCGC contributes to the control framework by nominating qualified Board Members and the CEO. It also approves the remunerations which factor in the risk taken by the business, and also looks into corporate governance-related issues.
- **Management Committee (MC):** The MC is a management committee that comprises the Bank's Senior Management members. It reviews the overall performance of the Bank, discusses and assesses implications of new initiatives, and contributes to the ongoing strategy of the Bank.
- **Assets, Liabilities and Investment Committee (ALIC):** ALIC is a management committee that sets the investment philosophy and guidelines, and monitors the performance of the proprietary investments and Treasury activities.
- **Assets Management Committee (AMC):** AMC is a management committee that oversees the fiduciary responsibilities carried out by Asset Management in managing clients' discretionary portfolios, as well as the funds operated and managed by SICO.
- **Risk Management Department (RMD):** RMD is responsible for establishing a sound risk management framework and appropriate risk structures to assist the Bank in the realisation of its business objectives and continued development. It also provides oversight of risk management and risk controls across the organisation by coordinating and communicating with each business unit to manage the risks that arise for its business activities; and ensure that the principles and requirements of managing risk are consistently adopted throughout the Bank.

2. RISK GOVERNANCE STRUCTURE (continued)

- **Compliance Unit:** This is an independent unit within SICO that is responsible for internal compliance, regulatory compliance, and KYC & AML functions. It mainly ensures compliance with internal and external rules and regulations, and is responsible for implementing the compliance framework across the entire Bank.
- **Internal Audit:** This is an independent unit that provides an additional line of defence within the Bank's risk management and control framework. Internal Audit is primarily responsible for providing independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Bank is appropriate and effectively applied by the business units, control functions and Senior Management.

3. CBB AND BASEL GUIDELINES

CBB Rulebook:

The Central Bank of Bahrain's (CBB) Basel III guidelines prescribe the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. During 2014, the CBB introduced these guidelines and all banks in Bahrain were directed to comply with them.

This disclosure document has been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD") which comes under Volume 1 (Conventional Banks) of the CBB Rulebook. This quantitative disclosure document follows the requirements of Basel II - Pillar 3.

BASEL III Framework:

Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. Basel III measures aim to:

- Improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- Improve risk management and governance
- Strengthen banks' transparency and disclosures.

The Basel III Guidelines are based on the same three pillars of Basel II, with the introduction of additional liquidity requirements and capital buffers aimed at improving the ability of banks to withstand periods of economic and financial stress. The existing Basel II pillars are as follows:

- Pillar 1 - Describes the minimum capital requirements by applying risk-based methodology in the calculation of the risk weighted assets (RWAs) and capital requirement for the major asset classes to derive the capital adequacy ratio (CAR).
- Pillar 2 - Describes the supervisory review processes, which includes the Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar 3 - Describes market discipline, which includes disclosure of the risk management process, and capital adequacy requirements and guidelines.

BASEL II		
Pillar 1	**Pillar 2**	**Pillar 3**
Minimum Capital Requirements	**Supervisory Review Process**	**Market Discipline**
Risk based capital requirements for: - Credit Risk - Market Risk - Operational Risk	**Regulatory Framework for Banks:** Internal Capital Adequacy Assessment Process (ICAAP) **Supervisory Framework:** Supervisory Review & Evaluation Process	**Disclosure requirement for banks:** - Specific quantitative and qualitative disclosures - Transparency for market participants concerning the bank's risk position (scope of application, risk management etc.) - Enhanced comparability of banks

Pillar 1

It lays down the basis for the calculation of the regulatory Capital Adequacy Ratio (CAR). Pillar 1 sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs.

Below are the approaches used for deriving the CAR.

Approaches for determining regulatory capital requirements		
Credit Risk	**Market Risk**	**Operational Risk**
Standardized Approach Foundation IRB Approach (Internal Ratings Based) Advanced IRB Approach (Internal Ratings Based)	Standardized Approach Internal Models Approach (IMA)	Basic Indicator Approach Standardized Approach Advanced Measurement Approach (AMA)

SICO has adopted the Standardized Approach for Credit Risk and Market Risk, and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

Pillar 2

It sets out the supervisory review and evaluation process of an institution's risk management framework, and accordingly its capital adequacy through ICAAP.

The supervisory review and evaluation process represents the CBB's review of the Bank's capital management, and an assessment of internal controls and corporate governance. The process is designed to ensure that institutions identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks. The process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks, in addition to the credit, market and operational risks addressed in the core Pillar 1 framework.

Other risk types which are not covered by the minimum capital requirements in Pillar 1 include liquidity risk, interest rate risk in the banking book, business risk and concentration risk. These are covered either by capital, or risk management and mitigation processes under Pillar 2.

Pillar 2 also comprises an Internal Capital Adequacy Assessment Process (ICAAP). ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the Bank is exposed. The ICAAP addresses all components of the Bank's risk management, from the daily management of more material risks to the strategic capital management of the Bank. The brief and final ICAAP will be based on the Bank's economic capital framework, which is designed to ensure that SICO has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of economic or financial stress.

Pillar 3

It describes the level of qualitative and quantitative information that should be disclosed about an institution's risk management and capital adequacy practices.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half-year reporting, whereas full disclosure is required to coincide with the financial year-end reporting.

Scope of Application

SICO is a conventional wholesale bank incorporated in Bahrain and regulated by the CBB. SICO provides investment banking services on a regional basis, with a principal focus on the GCC. There is a regulatory requirement to calculate and maintain minimum regulatory capital ratios on both a solo as well as consolidated basis.

The principal subsidiaries that are fully consolidated in the financial statements of SICO are SICO Funds Services Company BSC (c) ("SFS"), incorporated in Bahrain, and providing custody and fund administration services; and SICO UAE LLC (acquired September 2011), incorporated in Abu Dhabi and providing brokerage services in the UAE.

The adoption of IFRS 10 resulted in the Group also consolidating SICO Kingdom Equity Fund ("SKEF") and SICO Fixed Income Fund ("SFIF").

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4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

For the purpose of computing the regularity capital adequacy ratio, the Bank applies the methodology and rules as defined in the CA Module of the CBB's Rule Book. The following also need to be considered:

a) The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights, and the Bank does not have any other type of capital instruments.

b) The Bank's Tier 1 capital, which consists of Common Equity Tier 1, comprises share capital, share premium, reserves, retained earnings, unrealised losses arising from fair valuing equity securities classified as available-for-sale and eligible reserves.

c) The Bank does not maintain any AT1 and Tier 2 capital components.

d) The Bank has prepared its capital structure in accordance with the CBB's Basel III capital adequacy framework

e) The Bank has no subsidiaries and/or investments that are required to be deducted from capital.

f) The Bank has no restrictions on the transfer of funds or regulatory capital within the Group, other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

4.1 CAPITAL STRUCTURE

	2015
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	**42,849**
Less: Employee stock incentive program funded by the bank (outstanding)	**(1,599)**
General Reserve	**3,217**
Legal / Statutory reserves	**5,735**
Share Premium	**692**
Retained Earnings Brought forward	**5,266**
Gross unrealised loss arising from fair valuing equity securities	**2,846**
Securitisation exposures subject to deduction	**-**
Unrealised gains and losses on available for sale financial instruments	**248**
Unrealised gains and losses from fair valuing equities	**(816)**
Total Common Equity Tier 1 Capital (A)	**58,438**
Other Capital (AT1 & Tier 2)	
Instruments issued by parent company	**0**
Instruments issued by banking subsidiaries to third parties	**0**
Share premium	**0**
Assets revaluation reserve - property, plant, and equipment	**0**
General loan loss provisions	**0**
Total AT1 & Tier 2 (B)	**0**
Total Available Capital (C) = (A) + (B)	**58,438**
Credit risk weighted exposures	**73,214**
Market risk weighted exposures	**19,673**
Operational risk weighted exposures	**16,108**
Total Risk weighted exposures (D)	**108,995**
CET1 Capital Ratio (A) / (D)	**53.62%**
Total Capital Adequacy Ratio (C) / (D)	**53.62%**

4.2 CAPITAL ADEQUACY RATIO

Consolidated & Subsidiaries above 5% of Group capital:

	31 December 2015	
Subsidiaries	**Total Capital Adequacy Ratio**	**Tier 1 Capital Ratio**
SICO Consolidated (Group)	53.62%	53.62%
SICO UAE*	9.67%	4.38%

** SICO UAE CAR has been computed using the capital charges as outlined in Emirates Securities and Commodities Authority (ESCA) regulations, wherein the minimum required ratio is 1 with anything above 1.25 considered healthy.*

4.3 REGULATORY CAPITAL DISCLOSURES

The capital reconciliation approach shows the link between the balance sheet in the published financial statements and the numbers that are used in the composition of capital disclosure.

For the three-step approach for reconciliation of regulatory capital, please refer to the relevant appendix as follows:

Appendix 1 Step 1: Balance sheet under the regulatory scope of consolidation

Appendix 2 Step 2: Reconciliation of published financial balance sheet to regulatory reporting

Appendix 3 Step 3: Composition of Capital Common Template (transition)

Appendix 4 Disclosure template for main feature of regulatory capital instruments

5. CREDIT RISK

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. The Bank's exposure to credit risk comes mostly from:

- Cash placed with banks and financial institutions
- Fixed Income instruments
- Overdrafts (brokerage clients)
- Receivables from brokers
- Securities financing transactions (i.e. REPO and Reverse REPO)
- Margin Trading Facilities
- Counterparties

Risk Management works in coordination with the business in identifying and aggregating credit exposures.

Credit risk also encompasses the following risks to which SICO is exposed, and are being effectively managed as a part of the Credit Risk Management strategy:

Counterparty Risk: SICO deals with different counterparties for its money market placements, brokerage and REPO. To measure counterparty risk, SICO employs several methodologies for estimating the likelihood of obligor or counterparty default, for which SICO uses an internal rating model to assign ratings to each of its counterparty by applying qualitative and quantitative factors.

Settlement Risk: SICO is exposed to settlement risk through its brokerage services on unfunded deals where exposure remains until settlement. SICO applies several assessments against its clients during the screening and on a subsequent basis to minimise settlement risk.

Default Risk: As part of SICO's Margin Trading facilities and Reverse REPO, it is exposed to the risk of default wherein individuals and corporates may be unable to make the required payments on their obligations. SICO accepts only liquid securities as collateral, and also apply haircuts on the collateral value, which acts as a margin of safety in case it is to offset the collateral against the outstanding obligations.

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5. CREDIT RISK (continued)

For the measurement of the above credit risk components, SICO employs several methodologies for mitigating the credit risk. SICO also uses ratings issued by rating external credit assessment institutions (ECAIs) which are also called rating agencies, such as Standard & Poor's, Moody's and Fitch, to derive the risk weightings under the CBB's Basel II capital adequacy framework and as part of its internal rating model. These ratings are used mainly for banks and financial institutions, but also where applicable, for other exposures such as debt instruments. Where ratings vary between rating agencies, the most conservative measure is adopted.

Credit risk is monitored and controlled by policies and practices that are put in place by RMD, and that have been approved by the Management and the Board where required. The policy framework establishes approval authorities, concentration limits, risk-rating methodologies, and guidelines for management of exposures. For lending exposures such as Margin Trading and Reverse REPO, financial securities that are obtained as collateral are liquid in nature, and appropriate haircuts are also applied on them. The lending exposures are closely monitored along with their collaterals, which are marked to market on a daily basis including triggers like margin calls. The Bank also adheres strictly to the large exposure norms as prescribed by the Central Bank of Bahrain under the Credit Risk Management Module.

5.1 Gross credit exposures

	Gross credit exposure				
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)	TOTAL	Credit Risk Weighted Assets	Capital requirement @ 12%
Claims on Sovereigns	14,070	-	**14,070**	-	-
Claims on Bahraini PSE	500	-	**500**	-	-
Claims on Banks	53,704	-	**53,704**	40,771	4,892
Claims on Corporates	7,945	-	**7,945**	7,659	919
Investments in Securities	2,568	-	**2,568**	1,926	231
Holdings in Real Estate	17,477		**17,477**	19,828	2,379
Other Assets	252	-	**252**	504	60
TOTAL	**1,820**	**-**	**2,552**	**2,527**	**303**

The on-balance sheet and off-balance sheet gross exposures have been risk weighted using the applicable risk weights and CCF's (credit conversion factors).

The balances above are representative of the position during the period; hence the average balances for the year are not separately disclosed.

5.2 Maturity Profile of the Credit Portfolio

	Less than 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
Cash and Bank balances	61,224	500	-	-	-	**61,724**
Trading Debt Securities	-	-	900	6,814	1,005	**8,719**
AFS Debt Securities	-	-	-	5,151	7,366	**12,517**
Other assets	4,244	132	-	501	-	**4,877**
Total gross credit exposures	**65,468**	**632**	**900**	**12,466**	**8,371**	**87,837**
Commitments and contingencies	**678**	**407**	**378**	**-**	**-**	**1,463**

Note: None of the exposures have a maturity period in excess of ten years. *The above table excludes prepayments and furniture & fixtures.*

5.3 Sectoral distribution

	Cash & Bank balances	Treasury bills	Held-For-Trading	AFS Investment	Other assets	On-balance sheet	Off-balance sheet
Financials	60,974		7,111	11,876		**79,962**	**61,724**
Telecom			161	-		**161**	**8,719**
Real Estate			2,480	629		**3,109**	
Services			1,430	2,609		**4,038**	
Materials			144	300		**443**	
Health Care			178	-		**178**	
Industrials			825	255		**1,079**	
Funds			286	11,420		**11,706**	**12,517**
Sovereign		750	1,509	3,152		**5,411**	
Other			134	3	4,901	**5,038**	**1,463**
TOTAL	60,974	750	14,258	30,244	4,901	**111,127**	**1,463**

Note: The above table excludes prepayments and furniture & fixtures.

5.4 Geographical distribution

	Cash & Bank balances	Treasury bills	Held-For-Trading	AFS Investment	Other assets	On-balance sheet	Off-balance sheet
GCC	60,974	750	12,627	16,083	4,901.36	**95,335**	**1,356**
MENA (ex-GCC)			1,422	2,109		**3,531**	**107**
North America			-	3,470		**3,470**	
Asia			74	4,699		**4,774**	
Europe			-	1,146		**1,146**	
Other (global)			134	2,736		**2,870**	
Total	60,974	750	14,258	30,244	4,901	**111,127**	**1,463**

Note: The above table excludes prepayments and furniture & fixtures

5.5 Impairment on available-for-sale investment securities

During the year to date period, the Bank has taken impairment on available-for-sale investments of BHD 140 thousand.

5.6 Large exposure limits

As at **31 December 2015**, the below exposures were in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

Counterparty	Country	Amount	Exposure as a % to eligible capital base
A	Qatar	10,018	17%

The above exposure consists of short-term interbank exposures to a party not connected to the Bank. Therefore, as per the rules defined in CBB's CM Module section CM-5.6, these types of exposure are exempt from the 15% exposure limit and are therefore not considered as a regulatory breach.

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6. MARKET RISK

Market risk (can also be considered as systematic risk) is the risk of loss in the value of any financial instrument due to an adverse fluctuation in equity prices, interest rates and foreign exchange rates, whether arising out of factors affecting a specific instrument or the market in general.

The Bank's exposure to market risk comes primarily comes from its investment and trading activities that are conducted by its Investment unit. The Bank invests and trades across different products, such as equities and fixed income, and through different types of funds in regional and international markets.

Market risk is controlled and mitigated primarily through a series of different layers of limits and maintaining a dynamic investment allocation. These limits reflect the Bank's risk appetite in the context of the market environment and business strategy. In setting limits, the Bank takes into consideration many factors, including market volatility, product liquidity and risk appetite.

These limits also are monitored independently by RMD, but in all cases the businesses are ultimately responsible for the market risks taken, and for remaining within their defined limits.

Market risk is monitored and also controlled by policies and practices that are put in place and practiced across the Bank. The policy framework establishes and clearly defines the approval authorities and portfolio review parameters.

Market risk also encompasses the following risks to which SICO is exposed, and are being effectively managed as a part of the Market Risk Management strategy:

- **Equity Price Risk**
- **Interest Rate Risk**
- **Currency Risk**

The market risk weighted assets and the capital requirement is computed as follows:

	Market Risk Weighted Assets			
	During the Year to date period			**Capital Requirement**
	Minimum	**Maximum**	**As at 31-Dec-2015**	**@ 12%**
Interest Rate Position Risk	723	2,214	723	87
Equities Position Risk	840	2,632	840	101
Foreign Exchange Risk	11	185	11	1
Total min capital required for market risk			**1,574**	**189**
Multiplier			12.5	12.5
TOTAL			**19,673**	**2,361**

6.1 Equity Price Risk

A significant portion of the Bank's proprietary trading and available-for-sale portfolios comprises equity instruments, and are therefore affected by equity price risk. Uncertain conditions in the equity markets are carefully considered by rebalancing asset allocations to minimise risk exposures. This risk is also mitigated by managing the portfolio within duly approved investment guidelines and other investment limits. These are closely monitored by RMD, and regularly reviewed by ALIC.

SICO's risk management approach continues to be forward-looking, proactive, and highly effective in rebalancing its investment portfolio in line with the Bank's investment strategy, to ensure capital preservation, quality and liquidity.

	Gross Exposure	**Capital requirement @ 12%**
Quoted Equities	**18,310**	2,197
Unquoted Equities	**4,954**	594
TOTAL	**23,264**	**2,792**

Equity Positions in the Banking Book

	Gross Exposure	Risk Weighted Assets	Capital requirement @ 12%
Equity investments			
- Listed	5,357	5,357	643
- Unlisted	323	485	58
Investment in rated funds	-	-	-
Investment in unrated funds - Listed/Unlisted	11,797	13,987	1678
TOTAL	**17,477**	**19,828**	**2,379**

6.2 Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates might adversely affect the Bank's financial condition. Investments in debt instruments, placements, deposits and borrowings give rise to interest rate risk. Treasury carefully monitors and manages these exposures in order to mitigate this risk.

A reasonable spread is maintained between money market placements and deposit interest rates. Treasury assets and liabilities are maintained in closely matching maturity buckets in highly liquid short-term money market vehicles to avoid any material mismatch. Medium-term debt instruments are largely intended to be held to maturity. SICO does not trade speculatively in derivatives.

6.2(a) Interest Rate Risk Sensitive Assets and Liabilities:

	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	17,649	**17,649**
Call deposits	-	2,900	-	-	**2,900**
Placements with banks	1.45%	40,425	-	-	**40,425**
Held-For-Trading	6.50%	899	7,820	5,539	**14,258**
Available-for-sale securities	5.09%	-	12,517	17,727	**30,244**
Treasury Bills	-	750	-	-	**750**
Held to Maturity	-	-	-	-	**-**
Furniture and equipment	-	-	-	1,435	**1,435**
Fees receivable	-	-	-	1,138	**1,138**
Other assets	-	-	-	3,968	**3,968**
Total Assets		**44,974**	**20,337**	**47,456**	**112,767**
Bank overdrafts	-	-	-	-	**-**
Short-term borrowings	0.95%	19,777	-	-	**19,777**
Deposits from customers	-	-	-	28,805	**28,805**
Payables to customers	-	-	-	-	**-**
Other liabilities	-	-	-	2,910	**2,910**
Payables to unit Holders	-	-	-	2,836	**2,836**
Total Liabilities		**19,777**	**-**	**34,551**	**54,328**
Total Equity				**58,439**	**58,439**
Total Liability and Equity	**-**	**19,777**	**-**	**92,990**	**112,767**
Interest rate sensitivity Gap		*25,197*	*20,337*	*45,534*	
Cumulative Interest rate sensitivity gap		**25,197**	**45,534**	**-**	

The Bank also applies stress testing to monitor interest rate shock on its banking book on a periodic basis.

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6.2 Interest Rate Risk (continued)

6.2(b) Interest Rate Risk in the Banking Book

A 100 bps and 50bps increase in market interest rates would affect the value of the fixed rate debt instruments in the available-for-sale portfolio as follows:

100 bps increase	50 bps increase
-230,061	-116,591

The interest rate risk on the Bank's placements and short term borrowings is considered minimal, and hence no sensitivity analysis has been presented. There has been no currency sensitivity analysis provided since the Bank invests in securities in BHD and other USD-pegged currencies only.

6.3 Currency Risk

A substantial portion of SICO's business is transacted in Bahraini Dinar, GCC currencies and United States Dollar. The Bank's exposure to foreign currencies is minimal and hence the foreign exchange risk is low. Foreign exchange rate risk is managed by applying appropriate limits that are set in accordance with the Bank's strategic plans and risk tolerance, determined by ALIC and approved by the Board of Directors. Treasury manages these positions on an ongoing basis, hedging such exposures as appropriate, while RMD along with ALIC regularly reviews such positions.

7. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human factors, or from external events. Unlike market or credit risks which are systemic in nature, operational risk is institution-specific and is inherent in the day-to-day operations of the Bank. This risk could arise from a broad spectrum of causes such as deficient transaction processing, business practices, workplace practices, system failures, human errors, business interruptions and damage to physical assets. Operational risk also includes internal and external fraud.

Operational risk also encompasses other risks and areas like:

- **Reputational Risk**
- **Legal Risk**

The Bank has in place sound internal control measures, consisting of an operating policies and procedures framework, compliance initiatives, and adequate and skilled personnel, which are the key to successful operational risk management. The Bank has a very conservative control philosophy, and adopts a number of mechanisms to manage this risk. These include a well-defined organisational structure, approved policies and procedures guidelines, segregation of duties, approval authorities, periodical reconciliations, and various limits. Internal Audit and Compliance functions support this activity.

The Bank has a process for monitoring operational risk by conducting Risks and Controls Self-Assessments, identifying key risks, and nominating Operational Risk Coordinators (ORCs) in each department to identify, monitor and report, prevent or control operational risks, and report any risk incidents to RMD on a timely basis. RMD will conduct an analysis of such incidents and follow up any corrective action required.

The operational risk weighted assets are computed as per the guidelines of the CBB which are as follows:

Average gross income for the past 3 years (excluding extraordinary and exceptional income)

	2012	2013	2015
Gross income	6,252	9,237	10,284
Average gross income (A)			8,591
Alpha (B)			15%
(C) = (A) * (B)			1,289
Risk weighted exposures (D) = (C) * 12.5)			**16,108**
Capital requirement @ 12% of (D)			**1,933**

8. OTHER RISKS

8.1 Concentration Risk

Concentration risk arises when the Bank's investments/placements exposure is concentrated with one or more related counterparties, or assets class, or sector, or geography. Weakness in the counterparty or assets, sector, or country may place SICO under considerable risk and potential loss.

The Bank complies strictly with the large exposure norms prescribed by the CBB in the CM Module of the CBB's rule book.

The geographic and sector distribution of the Bank's investments are disclosed in the financial statements, and the credit exposure geographic and sector distribution are disclosed under Section 5 (Credit Risk) of this report. The other exposures of the Bank consist mainly of cash and bank balances, and receivables from clients. These are concentrated predominantly in the GCC.

The Bank continues its effort to maintain an acceptable level of concentration in each of these categories by adhering to the limits set as per the Investment guidelines; and in return try to capitalise on growth opportunities in various strategies in the international market, and as diversification to the concentration risk in the region.

8.2 Liquidity Risk

Liquidity risk is the inability to meet contractual and contingent financial obligations, on- or off-balance sheet, as they come due, as a result of the potential inability to liquidate financial assets at the required time and price, in order to cope with a pay out of liabilities or investment obligations in assets. Such risk may arise from a depletion of cash and cash equivalents, investments turning illiquid, and mismatches in the maturity pattern of assets and liabilities. Measuring and managing liquidity needs are vital for the effective operation of investment banks. As the investment horizon remains uncertain due to market volatility, a high proportion of SICO's total assets is preserved in cash and cash equivalents from time to time.

The maturity profile of the Bank is disclosed in the Consolidated Financial Statements, and the maturity profile of the Credit Portfolio is disclosed under the Section 5 (Credit Risk) of this report.

The Bank's Treasury unit manages this risk by monitoring settlement obligations and maintaining sufficient liquid assets, including call deposits and short-term placements. The Bank's liquidity position is monitored on a daily basis, and maturity mismatches of Bank's maturity profile are also monitored and reported to the Board periodically.

8.3 Fiduciary Risks

Fiduciary risk is defined as the risk that monies entrusted to a financial institution through funds or trusts or agency accounts are (i) not properly managed, (ii) not used for the intended purposes; (iii) not properly recorded and accounted for; and (iv) do not achieve the value-for-money of their objectives.

The RMD carries out risk assessment on the various fiduciary activities by working alongside with the Bank's relevant lines of business and committees, to ensure that SICO fulfills its fiduciary duties against the asset management, fund administration and custody clients, wherein it adopts the appropriate standards relative to the fiduciary relationship with a client. Below are the various activities carried out by SICO and the Bank's subsidiary, SICO Funds Services Company (SFS), which can give rise to the following fiduciary risks:

Asset Management: Assets under management have a range of controls to support the quality of the investment process, supervised by the Asset Management Committee (AMC). There are operating policies and procedures, and Investment Guidelines, coupled with dedicated buy-side research and other guidelines, to support this activity. There are also strict operational controls to protect clients' assets, a Staff Code of Conduct and 'Chinese Walls' to avoid any conflicts of interest.

RMD and Compliance regularly monitor the activities of the Asset Management division, and report their findings and observations to the AMC, and in the periodic compliance reports sent to clients.

Custody and Fund Administration: The Bank's custody and fund administration activities are handled by SICO Funds Services Company (SFS), which operates as a standalone subsidiary. SFS has put in place a number of operating controls, including the monitoring and reporting of securities position reconciliations.

Corporate Finance: This activity is subject to legal and reputation risk. Such risks are mitigated by obtaining the necessary legal and regulatory approvals. Advisory and underwriting matters are monitored and controlled by Senior Management.

8. OTHER RISKS (continued)

8.4 Business Continuity

SICO has in place business continuity plans (BCPs) to ensure the Bank's business operations and functions are carried out in case of disturbances or unexpected events affecting business operations. The BCP provide each business line with the necessary guidelines and procedures in case of an emergency or disaster. The Bank has established a business continuity centre at a different location within the Kingdom of Bahrain, which maintains a full operational status and is capable of carrying out the majority of the Bank's operational activities. The effectiveness of the business continuity centre has been stress tested by conducting actual business for one day from the BCP site. Continuous updates of the BCP are performed annually, to ensure that it is kept up to date.

8.5 Compliance Risk

Compliance risk is risk of current and prospective risk to earnings or capital arising from violation of, or non-compliance with, laws, regulations, rules, prescribed practices, contractual agreements or ethical standards. A major source of this risk in the present context of regulatory regime, and as a licensed market operator, would be sanctions due to non-compliance with the regulatory directives. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential, and even to cessation of operations. Hence compliance has to ensure adherence with primary legislation, rules and standards issued by the Central Bank of Bahrain, the Bahrain Bourse, market conventions, and internal codes of conduct applicable to staff. SICO adopts a top-down approach to compliance, with the Board and Management leading by example.

APPENDIX 1

Step 1: Balance sheet under the regulatory scope of consolidation.

This step in not applicable to the Bank since there is no difference between the regulatory consolidation and the accounting consolidation, as they are identical.

APPENDIX 2

Step 2: Reconciliation of published financial balance sheet to regulatory reporting.

BHD 000's	Published Financial Statements	Consolidated PIR data	Ref:
Assets			
Cash and cash equivalents	60,974		
of which Cash and balances at central banks		20,549	a
of which Placements with banks and financial institutions		40,425	b
Treasury bills	750		
of which other assets		750	
Investments at fair value through profit and loss	14,258	14,258	
Available-for-sale investments	30,244	30,244	
Furniture, equipment and intangibles	1,435		
of which intangibles (computer software)		1,197	c
of which furniture and equipment		238	d
Fees receivable	1,138		
of which other assets		1,138	e
Other assets	3,968		
of which loans and advances (margin receivables)		2,394	f
of which interest receivable		288	g
of which other assets		1,286	h
Total assets	**112,767**	**112,767**	
Liabilities			
Short-term bank borrowings	19,777		
of which amounts relating to repo transactions		17,777	i
of which other short-term borrowings		2,000	j
Customer liabilities	28,805		
of which other liabilities		28,805	l
Other liabilities	2,910		
of which Interest payable		4	k
of which other liabilities		2,906	l
Payable to other unit holders (Other liabilities)	2,836	2,836	m
Total liabilities	**54,328**	**54,328**	
Shareholders' Equity			
Share Capital - eligible for CET1	42,849	42,849	n
Shares under employee share incentive scheme	(1,599)	(1,599)	o
Statutory reserve	6,427		
of which share premium		692	p
of which legal reserve		5,735	q
General reserve	3,217	3,217	r
Available-for-sale fair value reserve	(567)		
of which unrealised gains from fair valuing equities		(816)	s
of which unrealised gains from other financial instruments		249	t
Retained earnings	8,112		
of which retained earnings brought forward from previous year		5,266	u
of which net profits for the current period		2,846	v
Total shareholder' equity	**58,439**	**58,439**	
Total liabilities and equity	**112,767**	**112,767**	

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APPENDIX 3

Step 2: Reconciliation of published financial balance sheet to regulatory reporting.

Common Equity Tier 1 capital: instruments and reserves		**Ref:**
Issued and fully paid ordinary shares	42,849	n
Employee stock incentive program funded by the Bank (outstanding)	(1,599)	o
General reserves	3,217	r
Legal / statutory reserves	5,735	q
Share premium	692	p
Retained earnings	5,266	u
Current interim net income	2,846	v
Unrealised gains on other AFS instruments	249	t
Unrealised gains on AFS equities	(819)	s
Total CET1 capital prior to regulatory adjustments	**58,439**	
Other capital (AT1 & T2)	**-**	
Total capital	**58,439**	

APPENDIX 3

Disclosure template for main features of regulatory capital instruments

1	Issuer	Securities and Investment Company BSC (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SICO BI EQUITY (BLOOMBERG ID)
3	Governing law(s) of the instrument Regulatory treatment	Commercial Companies Law, Bahrain
4	Transitional CBB rules	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 41.25 million
9	Par value of instrument	100 fils per share
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1995
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable Coupons / dividends	NA
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

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