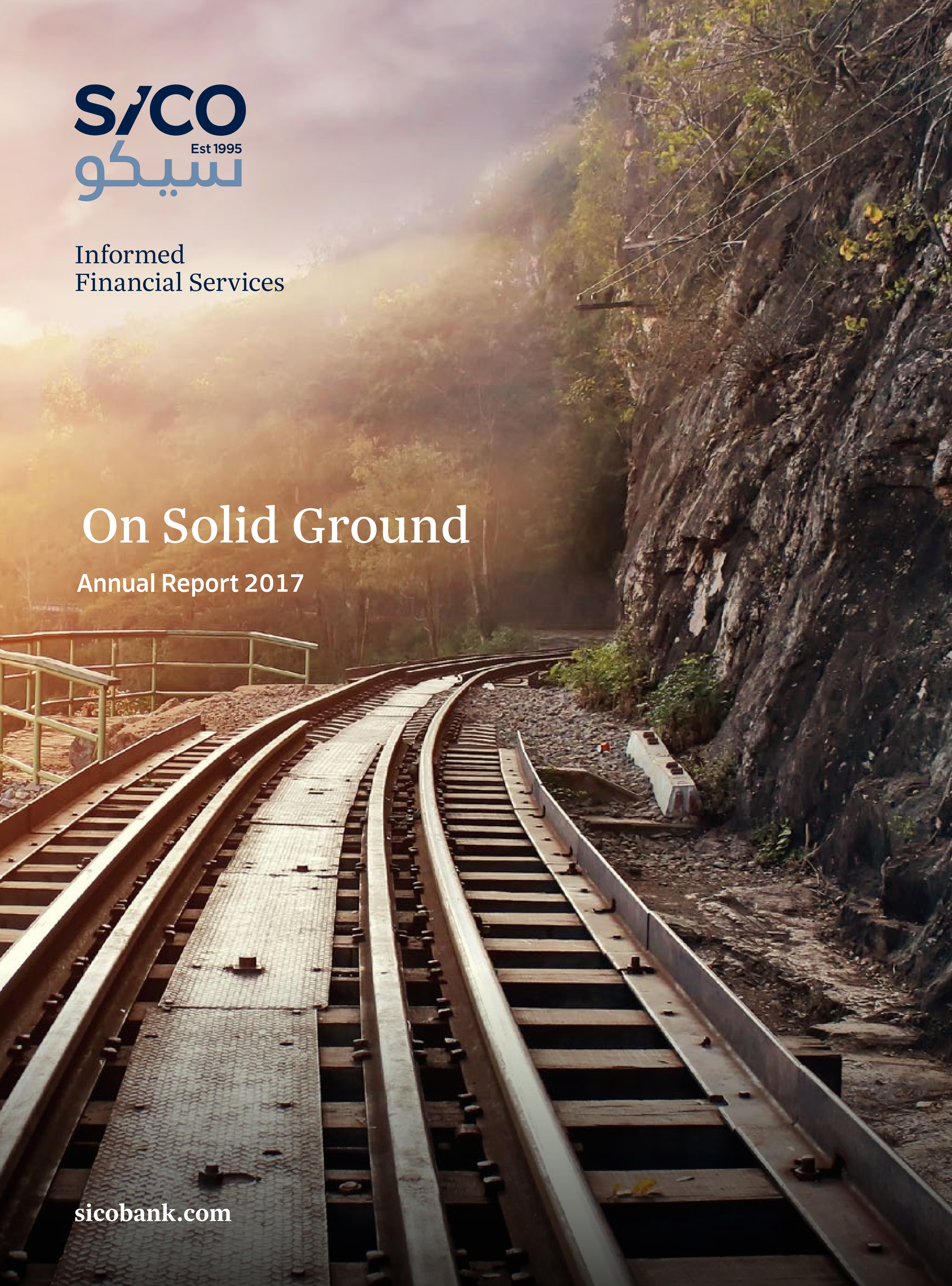


Informed
Financial Services

On Solid Ground

Annual Report 2017

sicobank.com

On Solid Ground

In a volatile year that continues to pose geopolitical challenges for the GCC, SICO has launched new products, attracted positive inflows and rolled out a full corporate rebranding that seeks to capture a more modern, forward-facing approach while remaining true to our essence as a niche GCC player. We know what we're good at and we're sticking to it because we believe a focused approach is more prudent in times of uncertainty. Let the others rise or fall while we remain on solid ground.

His Royal Highness Prince Khalifa bin Salman Al Khalifa

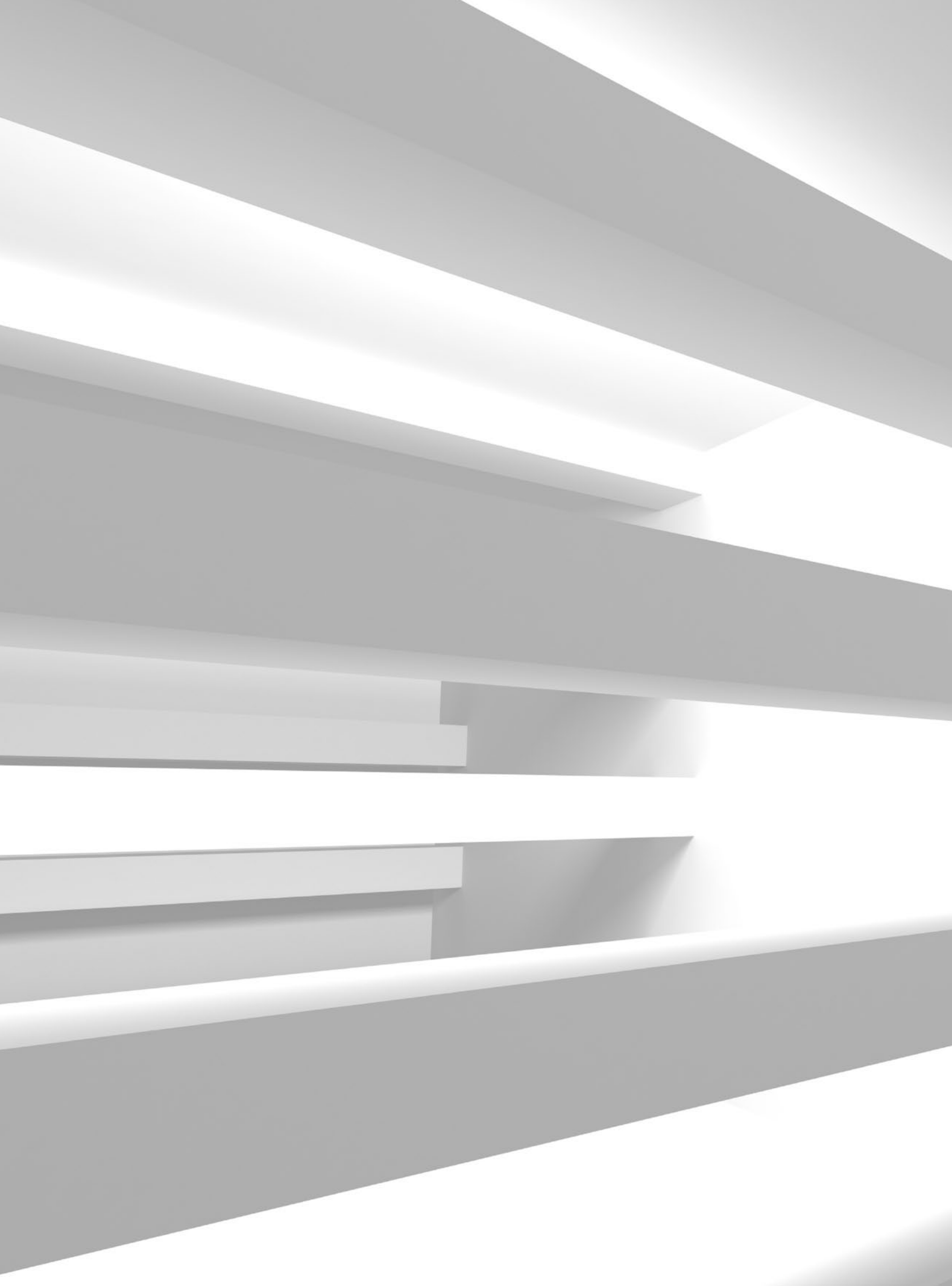
The Prime Minister of the Kingdom of Bahrain

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



Contents

SICO at a Glance

Informed Financial Services Since 1995

SICO is a leading regional asset manager, broker, and investment bank, with more than USD 1.23 billion in assets under management (AUM). Today, SICO operates under a wholesale banking licence from the Central Bank of Bahrain (CBB) and also oversees two wholly owned subsidiaries: an Abu Dhabi-based brokerage firm, SICO Financial Brokerage, and a specialized regional custody house SICO Fund Services Company (SFS) in Bahrain.

Headquartered in the Kingdom of Bahrain with a growing regional and international presence, SICO has a well-established track record as a trusted regional bank offering a comprehensive suite of financial solutions including asset management, brokerage, investment banking, and market making backed by a robust and experienced research team that provides regional insight and analysis of more than 90% of the region's major equities.

Since inception in 1995, SICO has consistently outperformed the market and developed a solid base of institutional clients. Going forward, the Bank's continued growth will be guided by its commitments to strong corporate governance and developing trusting relationships with its clients. The Bank will also continue to invest in its information technology capabilities and the human capital of its 100 exceptional employees.

20+

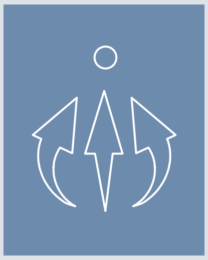
year track record

1.23 USD bn

in AUM as of 31 December 2017

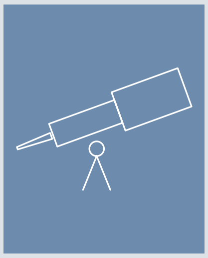
NUMBER ONE

- **Broker** on the Bahrain Bourse for 19 consecutive years
- **GCC custodian** (SFS) at World Finance GCC Investment and Development Awards
- **Fixed income broker** for Bahraini dinar bonds and sukuk
- **Investment bank in conventional and Sharia-compliant** transactions in Bahrain
- **In equity fund performance** Gulf Equity Fund & Kingdom Equity Fund
- **Market maker** on the Bahrain Bourse



Mission

To provide a progressive suite of products and services that meet the needs of our discerning client base while maintaining a prudent approach to conducting business and a focus on creating value and building trusted partnerships with our clients, shareholders, employees, and the community at large.



Vision

To leverage our position as the leading regional asset manager, broker, and investment bank while we seek further organic growth and opportunistic geographical expansion in high-growth markets that are in sync with SICO's dynamics as a recognized and respected niche player with unparalleled insight, knowledge, and experience in regional markets.

Values

In all personal and professional interactions and when conducting business operations and corporate relationships, SICO's team members seek to:

- Act prudently and professionally
- Uphold transparency in all dealings
- Pioneer new products and services
- Maintain a client-focused approach
- Build long-term partnerships

Key Milestones

1995

- Commenced operations with brokerage, market making, and sell-side research

1997

- Obtained investment banking license
- Established Investment Banking division
- Served as Advisor, Issue Manager and Lead Underwriter on Bahrain Duty Free IPO, the first privatization through a primary offering in Bahrain

1998

- Introduced asset management and custody and administration
- Launched first local equity fund
- Managed first rights issue in Bahrain

1999

- Ranked as leading broker on Bahrain Stock Exchange

2002

- Managed first-of-its kind asset-collateralized floating rate note in the GCC for Al Dana Hotels Management Bahrain

2003

- Listed on the Bahrain Bourse as a closed company
- Served as Co- Manager and Co- Underwriter on Aluminium Bahrain's USD 200 million public offering of floating rate bonds

2004

- Launched Asset Management's flagship Khaleej Equity Fund
- Established SICO Fund Services Company as a wholly owned subsidiary

2005

- Served as Lead Manager and Co-Financial Advisor on Nass Group IPO, the first GCC family business to go public

2006

- Launched SICO Gulf Equity Fund
- Served as Lead Manager on Al Salam Bank IPO, the largest IPO on the BSE at the time

2007

- Served as Lead Manager, Lead Underwriter and Financial Advisor on Seef Properties IPO setting a new benchmark for MENA privatizations

2010

- SFS is awarded custodian status on the Bahrain Bourse

2011

- Launched SICO Kingdom Equity Fund
- Received unconditional wholesale banking license from CBB
- Launched Fixed Income Trading Division

2012

- Established SICO Financial Brokerage, the Bank's Abu Dhabi-based second brokerage arm as a wholly owned subsidiary

2013

- Launched SICO Fixed Income Fund
- Introduced new online interactive research portal

2015

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

2016

- Launched Bahrain Liquidity Fund, Bahrain's largest liquidity fund
- Lead managed BBK's perpetual tier 1 convertible capital securities issuance, the first of its kind on the Bahrain Bourse

2017

- Launched SICO LIVE, the Bank's new online trading platform

Chairman's Statement

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

> In a year in which regional and global headwinds threatened to alter the path of many in our industry, we remained on solid ground, delivering healthy growth across all lines of business.

On Solid Ground

On behalf of the Board of Directors, it is my great honor and privilege to present to you SICO's annual report and financial statements for the year ending 31 December 2017. In many ways, this year's annual report marks a new beginning for us. With the publication of this report, we are officially launching our new brand name, logo and a full revamped corporate identity that reflects the Bank's progressive forward-looking approach. As you will see in the pages ahead, this new identity reaches beyond the visual realm and delves deeper into the core of what we do, be it our appetite to better serve our clients by catering to their changing investment needs or our ability to innovate while maintaining the prudent approach to investing that we have built our reputation on for more than two decades.

In a year where regional and global headwinds threatened to alter the path of many in our industry, we were able to remain on solid ground, delivering healthy growth across all lines of business. A significant increase in our net profits to BD 3.3 million from BD 2.3 million and 41% growth in revenue y-o-y are encouraging indications that we are safely in recovery mode after a period of heightened volatility. Higher revenue across almost all business lines resulted in a total net operating income of BD 9.3 million in 2017, up from BD 7.8 million in the previous year with basic earnings per share standing at 8.01 Bahraini fils compared to 5.69 fils in 2016.

Despite a difficult operating environment, we have witnessed healthy AUM growth through both market appreciation and new client acquisitions. In 2017, we were able to penetrate new pools of clients by bringing innovative products to market such as Bahrain's first REIT, the launch of our first US real estate fund, and a new state-of-the-art online trading platform. We were also very proud to be one of the few investment banks in the region to become IFRS 9 compliant in 2017.

Our positive results can largely be attributed to the continuity and steady leadership exhibited by our talented management team throughout the year. Backed by a strong and supportive Board, management has confidently executed on a strategy that focuses on our core asset management business while opportunistically expanding in complimentary areas that will enable us to deliver future growth in a manner that takes into account the geopolitical uncertainty of our region.

While the first nine months of 2017 saw public markets move positively as improvements in Brent crude price led

We are cautiously optimistic about 2018 for both Bahrain and SICO. As a bank, we have a clear vision and a renewed commitment to expand our core asset management business both organically and inorganically, making it our largest revenue generator.

to a stock rally, geopolitical uncertainties have had a negative impact on client sentiment that led to a region-wide liquidation of assets in the final months of the year.

We do however expect 2018 to be a transformational year as countries across the region fully embrace reform and take serious steps to diversify their economies thereby creating a sustainable eco-system that is less dependent on oil. The GCC's largest economy, Saudi Arabia, is already leading the pack with an ambitious set of reforms that include further subsidy reduction as exhibited through higher electricity tariffs and gasoline prices, as well as the introduction of VAT. The additional sources of revenue will be channeled into an expansionary budget that will help create more jobs and boost non-oil GDP. A complimentary set of capital market reforms are also in progress as Saudi Arabia seeks inclusion in the MSCI and FTSE Emerging Markets Indices, which will go a long way in helping the kingdom attract the foreign investments it needs to grow the economy.

Similarly, other economies in the region are also taking credible measures to boost their non-oil revenues. Another positive region-wide trend that we have started witnessing is the creation of appropriate regulatory and legal frameworks to encourage public private partnerships that will help sustain a cohesive growth model that is not entirely dependent on government support. The unprecedented structural reforms that are now taking place will require the participation and support of all stakeholders.

In Bahrain, the government has made an impressive effort to address our fiscal and monetary challenges by reforming its balance sheet, working to increase revenue, introducing VAT, gradually redirecting subsidies to those in need, and following through with a push to diversify the economy into promising new sectors such as fintech.

We are cautiously optimistic about 2018 for both Bahrain and SICO. We have a clear vision and a renewed commitment to expand our core asset management business both organically and inorganically making it our largest revenue generator. As Saudi Arabia and the UAE become more critical to the MSCI Indices, we expect more foreign investment to come to the region, and we are perfectly positioned to capture the upside of that development as it unfolds. We will keep challenging our Investment Banking team to dive into alternative investments and new asset classes, and we will look at new opportunities in asset management and investment banking that give us direct presence in high-growth markets.

I would like to take this opportunity to reiterate that SICO's Board of Directors, which welcomed two new members this year, Mr. Khurram Ali Mirza and Mr. Emad Al Saudi, has full confidence in the ability of our management team to mitigate risk and deliver on these ambitious goals. I am confident that we have right people and know-how in place to take us to the next level. I would also like to express our gratitude to SICO's two outgoing Board members, Mr. Mahmoud Al Zewam Al Amari (representing Bank ABC since 2004) and Mr. Yusuf Saleh Khalaf (an independent director since 2012) for their long-standing service and commitment to the bank. We wish them the best of luck with their new endeavors.

The Board would also like to express its appreciation to the Central Bank of Bahrain and the Bahrain Bourse for their continued guidance and support. 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 and support of Bahrain's financial sector.

Finally, I would like to pay special tribute to our valued shareholders, clients, business partners, and all the members of the SICO family. Each and every one of you has been instrumental to our success, and we highly value your loyalty and commitment.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

Board of Directors

Shaikh Abdulla bin Khalifa Al Khalifa

Chairman and Executive Director since 2011, representing Social Insurance Organization- Bahrain

- Chairman of SICO Board Investment Committee
- Chief Executive Officer, Osool Asset Management BSC(c)
- Board Director, BBK, Amanat Holding PJSC, Amlak Social Insurance Organization Company, Bahrain Marina Development Company, Ageila Capital Management, Bina Al Bahrain
- Professional experience: 21 years
- Education: BSc in Business Administration, George Washington University, Washington DC, USA

Hussain Al Hussaini

Vice Chairman and Executive Director since 1997, representing the National Bank of Bahrain BSC - Bahrain

- Member of SICO Board Investment Committee
- Chief Executive: Treasury, Capital Market & Wealth Management, National Bank of Bahrain BSC
- Chairman, Esterad Investment Company BSC
- Professional experience: 36 years
- Education: PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing & Management Change, DePaul University Chicago, USA; and BA in Economics, Concordia University, Montreal, Canada

> SIC0 is led by a world class Board of Directors that provides management with the invaluable insight and experience they need to enhance profitability and manage growth.

Fahad Murad

Independent Director since 2011, representing Arab Investment Resources Company- Bahrain

- Chairman of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Managing Director - Head of Placement for Bahrain, Investcorp Bank BSC
- Professional experience: 33 years
- Education: BBA and MBA in Finance from the University of Houston, Texas, USA

Waleed K. Al-Braikan

Independent Director since 2014, representing Gulf Investment Corporation- Kuwait

- Chairman of SICO Board Audit Committee
- Director, GCC Equity Markets, Gulf Investment Corporation
- Professional Experience: 32 years
- Education: BA in Finance from Kuwait University, Kuwait

Anwar Abdulla Ghuloom Ahmadi

Executive Director since 2002, representing Social Insurance Organization- Bahrain

- Member of SICO Board Audit Committee
- Board Director, Seef Properties
- Professional experience: 36 years
- Education: ACPA, GED, CIPA; and BSc in Accounting

Mohammed Abdulla Isa

Executive Director since 2009, representing BBK BSC - Bahrain

- Member of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Group Chief Financial Officer, BBK
- Board Director, The BENEFIT Company
- Professional experience: 26 years
- Education: Certified Public Accountant, American Institute of Certified Public Accountants, Delaware State Board of Accountancy (2001), USA

Prakash Mohan

Executive Director since 2015, representing Ahli United Bank BSC- Bahrain

- Member of SICO Board Investment Committee
- Group Head, Ahli United Bank
- Professional experience: 25 years
- Education: 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

In 2017, SICO welcomed two new members, Mr. Khurram Ali Mirza representing Bahrain's Social Insurance Organization, and Mr. Emad Al Saudi representing Bank ABC.

Khurram Ali Mirza

Executive Director since 2017, representing Social Insurance Organization- Bahrain

- Member of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Head of Asset Allocation, Osool Asset Management BSC
- Professional Experience: 25 years
- Education: Fellow, Institute & Faculty of Actuaries, UK; BSc in Actuarial Science & MSc in Mathematical Trading & Finance from Cass Business School, University of London, UK

Emad Al Saudi

Independent director since 2017, representing Bank ABC- Bahrain

- Member of SICO Board Audit Committee
- Head of Derivatives & Foreign Exchange, Bank ABC
- Professional Experience: 26 years
- Education: BSc in Business Administration from Pepperdine University, California, USA; General Certification from International Securities Market Association

CEO’s Note

Najla M. Al Shirawi
Chief Executive Officer

> Our presence in Bahrain, a country with very high standards when it comes to regulation, and flexibility when it comes to understanding the needs of investors, has helped us become more progressive and proactive as an investment bank.

Dear Shareholders,

By all accounts, we are witnessing unprecedented change both globally and regionally. The world continues to grapple with a rapidly evolving set of economic and political realities that are threatening to change not only the way that we do business but also the way we view the world.

Some of these changes, such as breakthroughs in technology and artificial intelligence, have the potential to positively transform a broad range of industries including banking and finance, while others, like the decline in oil prices, have left the countries of the Gulf searching for ways to diversify their economies away from petrochemicals. Regardless of whether these changes are welcomed or not, the fact of the matter is we are living in uncertain times and that's not likely to change anytime soon.

It's a fool's errand to try and predict when things are going to stabilize. The world has started to accept and markets have come to recognize that volatility is the new norm. As a provider of investment solutions, we sit at the crossroads of a region that has had more than its share of upheaval for the better part of a decade. I believe SICO's key achievement is the fact that we have been able to position ourselves as a bullet-proof organization with an unwavering commitment to innovation, a firm belief in organic growth and the ability to deliver the reliable, high-quality services that our clients demand.

We are extremely proud to report that all of our core business lines have delivered positive results in 2017. Our AUMs have increased by 17% y-o-y, our equity funds have all outperformed their respective indices, our brokerage arm continues to expand its market share and move up in the rankings, and we have maintained a highly-liquid and transparent balance sheet. As the clear market leader in Bahrain, we are seen as the bank that drives growth in capital markets. In fact, we are more or less seen as a bellwether for the Bahraini economy as a whole. If we are doing well, then the capital market in Bahrain is doing well. We have been the number one broker in the country on both the equity and fixed income sides for 19 years, and we are one of the leading investment banks on all capital market transactions.

Market Background

Like all countries in the GCC, Bahrain has not had an easy go of it in the past few years, but we find ourselves heartened by the fact that the country is going through a noticeable transformation whereby a basket of reforms has been introduced to reduce the pressure on the fiscal deficit. While painful in the short term, these tough measures will prove to be positive in the long term for the economy as a whole.

Bahrain already stands as one of the most diversified economies in the GCC, with non-oil GDP expanding to 4.8% in 9M17 (versus 4% in FY16). The Kingdom's Economic Development Board (EDB) expects Bahrain's non-oil GDP to expand c.4.5% in FY17 and real GDP to grow 3.5% in FY17, making it one of the fastest growing economies in the GCC this year. The government continues to support growth by seeking ways to increase economic diversification with a new push toward infrastructure projects. There are close to USD 32 billion in projects currently in pipeline that are expected to add a counter-cyclical buffer to the economy and help diversify the kingdom's non-oil sector even further. Major infrastructure projects include the USD 2.5 billion Alba Potline 6 expansion, a USD 5.7 billion BAPCO refinery expansion, as well as a USD 1 billion airport expansion and several social housing and key infrastructure projects, both of which are being funded by the USD 7.5 billion GCC Development Fund.

Bahrain's financial sector continues to be a key contributor to the economy, accounting for almost 17% of GDP in the first nine months of 2017. One of the critical new developments that took place this year is the government's decision to develop Bahrain as a regional fintech hub. Many financial institutions, including SICO, have welcomed this development as we seek fintech solutions that will allow us to introduce new products and improve our client-servicing channels from advisory, to online communication with clients and access to more robust market data. As an organization, we are always on the lookout for more investment in technology, which will give us a competitive edge over our regional peers. The fact that Bahrain has already introduced the first regulations governing the fintech industry means we don't have to educate the regulator as they are already one step ahead.

Our presence in Bahrain, a country with very high standards when it comes to regulation and flexibility when it comes to understanding needs of investors has helped us become more progressive and proactive as an investment bank. By virtue of being in Bahrain, the smallest market in the GCC, we have always been compelled to pursue growth opportunities outside our own market, which has helped us establish ourselves as a GCC player rather than a Bahraini player with GCC expertise. Unlike our Saudi and Kuwaiti peers with expertise that is exclusive to their home markets, many of our mandates have limited exposure to Bahrain, which makes SICO a true GCC and MENA market manager.

Operational Highlights

SICO's commitment to innovation and investing in technology rang true throughout 2017, which saw us officially launch our new multi-market online trading platform, SICO LIVE. Investors can now access multiple markets and manage their cash seamlessly and securely in real time from

“

SICO’s commitment to investing in technology rang true in 2017, which saw us officially launch our new multi-market online trading platform, SICO LIVE.

a single account on their desktops, laptops, and mobile phones. This is an important milestone in and of itself, but it also signifies a strategy shift within our brokerage business as it expands its pool of clients to include retail investors, a segment that had until now been underserved. We have a very young population in the Gulf, and I think we can capitalize on this by catering to the unique needs of this tech-savvy segment through offering our sophisticated, high-quality service digitally rather than physically. The launch of online trading with SICO LIVE is just the beginning. In the very near future we will be taking things a step further by becoming the first in the region to offer online settlement and cash management.

Another milestone for the year is the addition of real estate as a new asset class. Traditionally known as a regional equity asset manager, SICO has been gradually expanding its product offering to include fixed income funds as of 2012 and now real estate. We began in the real estate segment as the sub-investment manager for Bahrain’s first REIT, and we are close to reaching first close on SICO’s first US real estate investment fund that we are managing ourselves.

By being proactive and identifying new market making opportunities, we have been able to make a tangible impact on the average daily traded value on the Bahrain Bourse throughout the course of the year with a median traded value of BD 626 thousand for FY17, 2.3 times higher than the value for 2016. This can be largely credited to the SICO-managed BD 41 million Bahrain Liquidity Fund, the largest liquidity fund to be introduced in Bahrain and one of the most successful in the region. The fund’s main objective is to create liquidity on the Bahrain Bourse by providing two-way quotes on most listed stocks and narrowing spreads to enable investors to actively trade their preferred stocks. In its first full year of operation, the fund’s total contribution to the Bourse’s turnover was 38%. As a result, Bahrain and Kuwait were the only two GCC markets that improved turnover in 2017, with Bahrain ranking second after Kuwait. We are proud to be associated with the fund and take deep pride in the fact that it played a hand in boosting investor confidence.

Institutional Capability

To better align our organizational structure with the long-term strategies that we have set for ourselves, we have taken steps to restructure our executive management team in a manner that will support these goals and help us to better serve our clients.

Our restructuring includes the creation of a new role within our executive management, that of Chief Capital Markets Officer (CCMO). This critical role will be filled by our former Head of Brokerage, Fadhel Makhlooq, who has been with SICO for 14 years and has the experience and market insight required to hit the ground running. In the months and years to come, he will be instrumental in helping us develop, build, and manage our capital market business. Replacing Fadhel as Head of Brokerage, we would like to welcome Mariam Isa, a veteran of our Brokerage division with 13 years of experience in regional equity trading and sales. We are extremely proud that Mariam is Bahrain’s first female Head of Brokerage.

The third component of our restructuring involves our Asset Management division, which has grown significantly over the years to include multiple asset classes.

We have recently consolidated our asset management business so equity and fixed income are now under one umbrella. Accordingly, Asset Management will be run jointly by two extremely capable Co-Heads, Shakeel Sarwar and Ali Marshad. Both gentlemen have been critical to the growth and top-notch performance of their respective businesses over the past five years. We are confident that their collaboration will lead to more great things to come.

There is no doubt in my mind that none of these achievements would have been possible without the talent, commitment, and dedication of our world-class team. During the past year, we have invested a great deal of time and effort in developing talent, particularly when it comes to leadership training for both middle and senior managers, whom we are preparing to become the next generation of leaders. Despite depressed market conditions, we have continued to prioritize and invest in hiring and executive training.

Our reputation as one of the most stable financial institutions in the region has helped us recruit and retain high-caliber professionals who, like us, have solid track records and value integrity and commitment to excellence above all else. We are extremely proud to be market pioneers in the area of gender equality. In March 2017 we launched our Equal Opportunities Committee under the auspices of SICO's new Charter for Gender Diversity. The committee is tasked with ensuring that we have gender equality throughout our departments, and they have already come up with several initiatives that will help us continue to attract and nurture top male and female talent from the region. Women currently account for 32% of our total workforce as a group, occupy 21% of managerial and supervisory positions, and comprise one quarter of the Senior Management team.

At SICO, we have always pursued a client-centric approach that focuses on building relationships based on trust, partnership, and shared interests. As a result, one of our biggest competitive advantages has been our high client-retention rate on both the brokerage and asset management sides. This year, we are also proud to announce that we have taken steps to centralize our sales efforts with the hiring of a new head of distribution who will be able to leverage our existing client relationships, develop new ones, and maximize our cross-selling capability across all our lines of business.

Corporate Social Responsibility

We have continued to focus our CSR initiatives on championing causes that help youth and women, which is in line with a national strategy that is positioning Bahrain as a country where women stand on equal footing with their male counterparts. As a country that prioritizes education, we have large numbers of highly-educated graduates who require professional training and development to compete effectively on the labor market. SICO is proud to be an active participant in providing training opportunities for Bahraini youth. We have established long-standing partnerships with various government initiatives that aim to find creative ways to provide young graduates with practical skills.

The Year Ahead

We are extremely proud of what we have built, which is why we felt it was time to rebrand with a stronger and more confident global identity to match our new reality. After more than two decades, our brand name has officially changed to the recognized and respected acronym SICO. The name and logo reflects our modern, forward-facing approach and a commitment to provide products and services that cater to the changing investment needs of our current and future clients.

As we look forward to the challenges of the year ahead, we are comforted by the fact that our cautious approach and forward-looking strategy has worked to our advantage. We have continued to meet our growth and profitability targets and stuck to our conviction that it's more important to develop as a niche player rather than pursuing haphazard growth. We know what we are good at and we are sticking to it because we think that this is the best approach in times of uncertainty.

Last but not least, I would like to take this opportunity to express my appreciation for the support and encouragement we receive from our Board of Directors, shareholders, business partners and clients, and also the Central Bank of Bahrain and the Bahrain Bourse. We are also very proud to welcome SICO's two newest board members Mr. Khurram Ali Mirza, who brings over 25 years of GCC and UK experience in consulting, asset management, and risk management, and Mr. Emad Al Saudi, who has more than 26 years of experience in banking spanning the GCC and Europe. We look forward to working with these two gentlemen in the coming year.

Najla M. Al Shirawi
Chief Executive Officer

GCC Market Snapshot

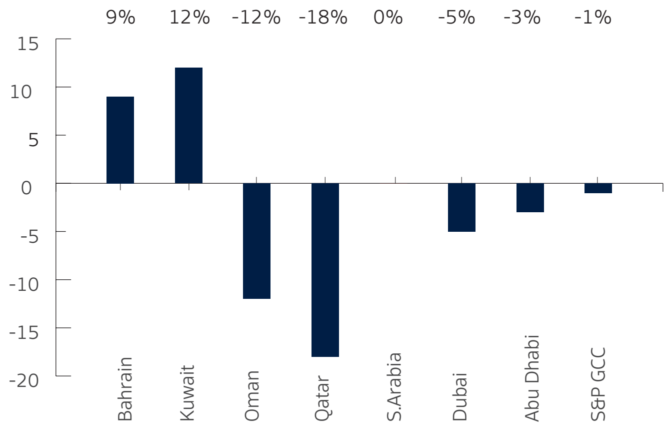
2017 was a challenging year for most GCC markets, with the exception of Bahrain and Kuwait. Qatar was the worst performer, ending c.18% lower y-o-y, followed by Oman, which declined c.12%. The Qatari market was pressurized mid-year with the escalation of tensions within the GCC and despite a somewhat sharp recovery in December, the market was the worst performing.

The largest GCC market, Saudi Arabia, closed the year flat, wiping out mid-year gains in the second half. UAE markets were also weak, underscored by uncertainty on the real estate outlook in the country, a key driver of the economy. Both Dubai and Abu Dhabi ended the year lower.

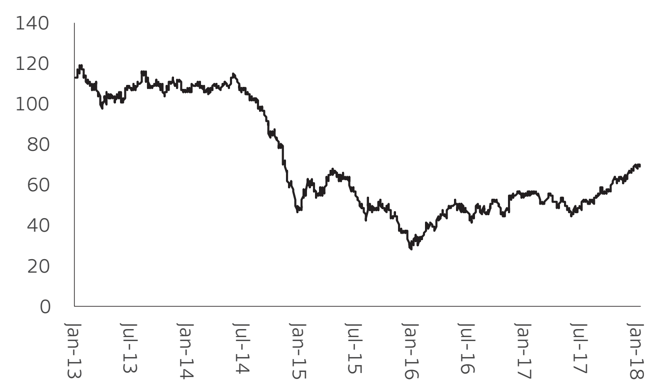
Bahrain and Kuwait were the key outperformers in the GCC. Kuwait saw a strong start to 2017, rising 22% in the first quarter and then subsequently declining. Even turnover, which increased considerably in Kuwait in early 2017 witnessed weakness in the latter part of the year. Bahrain continued to benefit from higher turnover and momentum from the Bahrain Liquidity Fund.

Across other markets, turnover declined, particularly in Saudi Arabia and Dubai where turnover was 20-25% lower than 2016. However, CDS spreads narrowed for all markets in 2017 except Qatar, which was affected by geopolitical tensions. Brent showed strength, particularly in 2H17, with prices increasing 18% for the year, led by strong demand and continuation of an OPEC led supply cut pact.

Index Returns - 2017

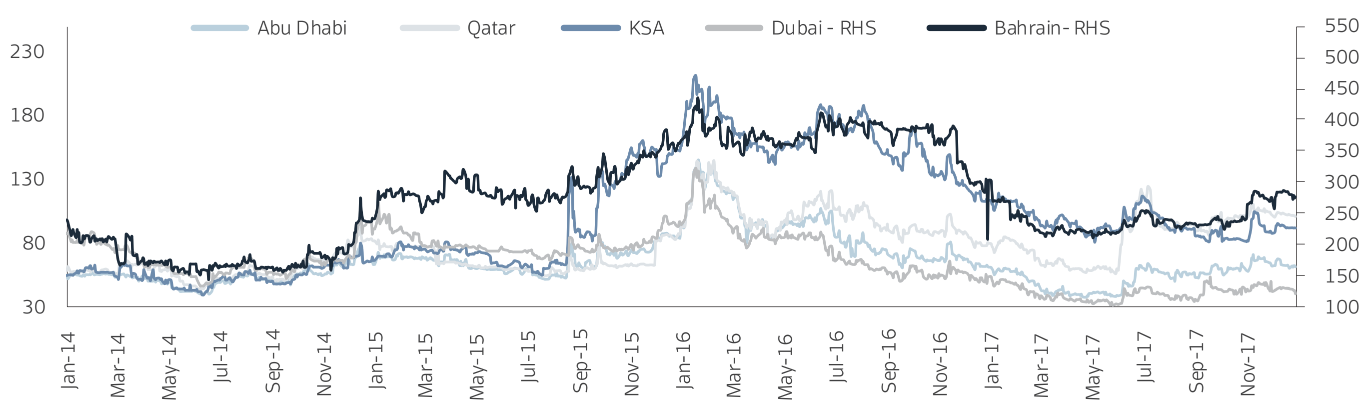


Brent price USD/bbl

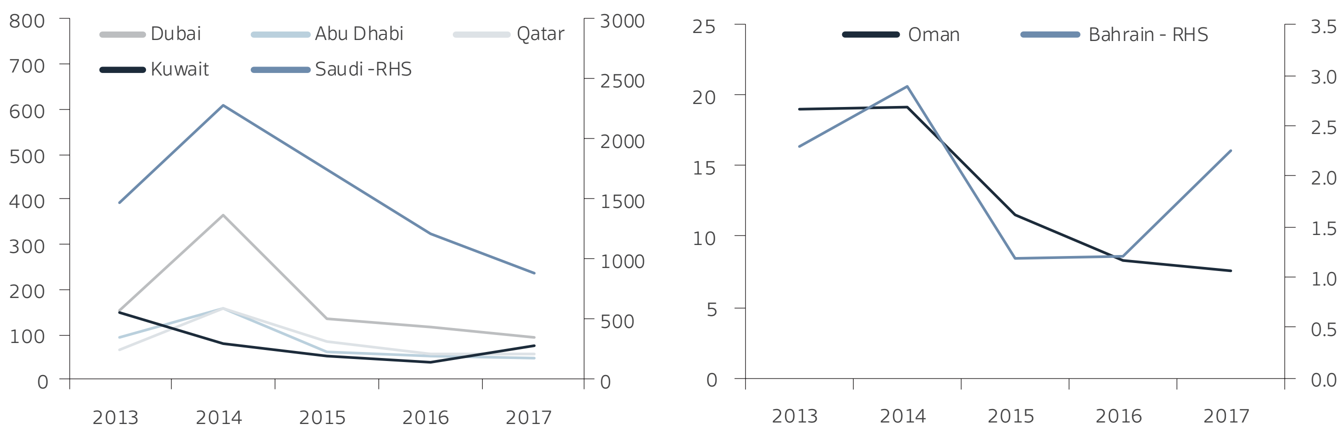


Bahrain and Kuwait outperformed their regional peers in the GCC in 2017, with Bahrain benefiting from higher turnover and momentum from the Bahrain Liquidity Fund.

CDS Spreads (2012-2017)



Average Turnover (USD mn)



Management Team

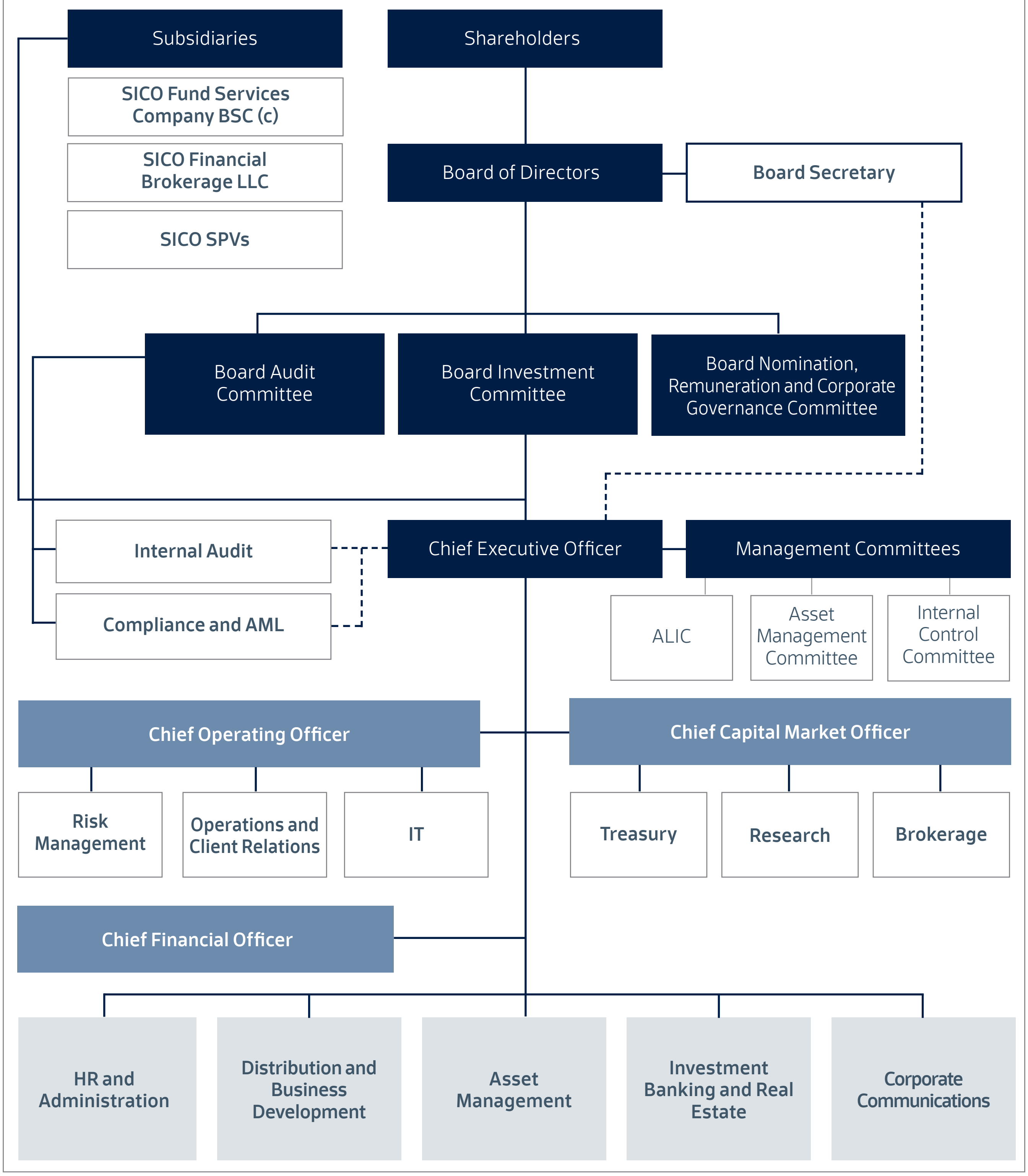
SICO's talented team of executive managers takes deep pride in fostering an environment in which collaboration and openness are valued, and teamwork and respect for one another are the motivators for achieving superior results

Sitting from left to right:
Ehab Amiri, Head of Distribution and Business Development
Ali Marshad, Co-Head of Asset Management
Bassam A. Khoury, General Manager, SICO Financial Brokerage (Abu Dhabi)
Sreenivasan Konnat, General Manager, SICO Fund Services Company (SFS)

Standing from left to right:
Joseph Thomas, Head of Internal Audit
Wissam Haddad, Head of Investment Banking and Real Estate
Anantha Narayanan, Chief Operating Officer
Shakeel Sarwar, Co-Head of Asset Management
Nadeen Oweis, Head of Corporate Communications
Amal Al Nasser, Head of Operations and Client Relations
Najla Al Shirawi, Chief Executive Officer
***Mariam Isa,** Head of Brokerage
***Fadhel Makhlooq,** Chief Capital Markets Officer
Mohammed Ibrahim, Head of Information Technology
Nadia Albinkhalil, Head of HR and Administration
K. Shyam Krishnan, Chief Financial Officer
Abdulrahman Saif, Head of Treasury
Nishit Lakhotia, Head of Research

*Appointed in 2018

Organization Chart



2017 FINANCIAL PERFORMANCE

SICO posted strong financial performance in 2017 against a backdrop of continuing global and regional business volatility. Net profit achieved for 2017 amounted to BD 3.3 million, an increase of more than 41% y-o-y.

3.3 BD MN

Net Profit in 2017

2017 Financial Highlights

1.74 BD mn

2017	**Interest Income**
2016	BD 1.187 mn

1.28 BD mn

2017	**Brokerage Income**
2016	BD 0.967 mn

3.01 BD mn

2017	**Net Investment Income**
2016	BD 2.533 mn

2.99 BD mn

2017	**Asset Management and Other Fee Income**
2016	BD 2.572 mn

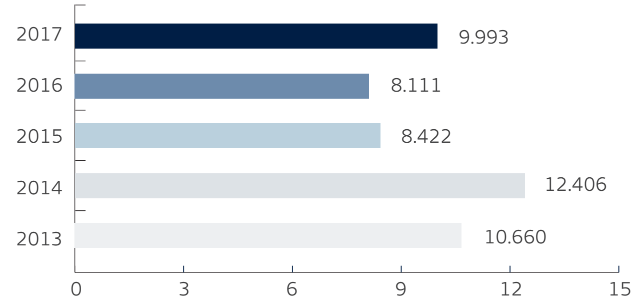
0.17 BD mn

2017	**Investment Banking Income**
2016	BD 0.394 mn

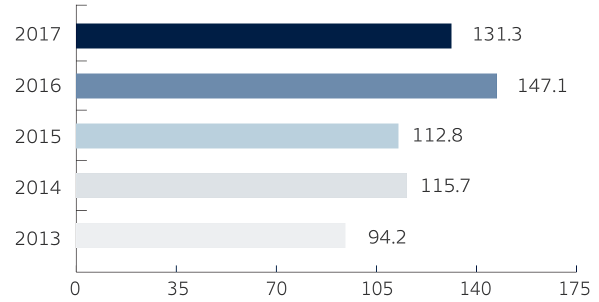
0.80 BD mn

2017	**Other Income**
2016	BD 0.458 mn

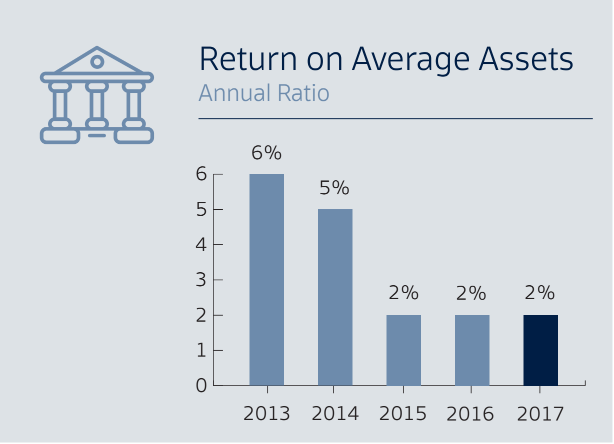
Total Revenues
BD mn



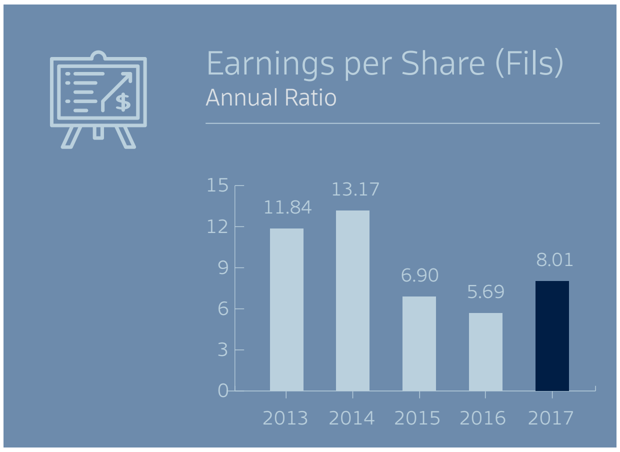
Total Assets
BD mn



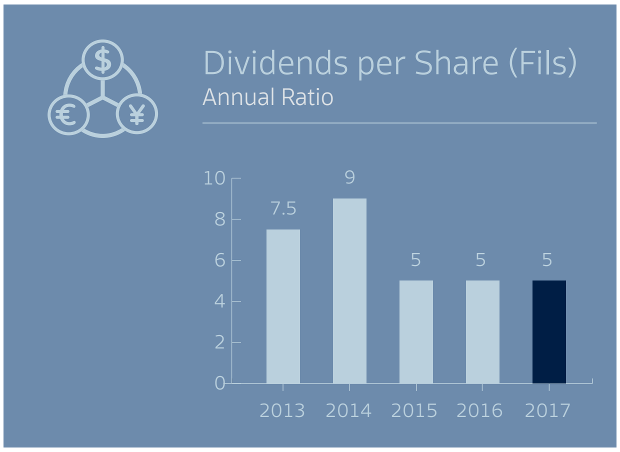
> **SICO's strong financial results reflect a long-held, prudent risk philosophy, which seeks to capture new business opportunities while limiting undue risk.**



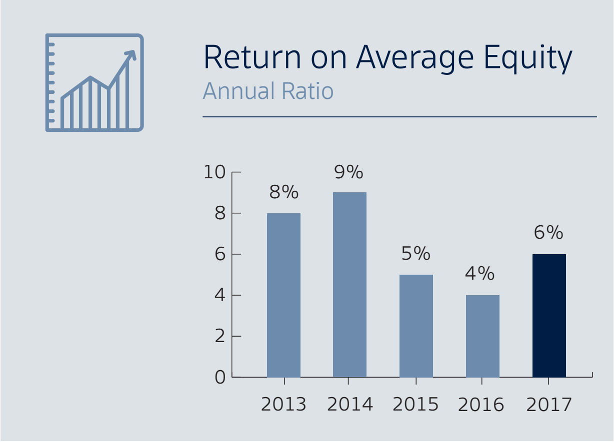
Return on Average Assets
Annual Ratio



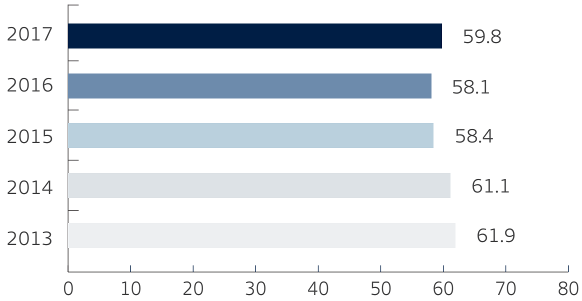
Earnings per Share (Fils)
Annual Ratio



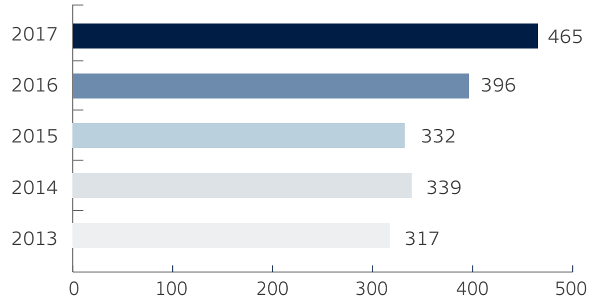
Dividends per Share (Fils)
Annual Ratio



Return on Average Equity
Annual Ratio



Shareholders' Equity
BD mn



Assets Under Management
BD mn

Management Discussion and Analysis

Against a backdrop of continuing global and regional business volatility, SICO delivered a strong set of results and a commendable performance in 2017. Net profit for the year recorded BD 3.3 million in 2017, up 41% y-o-y driven by a c.23% increase in full-year total revenues to BD 9.9 million and supported by a tight rein on staff costs and other operating expenses.

SICO's recurring revenue, which comprises fee- and commission-based income across its lines of business as well as other income, climbed 19.2% y-o-y from BD 4.3 million in 2016 to BD 5.2 million in 2017 and contributed 52% to total revenue for the year.

Meanwhile, SICO's other comprehensive income, which primarily reflects the fair value movements of our equity investments, also recorded gains of BD 537 thousand in 2017 versus a negative BD 560 thousand in the previous year. Consequently, total comprehensive income, which includes net profit for the year and other comprehensive income, amounted to BD 3.8 million in 2017, up more than twofold compared to the BD 1.8 million recorded in 2016. Overall, earnings per share based on net profits amounted to 8.01 fils per share, which is a significantly higher than the 5.69 fils per share recorded in 2016.

Our results for the year reflect the success of SICO's long-held prudent risk philosophy, which seeks to capture new business opportunities while limiting undue risk and carefully aligning the Bank's interest with those of its stakeholders.

During 2017, SICO continued to implement business and market expansion initiatives, focusing on diversification and growing sustainable revenue streams. Key business development planks during the year included the commissioning of the online brokerage platform SICO LIVE. The platform provides brokerage clients with direct, online access to all GCC markets. 2017 also saw SICO offer clients the opportunity to invest in the first real estate investment trust in Bahrain in the Bank's capacity as a co-investment manager.

Appropriations

Based on SICO's 2017 financial results and in accordance with the Bahrain Commercial Companies Law 2001, a total of BD 331 thousand has been transferred to the Bank's Statutory Reserves.

SICO's Board of Directors has recommended a cash dividend to shareholders of 5 Bahraini fils per share, representing 5% of paid-up capital, and subject to shareholders' approval at the annual general meeting.

I. Asset Management

AUMs recorded solid growth in 2017 showcasing clients' trust and confidence placed in SICO's capabilities. Despite operating in extreme challenging conditions, our asset managers continued to provide superior returns to clients as compared to market benchmarks.

Total AUMs stood at BD 465 million (USD 1.23 billion) as of December 2017, up 17% y-o-y compared to previous year's close of BD 396 million (USD 1.05 billion). AUM growth was driven by several fresh mandates as well as top-ups to existing ones during 2017. Meanwhile, assets held under custody increased to BD 2.2 billion (USD 5.7 billion) in 2017, up from BD 1.95 billion (USD 5.2 billion) in December 2016.

Fee-based income, comprising primarily management fees and custody fees, continued to grow during 2017 across the various asset classes and mandate types offered to clients.

II. Securities Brokerage

SICO held strong to its position as the number one broker in Bahrain in 2017 for the 19th consecutive year, exhibiting solid resilience in the face of geopolitical turbulence that gripped several regional markets. SICO Brokerage services are offered out of Bahrain and through SICO's fully-owned subsidiary SICO Financial Brokerage in Abu Dhabi.

During 2017, SICO Brokerage services covered equities and fixed-income asset classes, leveraging SICO's new online brokerage platform, SICO LIVE, as a state-of-the-art competitive advantage among its peers. Meanwhile, SICO Financial Brokerage made significant strides in terms of brokerage market ranking, with total traded value for the period ended December 2017 up 44% y-o-y to AED 3.9 billion while market turnover was down by more than 20%.

Brokerage income recorded an impressive c.32% y-o-y increase in 2017 to BD 1.3 million compared to BD 1.0 million in 2016.

III. Investment Banking

While the Investment Banking line of business screened several mandates during the year, less-than-optimal market conditions delivered no landmark or sizable transactions compared to 2016. Consequently, the division leveraged its reputation as the go-to house in the Bahraini market to acquire the few transactions taking place as well as extending advisory services to financial institutions looking to restructure their holdings and streamline their core operations. In parallel, the division also focused on its role as sub-investment manager and market maker for the Eskan Bank Income Realty Trust.

Net income generated by Investment Banking recorded BD 173 thousand in 2017 compared to the BD 394 thousand posted in the previous year.

IV. Treasury

Following the adoption of the IFRS 9 accounting standard in 2016, SICO implemented a disciplined segregation of investments across three different portfolios, namely the investments at fair value through PL, investments at fair value through other comprehensive income and investments at amortized cost.

The investments at fair value through PL generated an overall gain of BD 1.3 million in 2017, while investments classified as fair value through other comprehensive income contributed BD 735 thousand during the year; this includes positive fair valuation movements in the equities and debt portfolio.

Meanwhile, the Treasury team also delivered a robust performance in 2017, with net interest income from placements and other treasury activities up 31% y-o-y to BD 920 thousand. Additionally, several new market-making mandates were secured in 2017, leading to an increase in management fee income, while income from foreign exchange activities stood at BD 661 thousand in 2017 compared to BD 229 thousand in the previous year.

OPERATIONAL REVIEW

In 2017, SICO continued to implement business and market expansion initiatives while focusing on diversified and sustainable sources of revenue streams. Key business developments during the year included the commissioning of the online brokerage platform SICO LIVE and the ability to offer clients the opportunity to invest in the first real estate investment trust in Bahrain.

3.8 BD MN

Total comprehensive income in 2017
vs. BD 1.8 mn in 2016

Asset Management

SICO Asset Management is a leading boutique asset manager focused on GCC and MENA mandates offering unique investments plays across equity, fixed income, and real estate asset classes

Overview

With innovation at the core of its investment strategy, SICO Asset Management has been able to consistently outperform regional markets despite the prevailing macroeconomic and geopolitical pullbacks. Total AUMs stood at USD 1.23 billion at the close of 2017, up by c.17% y-o-y, further solidifying SICO's position as one of the largest boutique asset managers in the region.

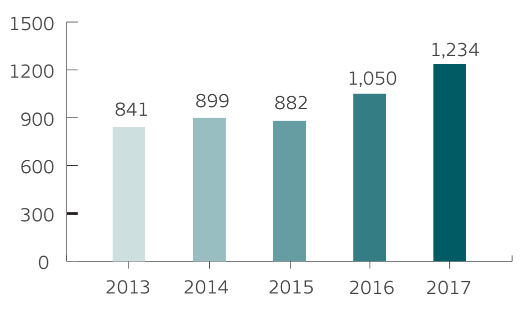
AUM growth during 2017 was driven by new subscriptions and net inflows of USD 164 million across asset classes, a testament to renewed investor confidence in SICO's team of highly experienced professionals.

The division's mutual funds and discretionary portfolios serve a wide range of investors, including institutions, sovereign wealth funds, family offices and private banks, and cater to variant risk profiles and investment objectives. SICO Asset Management's mandates cover conventional and Sharia-compliant equities, money market and fixed income securities as well as the first Sharia-compliant REIT listed on the Bahrain Bourse. The division also manages several external funds on behalf of leading regional financial institutions.

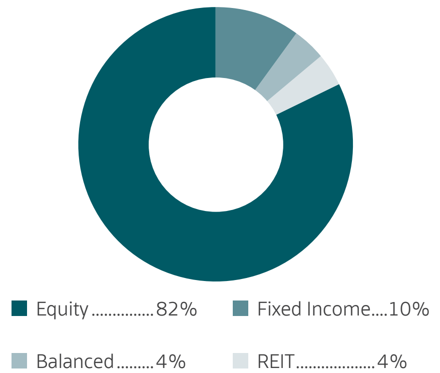
2017 Operational Review

Against a backdrop of low oil prices, sluggish economic growth and declining corporate earnings, GCC markets with the exception of Kuwait and Bahrain delivered negative to flat returns in 2017, with the S&P GCC Index closing the year at 3.3%. Meanwhile, political turmoil in Qatar and economic sanctions imposed by neighboring countries left the Qatar Stock Exchange as the worst

AUM Growth
USD mn



AUM by Asset Class



> SICO's equity funds outperformed the market, delivering strong returns across the board despite market volatility and a challenging economic backdrop.

4	1	2
Equity Funds	Fixed Income Fund	Real Estate Funds

performer among GCC equity markets in 2017. On the fixed income side, stagnant US treasury rates throughout the year along with regional instability led to little or no movement for money markets and fixed-income securities. Nevertheless, despite the challenging operational backdrop, SICO Asset Management's funds continued to deliver superior returns thanks to prudent management and the division's innovative approach to structuring portfolio products.

Equities

SICO Asset Management manages three equity funds, including its flagship Khaleej Equity Fund, the SICO Gulf Equity Fund, and the SICO Kingdom Equity Fund, together with several discretionary portfolio management accounts. The division successfully leveraged its bottom-up investment strategy during 2017, with all three funds outperforming their benchmarks and delivering returns ranging from 6-8% for the full year. Meanwhile, the

1.23 USD BN	17%
2017 Total AUM	Increase in AUM y-o-y

division's external funds, which now include the ex-Kuwait exposure of the Al Ahli Gulf Equity Fund on behalf of Ahli Bank of Kuwait and the Bahraini, Qatari, and Omani elements of Riyad Bank's GCC ex-Saudi Equity Fund, have also delivered above-average returns during the year and outperformed their respective benchmarks.

Fixed Income

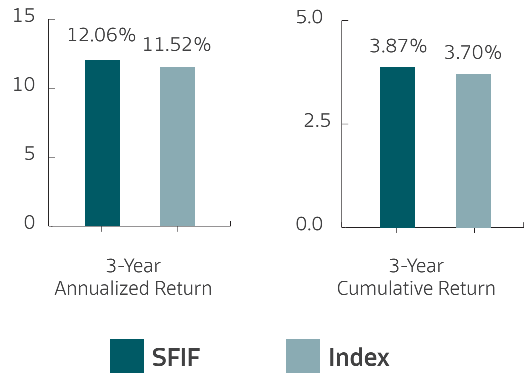
SICO Asset Management's fixed income business includes its flagship SICO Fixed Income Fund and a number of discretionary portfolio management accounts, focusing primarily on the GCC and MENA as well as Turkey. Total fixed income AUMs stood at USD 134 million at year-end 2017, inching up slightly compared to the USD 133 million managed in 2016. The division continued to deploy a defensive and cautionary strategy for the SICO Fixed Income Fund, holding short-term positions with the aim of safeguarding capital and maintaining liquidity amidst an environment characterized by sluggish returns. Meanwhile, SICO's fixed-income discretionary portfolios maintained their solid track record, delivering average returns of 4.3-5.0% in 2017.

SICO's Fixed Income division prides itself on its innovatively structured products, particularly in the money-market sphere, including its highly sought out Islamic repurchase agreements (repos) and total return swap transactions. In 2017, the division rolled-over its existing Islamic repo into 2018 and implemented its second and largest transaction to date, while continuing to grow its conventional repo business, adding new clients in 2017. The division also concluded its total return swap incepted in 2016, with a total notional swap size of USD 115 million.

Real Estate

SICO Asset Management ventured into the real estate asset class with the opening for public subscription of the USD 50 million Eskan Bank REIT, the first of its kind listed on the Bahrain Bourse. The Sharia-compliant Eskan Bank REIT invests in properties in Bahrain and has generated an annualized net dividend of 6% since its January 2017 listing. The REIT's higher-than-average returns underline the trust's potential for delivering attractive yields to investors through an alternative asset class with built-in regulatory safeguards.

SICO Fixed Income Fund Growth



2017 also marked the real estate business' first foray into the international market with the launch of a private, US-focused real estate income generating fund. The USD 55 million fund will have its first close earmarked for early 2018. SICO Asset Management will invest in residential apartment buildings across the US, seeking a diversified asset-class and a high-quality tenant pool capable of generating sustainable returns to investors. Across both its public and privately held real estate funds, SICO Asset Management leverages its reputation for deploying prudent investment strategies that are anchored by the Bank's solid governance framework.

2018 Outlook

SICO remains cautiously optimistic about the coming year. As oil prices begin to stabilize, the economic fundamentals of the region remain solid. To that end, SICO Asset Management's strategy in 2018 will see it focus on expanding its AUM base and diversifying its exposure while continuing to maintain the health and quality of its fund portfolio. On the equity side of the business, the division will increasingly diversify its GCC mandates into MENA markets with an emphasis on Egyptian equities. For the past one to two years, funds and discretionary portfolios have had the ability to invest up to 10% in Egyptian equities, a development that we expect to see continue with more GCC to MENA conversion taking place next year. In parallel, the business is aiming to capitalize on the anticipated upgrade of the Saudi and Kuwaiti markets to MSCI and FTSE emerging market status as an avenue to attracting substantial foreign inflows and growing its three existing funds. Meanwhile, the Fixed Income division is aiming to deliver double-digit AUM growth in 2018 and subscribe a healthy pipeline of investors. SICO Asset Management is also exploring opportunities with regional banks to launch new funds and white-labeled products, while continuing to deliver on its reputation for innovation with the planned launch of a third Islamic repo. Finally, the real estate function is in the process of launching a second REIT while continuing to push forward with its fundraising and subscriptions for its newly launched US fund.

SICO Fund Performance 2017

Fund Name	Launch Date	Principal Investment Focus	Benchmark	Peer Group	Return (January - December 2107)	Annualized Return
Khaleej Equity Fund	March 2004	Equity securities listed on stock markets of GCC countries	S&P GCC Index	GCC	7.6% vs benchmark 3.3%	7.5% vs benchmark 4.6% (last five years)
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	2.7% vs benchmark -0.1%	7.7% vs benchmark 5.7% (last five years)
SICO Kingdom Equity Fund	February 2011	Equity securities listed in Saudi Arabia	Tadawul	Equity Saudi	7.2% vs benchmark 3.8%	8.3% vs benchmark 4.2% (last five years)
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	3.7% vs benchmark 4.7%	3.9% vs benchmark 3.7% (last three years)

Brokerage

SICO's Securities Brokerage Division is a market leader in the GCC and the number one broker on the Bahrain Bourse with a well-established reputation for providing best-in-class services backed by exceptional research capability

Overview

SICO is a leading GCC broker with a 19-year track record as the number one brokerage on the Bahrain Bourse. Leveraging a highly knowledgeable and professional team of dedicated brokers, backed by exceptional research capability, and a sharp focus on serving institutional clients, the division has amassed unparalleled expertise in both equities and fixed income brokerage.

Headquartered in its home market of Bahrain, SICO has had a second brokerage arm in Abu Dhabi through its wholly owned subsidiary SICO Financial Brokerage since 2012. The firm offers equities brokerage with access to the Dubai Financial Market (DFM), the Abu Dhabi Stock Exchange (ADX), and most recently the Nasdaq Dubai, which it acquired a license for in 2017.

SICO's extensive product portfolio includes direct securities (such as equities, bonds, and sukuk) as well as single account brokerage services across the GCC and other MENA markets, margin trading facilities for equities, and repurchase agreements repos for fixed income. SICO's Fixed Income Trading Desk continues to devise unique and innovative capabilities in both developed and emerging market issues, having gained a significant share of GCC market trades on the Bahrain Bourse and the OTC market.

The Agency Brokerage Desk, established in 2010 as the first of its kind in Bahrain, is an additional service that enables clients to have a single broker to transact on their behalf, while maintaining their own disclosed accounts in various GCC and other MENA stock exchanges where they are required to have a nominated custodian.

While SICO's current client base is largely composed of institutions with large trading books (approximately 70% of its clients) and high- and ultra-high-net-worth individuals, SICO is also actively working to grow and diversify its client base by capturing a larger portion of the retail market. As part of that diversification strategy, SICO Brokerage has recently launched an innovative new online trading platform, SICO LIVE, that gives investors seamless, multi-market access across all key regional markets from a single account on their desktops, laptops, and mobile devices.

2017 Operational Review

SICO's ability to think outside the box and devise innovative solutions has allowed it to weather the economic and geopolitical uncertainties that characterized much of 2017. With lower liquidity and depressed volumes across GCC markets, SICO managed to maintain its position of leadership on the Bahrain Bourse, handling 15,506 transactions involving 1,129 million shares worth a total value of BD 220.299 million. This translates to a market share in excess of 50% where volumes were up on the back of the Bahrain Liquidity Fund.

The division executed two of the largest block transactions on the exchange in 2017, selling Bahrain Islamic Bank's total stake of 14.22 million ordinary shares valued at BD 1.35 million in Takaful International to Bahrain Kuwait Insurance Company.

> 2017 was arguably a record year for the Fixed Income Trading Desk, having managed to expand both the number of transactions and client coverage, which follows a record year of issuance by regional players.

SICO Performance on Bahrain Bourse 2017

	Amount	Market Share	Ranking
Total value of shares traded	BD 220.299 million	52.12 %	1
Total volume of shares traded	1,129 million	49.98%	1
Total number of transactions	15,506	39.88%	1

Source: Bahrain Bourse Annual Trading Bulletin

SICO Financial Brokerage

SICO Financial Brokerage also made significant strides during the year with the acquisition of a new license to trade on the Nasdaq Dubai, which will allow it to provide clients with access to new investment opportunities in both UAE-based and global companies across multiple sectors. SICO Financial Brokerage managed to improve its rankings during the ye\ar, moving up to the 11th and 13th spots on the DFM and ADX, respectively, up from rankings in the 20's and 30's in past years.

Fixed Income

2017 was arguably a record year for the Fixed Income Trading Desk, having managed to expand both the number of transactions and client coverage, which follows a record year of issuance by regional players. Volumes hit almost USD 762 million during the year, following a record amount of new GCC debt issued in 2017, which totaled USD 174 billion in 2017, a 4% increase from the total amount raised in 2016. Trading flows spiked at USD 120 million in May 2017 following an influx of treasury bill sales. The Bank currently runs a repo book of USD 86 million and USD 84 million in reverse repos.

The desk closed several significant sovereign deals in the GCC and signed new quasi-government deals that leveraged SICO's growing number of innovative fixed-income solutions. In 2017, these included the introduction of Bahrain's first Sharia-compliant repo to provide leverage on sukuk and the Bank's first derivative transaction through a total return swap. New products that are set to help clients enhance their liquidity and returns on existing securities include leveraged treasury bills, which work by offering clients an enhanced yield through the ownership of 12-month CBB securities, and repos on BD-denominated debt from the Bahraini government.

2018 Outlook

As the industry braces itself to continue facing challenges due to the ongoing commoditization of brokerage activities, SICO's forward-looking strategy is firmly focused on organic growth and driving innovation while maintaining a prudent approach to both. SICO LIVE is just one of the many avenues where organic evolution and innovation meet to both fulfill the demands of customers and set the Bank on a path for growth.

Through SICO LIVE, 2018 will see the firm expand its reach beyond the GCC as it looks to diversify revenue away from the region as a step toward garnering global market coverage. Brokerage plans to continue leading the pack in Bahrain and working to increase its market share in the UAE while simultaneously keeping a close watch on unique opportunities beyond the markets in which it currently operates.

SICO LIVE

In keeping with efforts to offer clients secure, convenient, and flexible solutions, SICO launched its online trading platform SICO LIVE in 2017, offering clients the ability to trade in real time, across regional markets from a single account through both their computers and mobile devices. Among the platform's unique selling points is its ability to leverage SICO's exceptional research products, giving discerning clients access to critical market intelligence to help them make informed investment decisions. In tandem, SICO LIVE paves the way for the firm to acquire a larger slice of the retail market while enabling brokers to focus their efforts on providing institutional and high-net-worth individuals with their unique market insight. Plans are underway to widen the platform's coverage in the first half of 2018 by offering access to global equity markets, with efforts ongoing to enhance coverage beyond equity trading.

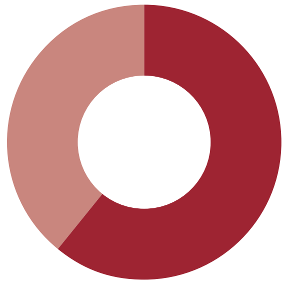
Investment Banking

Built on a track record of excellence, SICO Investment Banking provides the full-spectrum of conventional and Sharia-compliant investment banking services and commands the leading position in the Bahraini market

Overview

For over two decades, SICO Investment Banking has been the go-to house in the Bahraini market for equity and debt capital market transactions, M&A deals, and advisory services thanks to its unmatched team of highly-experienced professionals and the Bank's ability to offer a comprehensive suite of tailored financial services. From arranging primary and secondary issuances, to deal structuring, valuations, and a broad spectrum of corporate and family business advisory services, SICO Investment Banking is renowned for its insights, textbook execution, and a flexible platform that can offer innovative and fit-for-purpose solutions. SICO also leverages its unique position among a limited number of regional wholesale banks to offer its clients pre- and post-investment banking mandate services, including project and syndicated debt financing, post-listing brokerage, liquidity and market making, research support, and asset management.

Bahrain Capital Markets
2014-2017 Market Share by Transaction Value



SICO Investment Banking prides itself on its in-depth understanding of and focus on the Bahraini market and its investment landscape, having executed deals across the breadth of the kingdom's sectors including construction and contracting, industry and commerce, tourism and F&B, real estate, telecoms, banking and insurance, and consumer finance. The Bank's reputation for excellence has seen it build a client book of both private corporations and public sector clients including government ministries and government-related entities.

A Market Pioneer

Since establishment in the mid-1990s, SICO Investment Banking has been a pioneer on the Bahraini equity and debt capital markets, with a number of "firsts" that have given it the solid foundation needed to deliver on its growth strategy despite market volatility. Most recently, the division was lead arranger, sub-investment manager, and market maker for the Eskan Bank Realty Income Trust, Bahrain's first listed REIT and the region's second REIT IPO. SICO Investment Banking was also lead manager for BBK's perpetual tier 1 convertible capital securities issuance, the first of its kind on the Bahrain Bourse. The transaction further cemented SICO's reputation as an innovator having allowed the client bank to raise growth capital, boost its capital adequacy ratio, and ensure the Bank is unhindered by the otherwise stringent demands of common equity tier 1 capital. Finally, the division acted as buy-side advisor to the Gulf Hotels Group (GHG) for their 2016 acquisition of the Bahrain Tourism Company, with SICO structuring and executing the first

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SICO Investment Banking offers unique insights, textbook execution, and a flexible platform that can offer innovative and fit-for-purpose solutions to an expanding pool of GCC clients.

100% listed acquisition through a share-swap deal on the local exchange, minimizing the need for liquidity by GHG and ultimately the combined entity.

2017 Operational Review

In 2017, SICO Investment Banking acted as financial advisor to the Bahrain Kuwait Insurance Co. (BKIC) on its unconditional mandatory cash offer to acquire 36.31% of the issued and paid-up ordinary shares of Takaful International Company B.S.C. (Takaful), representing all outstanding shares not currently held by BKIC. The Investment Banking team was also the Escrow Agent for the mandatory offer by AN Investment for Bahrain Middle East Bank. Along with the Real Estate team, they also finalized plans for the launch of the unleveraged USD 50 million Sharia-compliant SICO Trucial US Real Estate Fund.

In addition to IPO mandates, SICO's operations in 2017 saw it extend advisory services to financial institutions looking to restructure their holdings and streamline their core operations. With the CBB expanding the uses of capital, Bahraini banks retained SICO's expertise to advise on restructuring their asset portfolios. SICO also completed several valuation mandates and advisory services in 2017, including mandates for private corporations and family businesses.

Meanwhile, the division continued to deliver on its role as sub-investment manager and market maker for the Eskan Bank Income Realty Trust, overseeing cash flow streams and property investments with the aim of meeting the REIT's target of generating a 6.5% net distributable, semi-annual dividend.

2018 Outlook

Heading into 2018, SICO remains mindful of the region's fluid political landscape and the ramifications that it may have on investor appetite and sentiment towards GCC markets. In Bahrain, the division will continue to leverage its reputation for excellence in securing investment banking mandates including equity and debt capital market transactions, mergers and acquisitions, and advisory services. SICO Investment banking will increasingly target exposure to the real estate market, adding to its successful track record of arranging and listing REITs, while identifying lucrative property investments along with SICO's asset management arm. The division is also exploring opportunities to expand regionally, with Saudi Arabia being an initial target market.

55 USD MN

Value of Mandates Advised On

Market Making

As the leading regional market maker on the Bahrain Bourse, SICO covers the full spectrum of post-IPO and cross listings, as well as matured and debt instrument listings

Overview

SICO is largely credited with pioneering the market making concept on the Bahrain Bourse in 1995, and has maintained its position ever since as the leading market maker on the bourse and a key player in the GCC for more than two decades. As of 2016, SICO became the first qualified market maker on the bourse following the introduction of new market making rules and guidelines during the year.

The division makes a market for several mandates for selected stocks, post-IPO listings, cross listings, matured listings, and global depository receipts. Its primary mission is to create liquidity in the market and to be available on the bid and offer side, narrow down the spread between them and encourage trading.

2017 Operational Review

Aside from its market making activities, the division initiated and co-seeded in 2016 the BD 41 million Bahrain Liquidity Fund as its indirect liquidity management program. Co-seeded by prominent Bahrain-based financial institutions Osool, BBK, Bahrain Mumtalakat Holding Company, and NBB, the fund was developed to create liquidity on the Bahrain Bourse. In 2017, the fund significantly exceeded expectations, managing to more than double the bourse's average daily traded value in just one year to BD 626,745 from BD 260,000 a day.

> "The SICO-managed Bahrain Liquidity Fund continued to make a significant impact on the average daily traded value of the Bahrain Bourse throughout 2017, indicating renewed investor confidence.

It also unlocked significant value in the Bahrain Bourse throughout the year, being key in keeping the market in the green despite the geopolitical turmoil that weighed down most other GCC markets during the year. The turnover value of the Bahrain Bourse rose 88% in 2017, in contrast to the decline posted by all other GCC except Kuwait. The fund's total contribution to the bourse's turnover was 38% in 2017.

2018 Outlook

Going forward, SICO plans to build further on its unparalleled expertise and strong track record to expand its market making coverage. The growth that has already been achieved in this business line stems from the ongoing development witnessed across the region, which raises the importance of the Market Making division as we progress into a new phase in the lifecycle of GCC capital markets.

Treasury

Treasury Overview

SICO's Treasury department manages the Bank's liquidity while providing value-added services to clients across the GCC. These services include money market and foreign exchange, collateralized lending through margin facilities for equities and repos for fixed income to provide clients with attractive funding sources to pursue market opportunities. The Bank's foreign currency services are diverse, with SICO acting as a settlement agent for its clients' transactions across markets for cost-efficient trading.

2017 Operational Review

The division posted solid performance in 2017, having navigated a challenging year in the GCC that was marked with financial and geopolitical turbulence that forced businesses to pursue a defensive approach. With global markets such as the US, Europe, along with emerging markets performing well in 2017, the division reduced exposure to the GCC and continued to lean on its international exposure as a hedge against the volatility of regional markets.

Foreign exchange income was bolstered during the year as a result of increased brokerage activities while interest income played a substantial role during the year following interest rake hikes.

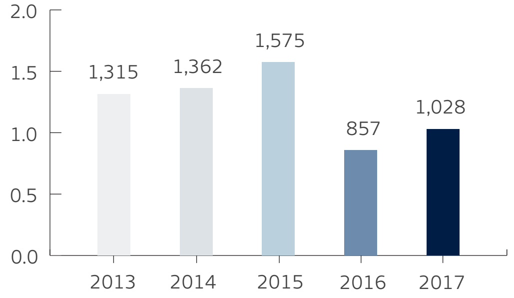
SICO maintained a sound and liquid balance sheet throughout 2017, with a capital adequacy ratio of 59.12%, substantially above the CBB's minimum requirement.

59.12%

Capital Adequacy Ratio

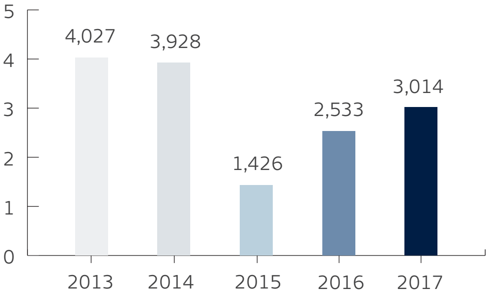
Net Interest Income 2013 - 2017

BD '000



Net Investment Income 2013 - 2017

BD '000



The proprietary book contributed positively to SICO's bottom line. Having been constructed in accordance with IFRS 9 standards, it is composed of three major classifications: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortized cost (AC).

Under FVTPL, SICO invests in equities as well as funds that align with strategies to match its risk appetite. The fixed income exposure was gradually reduced to focus on credit plays that generate high yields.

The FVOCI portfolio was reduced in size to comply with regulations set out by the International Accounting Standards Board, with the Bank booking only strategic, medium-term investments to generate yield income.

The Bank's high yielding amortized cost portfolio is mainly composed of exposure to the sovereign bond market. The proprietary book's various investments managed to beat their respective benchmarks.

The proprietary book managed to beat its respective benchmarks with every asset class performing positively in 2017.

The prudent strategy of our proprietary book enabled the Bank to generate positive returns, with 2017 net investment income at BD 3.014 million compared to BD 2.533 million last year. The proprietary book maintained a low correlation of 0.65 to the S&P GCC Index, with a volatility of 4.12% compared with 7.00% by the index.

"

Having restructured its portfolio to include more yield-generating assets, the Treasury division was able to navigate volatility while focusing on active trading in direct equities to provide on-the-ground, hands-on access to the GCC market.

2018 Outlook

With the Bank anticipating the macro conditions in the year ahead to remain stable, it believes it has established sufficient strongholds to protect against volatility. The division plans to continue diversifying its exposure to minimize risk while targeting high-yield assets to augment its portfolio.

8 USD MN

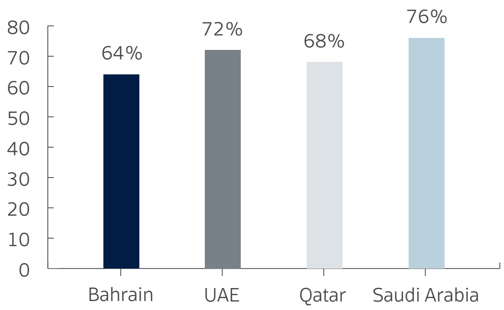
Net Investment Income

Research

SICO is the regional pioneer in the provision of sell-side research to an expanding institutional client base that has come to regard the Bank's team of research analysts as the leading authorities on the economies and companies of the GCC. Established in 1995, the division has built up an eight-analyst strong team of some of the most qualified professionals in the field, the majority of which are CFA charter holders. SICO Research has incrementally increased both the quality and scope of its in-depth proprietary research to cover a total of 75 companies across 12 key regional sectors. With a long-standing direct presence in the Gulf region, the division is able to provide top-quality and insightful macro and strategy coverage for all six GCC countries.

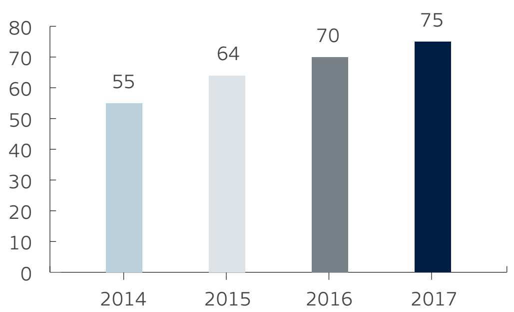
SICO Research Coverage

Key GCC Countries*



*as a percentage of index market capitalization

SICO Research Company Coverage



2017 Operational Highlights

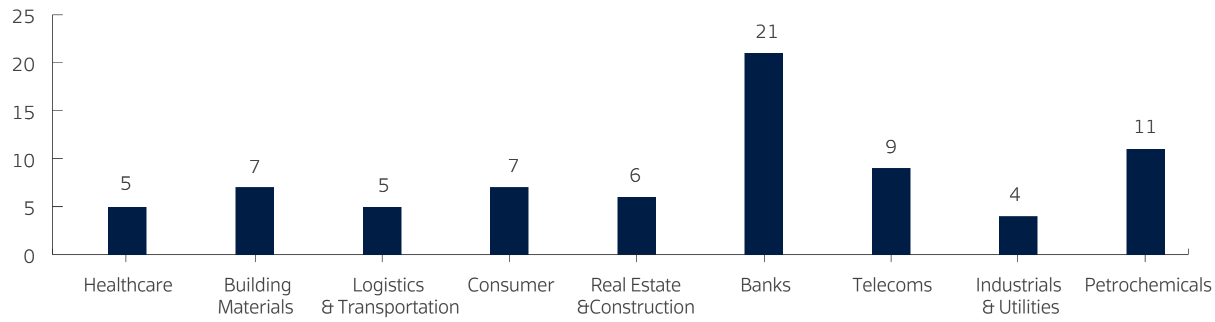
SICO Research continued to expand its coverage universe in 2017, initiating coverage on six new companies during the year in the consumer, utilities, banking, industrial, and construction sectors for a total of more than 900 reports published during the year, including periodicals. The team added utilities as a new sector under coverage in addition to launching two new monthly newsletters focused on trading activity across regional markets and point-of-sales analysis in Saudi Arabia. The division continued to host analyst/investor conference calls for listed companies on the Bahrain Bourse and act as Official Research Partner for the Oxford Business Group's annual 'Bahrain – The Report' publication, including the provision of content for the report's Capital Markets section.

As the industry continues to evolve, SICO is of the belief that fundamental research must go hand in hand with new tools that enhance the investor experience. As such, SICO Research has become an essential selling point of the firm's new online brokerage platform, SICO LIVE. This integration of research and execution will provide investors with critical market intelligence to make the most informed investment decisions from their trading screens.

2018 Outlook

SICO Research plans to widen its coverage further and expand into new sectors in 2018. The division expects that complete integration between SICO LIVE and research will take place during the year, allowing the portal to give investors access to its full suite of research products.

Companies Under Coverage by Sector



Reports Published

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 Daily
Published daily, 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 monthly, offers 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, provides SICO's view and outlook on GCC markets.

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

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

GCC Equities – Quarterly Profit Consensus
Provides profit consensus estimates for GCC companies under coverage.

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

Trading Activity
Provides monthly insight on trading activity across the region.

Saudi PoS Analysis
Provides a snapshot of key point of sales data published by SAMA on a monthly basis.

SICO Funds Services (SFS)

Established in 2004 as a wholly owned subsidiary of SICO, SFS is a leading regional provider of integrated custody and fund administration solutions, with a proven track record spanning nearly two decades. Fully licensed by the CBB, SFS settles securities transactions, manages the safekeeping of custody assets and securities servicing for corporate actions, and provides comprehensive administration services including valuations and reporting for SICO's asset management and brokerage clients, as well as its own expanding base of global clients.

As one of the GCC's most successful and highly regarded custody service players, the company anchors its success in its client-centric approach and its utilization of the most advanced technology tools, processes, and delivery platforms. This winning formula enables SFS to offer clients innovative, flexible, and seamless service offerings.

While SFS is backed by SICO's long-standing brand equity in the region, it operates independently with its own Board of Directors and functions on a strictly arm's-length basis with SICO's Brokerage and Asset Management businesses.

2017 Operational Review

SFS experienced growth over the year due to a significant uptick in client acquisition from both SICO and SFS's independent client base as market conditions in the region began to show a marked improvement. A combination of new mandates and the company's continued focus on client servicing saw total assets under custody grow to BD 2.2 billion (USD 5.7 billion) in 2017 compared to BD 1.95 billion (USD 5.2 billion) at the end of 2016 — an increase of 11% y-o-y.

SFS won new custody and administration mandates during the year from leading regional financial institutions. In 2017, SFS was appointed by the Bahrain Development Bank (BDB) to provide custody, fund administration, and registrar services for the Al Waha Venture Capital Fund. Established by BDB in collaboration with Bahrain's Economic Development Board, the Al Waha Venture Capital Fund is a USD 100 million fund specialized in SMEs.

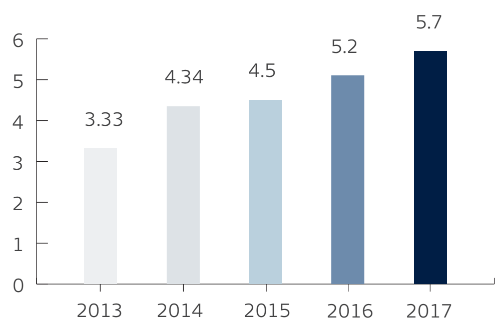
SFS was also mandated mortgage agent for Solidarity in their takeover of Al Ahlia Insurance and signed a number of local and regional custody and administration agreements.

2018 Outlook

As oil prices find their footing and the regional outlook continues to stabilize, SFS remains optimistic that it can continue to build on its growth trajectory in 2018. As such, SFS is confident that the year will also see SICO Asset Management increase the value and number of its mandates, which will have a direct impact on growing the company's business. SFS also plans to aggressively grow its client base by leveraging the strength of SICO's new centralized sales and distribution team, which works in close correlation with SFS's own sales activities.

5-Year Assets Under Custody Progression

USD bn



Support Functions

Client Relations

SICO's Client Relations Department serves as the direct interface between clients and the Bank. A dedicated team of professionals receive and process all client inquiries in a prompt and responsive manner. Queries and complaints concerning all non-trading issues are attended to directly. The client relations department also acts as a conduit for passing on suggestions, requests, and ideas from clients to the business divisions. Their scope of activities includes opening new accounts for Brokerage, Fixed Income, and Asset Management. They are also responsible for completing and updating all client forms to ensure full compliance with CBB regulations. Significantly, no formal complaints were received during 2017, reflecting the Bank's commitment to continuously improve its customer service and satisfaction standards.

Human Resources

SICO's success and growth over the past 20 years would not have been possible without the hard work and dedication of our incredibly talented employees. At SICO, we strive to create a corporate culture that values teamwork and open communication. We believe fostering a welcoming professional environment, promoting healthy competition and rewarding exceptional achievement are key to maintaining employee satisfaction and retention.

The Bank is also committed to cultivating the talent of our employees and promoting from within, as this helps us strengthen institutional memory and ensure stability of operations. We provide numerous career development opportunities facilitated by outside trainers. SICO also offers funding for employees to attend specific events and professional qualification trainings that will help them develop their skills and achieve their own professional aspirations. In 2017, SICO employees participated in training programs provided by the CBB and the Bahrain Institute of Banking and Finance that focused on banking, finance, and leadership. Additionally, three high-achieving employees were selected to participate in external trainings focusing on leadership development from Darden School of Business, University of Virginia.

While we actively cultivate the talent of our current employees, SICO is also committed to identifying and training new talent through our internship and executive training programs. The six-month executive training program targets fresh graduates interested in pursuing careers in the banking and finance industry. In 2017, one highly promising applicant was offered a permanent position at SICO after the completion of the program. We also regularly provide internships that either take place in specific departments or involve a rotation throughout different divisions.

SICO Employee Breakdown by Gender

Company	Men	Women
SICO	50	**29***
SFS	4	**5**
SICO Financial Brokerage	11	**1**
Total	65	**35**

*This number includes two executive trainees

Information Technology

The launch of SICO LIVE was a major milestone in 2017 for the Bank generally and for the information technology department specifically. The platform fully launched in May 2017 and now allows customers to trade online on 10 different regional exchanges. The next phase for online trading will be expanding the platform's functionality by creating a direct settlement platform with retail banks, which will allow customers who have an account with a retail bank to trade on the Bahrain Bourse directly by routing it through the SICO LIVE platform. This "Auto Cash Transfer and Immediate Settlement Through Benefit" will soon be available in Bahrain only as a first stage but could be rolled out to other GCC markets in the future.

Other noteworthy accomplishments in 2017 included an ongoing strengthening of SICO's IT Infrastructure through the addition of new layers of advanced security solutions. The IT department also conducted a complete Business Continuity Testing that ensures the Bank's DRP, and completed a technical and functional assessment that will allow SICO to move forward with an upgrade for its Core Banking System that will provide significant system enhancements as well as new functionalities. SICO is now better positioned to deploy fintech solutions moving forward.

Operations

The main responsibility of the Operations department is the processing and settlement of all transactions for all SICO's business lines starting from account opening and booking cash for clients to managing daily transaction reconciliations and the settlement cycle and issuing reports to Client Relations and the Business divisions. SICO's robust Core Banking System has enabled all processes and procedures to be fully automated and integrated with SWIFT and more recently integration with T24, which has improved efficiency and accuracy.

SICO LIVE has completely automated the brokerage account opening process, giving the department more time to focus on streamlining and improving services to clients. All of the department's team members are highly trained professionals who attend regular training sessions to enhance their knowledge and awareness of financial instruments and regulatory requirements so they are fully aware of both CBB requirements and customer needs as they process transactions.

Corporate Communications

The corporate communications department successfully completed a major milestone in 2017 with a full rebranding of SICO's corporate identity. After over 20 years, the Bank officially changed its name and logo and rolled out a new corporate identity that reflects a more modern, forward-facing approach that is in sync with the mission, vision, and values that SICO embodies.

The full-year project started off with an in-depth research exercise, the findings of which were shared internally with the various departments and divisions of the Bank to ensure full alignment on the path forward. The new logo represents the brand values that are true to SICO and the areas that we have identified as our key strengths: we are forward looking, insightful, and progressive. The emphasis on "Est 1995" in the logo gives it additional gravitas and sense of not only knowing where we are today but also remembering where we have been.

Throughout the year, SICO has sponsored select conferences and events where it can create value and maximize benefit for both the Bank and the cause to which it lends its support. The department's over-arching strategy is based on transparency, accessibility, availability, and trust. All 2017 initiatives were carried out simultaneously with ongoing activities such as public relations, social media management, and corporate social responsibility programmes.

Industry Recognition

SICO continues to receive prestigious industry recognition amongst its regional peers in the GCC for providing high-quality service and leading innovation across all its lines of business

2017 Awards

SICO Brokerage
"Best Securities Brokerage Firm, Bahrain"
World Finance Awards

SICO Asset Management
"Best Investment Management Company, Bahrain"
World Finance Awards

SICO
"Best Investment Bank, Bahrain"
World Finance Awards

SICO Brokerage
"Highest Traded Shares on the Bahrain Bourse"
Arab Federation Exchange (AFE) at the AFE Equities Summit (4th Consecutive Year)

SICO CEO Najla Al Shirawi
"Top 100 Most Powerful Arab Businesswomen"
Forbes Middle East (3rd consecutive year)

Control Functions

Compliance and Anti-Money Laundering

As a licensed conventional wholesale and listed bank, SICO has put in place comprehensive policies and procedures to ensure full compliance with all relevant rules and regulations of the 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 2017, SICO remained compliant with the latest regulatory requirements of the CBB and the Bahrain Bourse. An overview of SICO's corporate governance framework, plus a report of key developments during the year, are covered in the Corporate Governance Review section of this annual report.

Risk Management

SICO's independent Risk Management department is responsible for establishing the risk management framework and appropriate risk guidelines to assist the Bank in achieving its strategic and business objectives. The department provides leadership, direction, and coordination in implementing the risk management framework across the entire organization. This entails a systematic process of identifying, assessing and mitigating the principal business risks facing SICO by establishing appropriate controls to manage these risks; and ensuring that appropriate monitoring and reporting processes are in place. During 2017, Risk Management continued to play a pivotal role in ensuring that SICO remains strong, methodical, and consistent in the face of economic uncertainty. An overview of SICO's risk management framework, plus a report of key developments during the year, are covered in the Risk and Capital Management section of this annual report.

Internal Audit

SICO has a well-established independent Internal Audit function that reports directly to the Board Audit Committee to provide independent and objective assurance over the adequacy and effectiveness of the Bank's governance, internal controls, and risk management processes. Its scope and role are defined and approved by the Audit Committee. During 2017, the 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. Internal Audit 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. All key operational, business, and management processes and divisions, including the subsidiaries SICO Financial Brokerage and SFS, were audited in line with the audit plan. During the year, the department assisted Management with inputs and reviews at various stages for major projects such as the policies and procedures update, and implementation of SICO LIVE. It also supported the Bank on various reviews for other departments.

Financial Control

The Financial Control department, which comprises the Accounting and Reporting Unit (ARU) and the Internal Control Unit (ICU), is responsible for all aspects of accounting and Internal controls at SICO. During 2017, the ARU produced MIS reports and regulatory reports, prepared financial statements in accordance with international accounting standards and in compliance with regulations of the CBB. A significant exercise during the year involved the full implementation of the accounting requirements in relation to the new accounting standard – Financial Instruments: Recognition and Measurement (IFRS 9). ICU is responsible for ensuring the Bank's daily operations run smoothly in a risk-free and compliant manner. Additionally, ICU is closely involved in contingency planning and plays a coordinating role between the Control Functions, Information Technology and Business lines. During 2017, ICU was closely involved in a number of new project developments, including the revision of SICO's policies and procedures.

CORPORATE SOCIAL RESPONSIBILITY

By identifying and clearly articulating that we target the creation of shared value and inclusive growth, SICO has been able to pursue a robust corporate social responsibility (CSR) agenda that reflects our belief in innovation, inclusion and ethical business practices.

Corporate Social Responsibility

At SICO, we believe contributing to the wellbeing of the community is key to insuring a holistic, long-term, inclusive growth story for any financial institution. We are just as concerned with seeing our country and our region develop and flourish as we are with improving our bottom line. By identifying and clearly articulating that we target the creation of shared value and inclusive growth, SICO has been able to pursue a robust corporate social responsibility (CSR) agenda that reflects our belief in innovation, inclusion, and ethical business practices.

While there are a multitude of opportunities available to positively impact our community, we have chosen to focus on four key pillars:

1	Educating youth
2	Empowering women
3	Improving healthcare and social services
4	Advancing the financial sector

Educating Youth

Bahrain has a well-established reputation as a country that values education. Each year, the kingdom sees large numbers of Bahrainis, equipped with university degrees from local and international institutions, enter the workforce. At SICO, we aim to help these young graduates acquire the leadership and professional skills they need to advance their career prospects. As such, we work in coordination with a number of government-led initiatives to train and improve the financial literacy and skills of Bahraini youth who are interested in seeking jobs in the financial sector.

2017 saw us continue our sponsorship of Trade Quest - The Trading Challenge, a Bahrain Bourse initiative that brings in students from public and private schools and universities for a portfolio management competition. The Bank has been a sponsor since 2008, supporting the program in its aim to provide a competitive financial simulation that offers students a realistic experience of local and international financial markets.

Each participating school or university forms a seven- or eight-person investment team that is given a virtual portfolio of BD 500 thousand and USD 4 million to invest in companies listed on the Bahrain Bourse and New York Stock Exchange. Students trade according to the rules and regulations of both markets during specified trading sessions through an electronic trading platform on BHB's website. Before the program begins, the teams are provided with a basic foundation in trading and investing

“

SICO takes great pride in the fact that women currently account for 32% of total employees, 21% of managerial and supervisory positions, and make up a quarter of the senior management team.

conducted by professional lecturers in the investment field over a period of three weeks. The winning team is chosen at the end of the program by a special committee.

As a long-standing supporter of the youth empowerment non-profit Al Mabarrah Al Khalifia Foundation, we were a gold sponsor of its inaugural forum ‘The Effect of Leadership, Entrepreneurship and Volunteerism on Youth Development’ held in Bahrain in May 2017. Organized under the patronage of HRH Prime Minister Prince Khalifa bin Salman Al Khalifa, the forum brought together various stakeholders from the public and private sectors to explore how the next generation can be shaped through leadership, entrepreneurship, and volunteerism.

Empowering Women

SICO has been a leading and vocal advocate of women’s empowerment in Bahrain. In line with initiatives set forth by the Kingdom of Bahrain to promote gender equality, SICO works actively to bolster the standing of women in Bahrain's banking sector. In 2017, SICO also participated in the HRH Shaikha Sabeeka Award for Women Empowerment for the first time.

The Bank's Equal Opportunity Committee, recently established under the auspices of SICO's new Charter for Gender Diversity, held its inaugural meeting in March 2017. The committee is responsible for overseeing equal employment opportunities for male and female staff members. SICO takes great pride in the fact that women currently account for 32% total employees, occupy 21% of managerial and supervisory positions, and make up a quarter of the senior management team. SICO's wholly owned subsidiary SFS also has an above-average representation of females with four out of six Board seats currently held by women.

Working under the guidance and principles espoused by the Supreme Council of Women and the National Model for mainstreaming women's needs, SICO'S Equal Opportunity Committee has been actively and continually working to identify gaps and areas of improvement, to elevate SICO's policies, procedures and practices, and bring them in line with and even exceed the principles of the national model.

The committee is also taking guidance from the principles for women's empowerment issued by the United Nations Entity for Gender Equality and the Empowerment of Women to identify policies and practices (if any) that require enhancement.

The committee met a number of times during the year with the active support of its Chairperson and SICO CEO Ms. Najla Al Shirawi to discuss a number of issues. Having identified certain areas of improvement, measures have already been implemented with the coordination and involvement of the HR department. Decisions have also already been taken by the committee to implement certain landmark schemes/programs in 2018.

The Bank also supported Unleash Bahrain 2030 for Women's Empowerment, a project that seeks to tackle the UN Development Project's Sustainability Development Goal of Gender Equality (SDG #5). In line with Bahrain's National Strategy for the Advancement of Bahraini Women, the AIESEC-backed Unleash Bahrain 2030 showcases the role and contribution of women and aims that by 2030 women will have full and effective participation in a society where they are given equal opportunities for leadership and decision making in political, economic, and public life. The program will take the form of sessions, conference, stimulations, and/or workshops alongside interactive activities.

Improving Healthcare and Social Services

During 2017, SICO continued to support a variety of charitable institutions and events engaged in improving healthcare, education, and the general social welfare of citizens, with a particular focus paid this year on supporting autistic children in our community.

The year saw SICO host a special Bahrain National Day event for 250 children and their parents and teachers at

SICO continued to support a variety of charitable institutions and events engaged in improving healthcare and education with a particular focus on supporting children with autism.

the Alia for Early Intervention Centre for children with behavioral disorders such as autism.

Advancing the Financial Sector

In February 2017, SICO sponsored a seminar organized by the Bahrain Chapter of the Institute of Chartered Accountants of India (BCICAI), one of the largest professional bodies in the kingdom. Valuable insights were provided by taxation expert CA Dinesh Kanabar, CEO of Dhruva Advisors – India, SICO's Head of Investment Banking and Real Estate, Wissam Haddad, and Head of SICO Research Nishit Lakhotia.

The Bank also sponsored the second Middle East Asset Management Forum that brought the spotlight on Bahrain's pioneering contribution to the ongoing development of GCC capital markets. Hosted by the Global Investor Group, the event featured Senior Portfolio Manager Naveed Ahmed as a speaker on Bahrain's role in developing the region's capital markets, including the introduction of new market making rules and guidelines by the Bahrain Bourse, the appointment of the first two official market makers, and the launch of the Bahrain Liquidity Fund. He also highlighted the listing on the Bahrain Bourse of the first Sharia-compliant REIT and the launch of the Bahrain Investment Market in March 2017, designed to enable small-to-medium enterprises (SMEs) to list and raise capital on an alternative market with less stringent regulatory requirements than the main market.

SICO regularly extends support to the following causes and charities:

- Bahrain Breast Cancer Society
- Bahrain Down Syndrome Society
- Al Noor Charity Welfare
- UCO Parents Care Center
- Children & Mothers Welfare Society
- Child Care Home
- Bahrain Sports Federation for Disabilities

SICO was also a speaker on the Breaking the Glass Ceiling on Liquidity panel at the GBSA Gulf Debt Capital Market, the first event of its kind operated by the industry itself. The summit was attended by 200 executives from leading companies, international and regional investors, market participants and government officials, with active participation by senior representatives of the capital market regulators of Kuwait, Oman, Saudi Arabia, and the UAE who used the panel to highlight initiatives to streamline access for issuers and investors.

REGULATORY DISCLOSURES

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

Report on the audit of the consolidated financial statements

Opinion

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 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of quoted equity and debt investments (refer to the accounting policies in note 3(d) of the consolidated financial statements)

Description	How the matter was addressed in our audit
The Group's portfolio of quoted equity, debt and fund investments at fair value make up 23% of the Group's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they comprise liquid, quoted investments. However, due to the materiality in the context of the consolidated financial statements as a whole, they are considered to be one of the areas which had the greatest impact on our overall audit strategy and location of resources in planning and completing our audit.	**Our procedures included:** • Agreeing the valuation of investments in the portfolio to externally quoted prices; • Agreeing investments holdings in the portfolio to independently received third party confirmations; and • Assessing the Group's adequacy of disclosures.

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Board of directors' report set out on page 10.

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

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

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditors’ responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

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

a. the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b. the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c. we are not aware of any violations during the year of the 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 Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d. satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG Fakhro
Partner registration number 137
25 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	Note	2017	2016
			Bahraini Dinars '000
Assets			
Cash and cash equivalents	7	67,328	80,900
Treasury bills		1,495	16,256
Placements with banks		4,974	-
Investments at fair value through profit or loss	8	29,496	28,040
Investments at fair value through other comprehensive income	9	6,158	4,793
Investments at amortized cost		10,008	8,923
Fees receivable	10	875	1,164
Other assets	11	9,589	5,481
Furniture, equipment and intangibles	12	1,420	1,507
Total assets		**131,343**	**147,064**
Liabilities and equity			
Liabilities			
Short-term bank borrowings	13	38,043	39,255
Customer accounts	14	26,718	42,994
Other liabilities	15	4,173	3,903
Payable to other unit holders in consolidated funds	6	2,651	2,830
Total liabilities		**71,585**	**88,982**
Equity			
Share capital	16	42,849	42,849
Shares under employee share incentive scheme		(1,599)	(1,599)
Statutory reserve	17	6,992	6,661
General reserve	18	3,217	3,217
Investments fair value reserve		307	(251)
Retained earnings		7,992	7,205
Total equity		**59,758**	**58,082**
Total liabilities and equity		**131,343**	**147,064**

The consolidated financial statements were approved by the board of directors on 25 February 2018 and signed on its behalf by:

Abdulla Bin Khalifa Al Khalifa	**Hussain Al Hussaini**	**Najla M. Al Shirawi**
Chairman	**Vice Chairman**	**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 2017

			Bahraini Dinars '000
	Note	2017	2016
Net investment income	19	3,014	2,533
Net fee income	20	3,164	2,966
Brokerage and other income	21	2,072	1,425
Other interest income	22	1,743	1,187
Total income		**9,993**	**8,111**
Staff and related expenses	23	(3,934)	(3,581)
Interest expense	22	(715)	(330)
Other operating expenses	24	(1,908)	(1,752)
Share of (profit) of other unit holders in consolidated funds	6	(130)	(103)
Profit for the year		**3,306**	**2,345**
Basic and diluted earnings per share (fils)	30	**8.01**	**5.69**

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 2017

		Bahraini Dinars '000
	2017	2016
Profit for the year	**3,306**	**2,345**
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve:		
- Net change in fair value of FVTOCI debt instruments	(30)	-
- Net amount transferred to profit or loss on sale of debt instruments	-	(215)
Items that will not be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve:		
- Net change in fair value of FVTOCI equity instruments	567	(345)
Total other comprehensive income for the year	**537**	**(560)**
Total comprehensive income for the year	**3,843**	**1,785**

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 2017

Bahraini Dinars '000

2017	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Invest-ments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2017	42,849	(1,599)	6,661	3,217	(251)	7,205	58,082
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,306**	**3,306**
Other comprehensive income:							
Investments fair value reserve (Investments at fair value through other comprehensive income):							
Net change in fair value of FV-TOCI instruments	-	-	-	-	537	-	537
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	21	(21)	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**558**	**(21)**	**537**
Total comprehensive income for year	**-**	**-**	**-**	**-**	**558**	**3,285**	**3,843**
Appropriations:							
- Transfer to statutory reserve	**-**	**-**	331	**-**	**-**	(331)	**-**
- Transfer to charitable donations - 2016	-	-	-	-	-	(25)	(25)
-Dividends declared for 2016	-	-	-	-	-	(2,142)	(2,142)
Balance at 31 December 2017	**42,849**	**(1,599)**	**6,992**	**3,217**	**307**	**7,992**	**59,758**

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 2017 (continued)

							Bahraini Dinars '000
2016	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Invest-ments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2016	42,849	(1,599)	6,427	3,217	(567)	8,112	58,439
- Impact of early adoption of IFRS 9 at 1 January 2016	-	-	-	-	(4)	4	-
Balance as restated at 1 January 2016	42,849	(1,599)	6,427	3,217	(571)	8,116	58,439
Profit for the year	-	-	-	-	-	2,345	2,345
Other comprehensive income:							
Investments fair value reserve (Investments at fair value through other comprehensive income):							
Net change in fair value of FVTOCI instruments	-	-	-	-	(345)	-	(345)
Net amount transferred to profit or loss on sale of FVTOCI instruments	-	-	-	-	(215)	-	(215)
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	880	(880)	-
Total other comprehensive income	-	-	-	-	320	(880)	(560)
Total comprehensive income for year	-	-	-	-	320	1,465	1,785
Appropriations:							
- Transfer to statutory reserve	-	-	234	-	-	(234)	-
- Dividends declared for 2015	-	-	-	-	-	(2,142)	(2,142)
Balance at 31 December 2016	**42,849**	**(1,599)**	**6,661**	**3,217**	**(251)**	**7,205**	**58,082**

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 2017

		Bahraini Dinars '000	
	Note	2017	2016
Operating activities			
Net interest received		2,480	1,981
Net (increase) in placements with banks		(4,974)	-
Net (purchase) of investments at fair value through profit or loss		(499)	(13,287)
Net (purchase) / sale of investments at fair value through other comprehensive income		(1,365)	20,071
Net (purchase) of investments at amortized cost		(1,107)	(3,860)
Net (decrease) / increase in customer accounts		(16,276)	14,189
Dividends received		567	544
Movement in brokerage accounts and other receivables		1,630	3,080
Movement in other liabilities		175	1,030
Payments for staff and related expenses		(3,839)	(3,618)
Payments for other operating expenses		(1,340)	(1,581)
Net cash (used in) / from operating activities		**(24,548)**	**18,549**
Investing activities			
Net capital expenditure on furniture and equipment		(149)	(284)
Net cash used in investing activities		**(149)**	**(284)**
Financing activities			
Net (settlements) / proceeds of short-term bank borrowings		(1,212)	19,478
Distribution to other unit holders in consolidated fund		(282)	(169)
Dividends paid		(2,142)	(2,142)
Net cash (used in) / from financing activities		**(3,636)**	**17,167**
Net (decrease) / increase in cash and cash equivalents during the year		**(28,333)**	**35,432**
Cash and cash equivalents at the beginning of the year		97,156	61,724
Cash and cash equivalents at the end of the year	**7**	**68,823**	**97,156**

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

Notes to the 31 December 2017 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 license 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.

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

2. Basis of preparation

(a). Statement of compliance

The consolidated financial 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 Investments at fair value through other comprehensive income.

(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 recognized 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 recognized in the consolidated financial statements are described in note 3 (c).

(d). Amendments and interpretations effective from 1 January 2017

The following standards, amendments and interpretations, which became effective as of 1 January 2017, are relevant to the Group:

2. Basis of preparation (continued)

(d) Amendments and interpretations effective from 1 January 2017 (continued)

(i) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities (Refer Note 13).

(ii) Annual Improvements to IFRSs 2012–2014 Cycle – various standards

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs, which applies prospectively for annual periods beginning on or after 1 January 2017.

The adoption of these amendments 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 2017, except for early adoption of IFRS 9 in consolidated financial statements for the year ended 31 December 2016 and 31 December 2017 respectively. Those which are relevant to the Group are set out below.

IFRS 15 – revenue from contracts with customers

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The application of this standard will have no significant impact on the consolidated financial statements of the Bank.

Classification and Measurement of Shared-based Payment Transactions (Amendments to IFRS 2)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.
The amendments cover three accounting areas:

- measurement of cash-settled share-based payments;
- classification of share-based payments settled net of tax withholdings; and
- accounting for a modification of a share-based payment from cash-settled to equity-settled.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. There is currently no guidance in IFRS 2 on how to measure the fair value of the liability incurred in a cash-settled share-based payment.

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability:

- market and non-vesting conditions are taken into account in measuring its fair value; and
- the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions

The amendments can be applied prospectively so that prior periods do not have to be restated. Retrospective, or early, application is permitted if companies have the required information. The amendments are effective for annual periods commencing on or after 1 January 2018. The Bank does not expect to have a significant impact on its financial statements.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Bank has started an initial assessment of the potential impact on its financial statements. The Bank has not yet decided whether it will use the optional exemptions.

(f). Early adoption of standards

The Bank did not early adopt new or amended standards in 2017.

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 recognized 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.

3. Significant accounting policies (continued)

(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. The other Group companies functional currencies are either denominated in currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the Group companies that have a functional currency different from the presentation currency do not result in exchange differences.

(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.

(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 recognized 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, amortized cost or fair value through other comprehensive income. 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.

(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.

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

(ii) Recognition and de-recognition

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

(iii) Measurement

Investments at fair value through profit or loss are initially recognized at fair value, with transaction costs recognized 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 recognized in the statement of profit or loss.

Investments at fair value through other comprehensive income (FVTOCI) are initially recognized at fair value, with transaction costs recognized directly in the statement of profit or loss. Unrealized gains and losses arising from changes in the fair values of FVTOCI investments are recognized in the statement of other comprehensive income. In the event of sale, disposal or collection of debt securities classified as FVTOCI, the cumulative gains and losses recognized in other comprehensive income are transferred to the profit or loss. In the event of sale, disposal or collection of equity securities classified as FVTOCI, the cumulative gains and losses recognized in other comprehensive income are transferred to the retained earnings.

(iv) Fair value measurement

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

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize 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 maximize 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 / administrator as their fair value.

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

3. Significant accounting policies (continued)

(v) Impairment

Financial assets

The Group measures loss allowances for its trade and other receivables at an amount equal to lifetime ECL. For other financial instruments on which credit risk has not increased significantly since their initial recognition impairment is measured as 12-month ECL.

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortized cost and debt instruments classified as FVTOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occuring within next 12 months is recognised.

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset.

Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

(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, 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). Amortized cost measurement

The amortized 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 recognized and the maturity amount, minus any reduction for impairment. The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate.

(h). Impairment of other financial assets carried at amortized cost

For financial assets carried at amortized 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 recognized 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	3-5 years

(j). Bank borrowings

Borrowings are initially measured at fair value minus transaction costs, and subsequently measured at their amortized 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 derecognized. 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 recognized 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 minus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(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.

3. Significant accounting policies (continued)

(iii) Employee share incentive scheme

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

(n). Dividends

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

(o). Provisions

A provision is recognized 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 recognized 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 recognized 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.

(t). Interest income and expense

Interest income and expense is recognized 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.

(u). Fee and commission

Fee and commission income comprises custody fee, investment management fee and performance fee earned by the Group. Custody and investment management fees are recognized as the related services are performed and the Group becomes entitled to the fee.

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

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

(v). Net investment income

Net investment income includes all realized and unrealized fair value changes on investment at fair value through profit or loss and on debt investments at fair value through other comprehensive and the related dividend.

(w). Dividend income

Dividend income is recognized 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, other income and foreign exchange income. This income is recognized 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 Group's decision 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, investments, 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.

4. Financial risk management (continued)
(a) Introduction and overview (continued)

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.

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

The Group establishes an allowance for impairment that represents its estimate of life time expected losses in respect of debt securities classified as FVTOCI or at amortized cost. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets.

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

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.

All figures in BD'000

Exposure to credit risk

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

	2017	2016
Cash and cash equivalents	67,328	80,900
Treasury bills	1,495	16,256
Placements with banks	4,974	-
FVTPL debt securities	12,682	2,231
FVTOCI debt securities	2,201	11,650
Fee receivable	875	1,164
Other receivables	9,191	5,236
	98,746	**117,437**

Currently the margin trading lending on the GCC Stock Exchange and REPO transactions are subject to formal collateral arrangement. The margin 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. There were no such write-offs during the year.

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 2017 was BD 12,451 (2016: BD 8,856), relating to cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income.

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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:

2017	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	65,168	-	2,160	67,328
Treasury bills	1,495	-	-	1,495
Placements with banks	4,974	-	-	4,974
Investments at fair value through profit or loss	22,118	1,382	5,996	29,496
Investments at fair value through other comprehensive income	6,158	-	-	6,158
Investments at amortized cost	10,008	-	-	10,008
Fees receivable	866	-	9	875
Other assets	11,006	-	3	11,009
Total assets	**121,793**	**1,382**	**8,168**	**131,343**
Liabilities				
Short-term bank borrowings	24,490	-	13,553	38,043
Customer accounts	25,808	247	663	26,718
Other liabilities	4,157	-	16	4,173
Payable to unit holders	2,651	-	-	2,651
Total liabilities	**57,106**	**247**	**14,232**	**71,585**

2016	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	80,078	-	822	80,900
Treasury bills	16,256	-	-	16,256
Investments at fair value through profit or loss	16,093	4,031	7,916	28,040
Investments at fair value through other comprehensive income	4,793	-	-	4,793
Investments at amortized cost	8,923	-	-	8,923
Fees receivable	1,164	-	-	1,164
Other assets	6,923	-	65	6,988
Total assets	**134,230**	**4,031**	**8,803**	**147,064**
Liabilities				
Short-term bank borrowings	26,082	-	13,173	39,255
Customer accounts	40,014	1,669	1,311	42,994
Other liabilities	3,903	-	-	3,903
Payable to unit holders	2,830	-	-	2,830
Total liabilities	**72,829**	**1,669**	**14,484**	**88,982**

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

All figures in BD'000

2017	Financial services	Others	Total
Total assets	92,880	38,463	**131,343**
Total liabilities	52,727	18,858	**71,585**

2016	Financial services	Others	Total
Total assets	86,232	60,832	147,064
Total liabilities	61,895	27,087	88,982

The changes in gross carrying amount of financial instruments during the period, which contributed to changes in loss allowance is as follows:

	Impact: increase/(decrease)					
	12 – months ECL		Lifetime ECL			
			Not credit-Impaired		Cedit- impaired	
	2017	2016	2017	2016	2017	2016
Debt investment securities at FVTOCI	**4**	1	-	-	-	-
Debt investment securities at amortized cost	-	-	-	-	-	-

Investments in debt securities classified as FVTOCI are entirely in investment grade debt instruments i.e. credit grade A to BB.

All investments at amortized costs are exposures to the domestic sovereign debt. No credit loss is expected to materialize on these investments. The calculated expected credit loss of cash and bank balances and treasury bills is not material for recognition purposes given its short-term nature.

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).

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4. Financial risk management (continued)
(c) Liquidity risk (continued)

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

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 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.

The residual contractual maturity of financial liabilities is as follows:

2017	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	38,043	38,120	38,120
Customer accounts	26,718	26,718	26,718
Other liabilities	4,173	4,173	4,173
Payable to unit holders in consolidated funds	2,651	2,651	2,651
	71,585	**71,662**	**71,662**

2016	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	39,255	39,312	39,312
Customer accounts	42,994	42,994	42,994
Other liabilities	3,903	3,903	3,903
Payable to unit holders in consolidated funds	2,830	2,830	2,830
	88,982	**89,039**	**89,039**

(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 FVTPL securities and fair value through other comprehensive income securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio Guidelines set by the Investment Committee and the Group's management.

All figures in BD'000

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 FVTPL as well as FVTOCI portfolios.

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

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

Sensitivity analysis of a 1% change in market prices on the unrealized profit or loss for the investments at fair value through profit or loss and FVTOCI reserve for Investments at fair value through other comprehensive income is given below:

	Investments at fair value through profit or loss		Investments at fair value through other comprehensive income	
	2017	2016	2017	2016
Increase of 1%	**295**	280	62	48
Decrease of 1%	**(295)**	(280)	(62)	(48)

(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.

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4. Financial risk management (continued)
(d) Market risk (continued)
(ii) Interest rate risk (continued)

The Bank has exposures to debt instruments issued by GCC institutions in its proprietary portfolios. Some of these instruments are not listed but can be traded over the counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. Some debt instruments are unrated.

The Bank follows the 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.

Interest rate re-pricing profile

2017	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	16,840	16,840
Call deposits*	-	261	-	-	261
Placements	2.28%	55,201	-	-	55,201
Treasury bills	-	1,495	-	-	1,495
Investments at fair value through profit or loss	6.46%	2,866	9,817	16,813	29,496
Investments at fair value through other comprehensive income	3.41%	113	2,088	3,957	6,158
Investments at amortized cost**	-	-	**10,008**	-	**10,008**
Fees receivable	-	-	-	875	875
Other assets	-	-	-	9,589	9,589
Furniture, equipment and intangibles	-	-	-	1,420	1,420
Total assets		**59,936**	**21,913**	**49,494**	**131,343**
Short-term bank borrowings	2.19%	38,043	-	-	38,043
Customer accounts	-	-	-	26,718	26,718
Other liabilities	-	-	-	4,173	4,173
Payable to unit holders in consolidated funds	-	-	-	2,651	2,651
Total liabilities		**38,043**	**-**	**33,542**	**71,585**
Equity		**-**	**-**	**59,758**	**59,758**
Total liabilities and equity		**38,043**	**-**	**93,300**	**131,343**
Interest rate sensitivity gap		21,893	21,913	(43,806)	-
Cumulative interest rate sensitivity gap		21,893	43,806	-	-

All figures in BD'000

Interest rate re-pricing profile

2016	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	24,737	24,737
Call deposits*	-	1,203	-	-	1,203
Placements	1.93%	54,960	-	-	54,960
Treasury bills	-	16,256	-	-	16,256
Investments at fair value through profit or loss	6.34%	235	11,414	16,391	28,040
Investments at fair value through other comprehensive income	3.41%	-	2,231	2,562	4,793
Investments at amortized cost**	-	-	8,923	-	8,923
Fees receivable	-	-	-	1,164	1,164
Other assets	-	-	-	5,481	5,481
Furniture, equipment and intangibles	-	-	-	1,507	1,507
Total assets		**72,654**	**22,568**	**51,842**	**147,064**
Short-term bank borrowings	1.46%	39,255	-	-	39,255
Customer accounts	-	-	-	42,994	42,994
Other liabilities	-	-	-	3,903	3,903
Payable to unit holders in consolidated funds	-	-	-	2,830	2,830
Total liabilities		**39,255**	**-**	**49,727**	**88,982**
Equity		**-**	**-**	**58,082**	**58,082**
Total liabilities and equity		**39,255**	**-**	**107,809**	**147,064**
Interest rate sensitivity gap		33,399	22,568	(55,967)	-
Cumulative interest rate sensitivity gap		33,399	55,967	-	

* At 31 December 2017 the effective interest rate on Bahraini Dinar call deposits is 0.45% (2016: 0.425%) and on USD call deposits is 0.15% (2016: 0.15%).
** At 31 December 2017 the effective interest rate of Investments at amortized cost is 6.44% (2016: 6.43%).

(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. 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 recognized 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 2016. 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.

All figures in BD'000

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

Based on year end balances

	2017	2016
Risk weighted exposure		
Credit risk	55,725	52,168
Market risk	30,063	26,588
Operational risk	15,288	16,263
Total risk weighted assets	**101,076**	**95,019**
Common Equity (CET 1)	59,758	58,082
Additional Tier 1	-	-
Total regulatory capital	**59,758**	**58,082**
Capital adequacy ratio	**59.12%**	**61.13%**

Based on full year average balances

	2017	2016
Risk weighted exposure		
Credit risk	63,359	70,610
Market risk	30,285	21,320
Operational risk	15,288	16,262
Total risk weighted assets	**108,932**	**108,192**
Common Equity (CET 1)	58,683	56,394
Additional Tier 1	**-**	**-**
Total regulatory capital	**58,683**	**56,394**
Capital adequacy ratio	**53.87%**	**52.12%**

The capital adequacy ratio as at 31 December 2017 has been calculated in accordance with Basel 3 and 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.

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.

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5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2017. 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:

Subsidiary	Percentage ownership	Year of incorporation /	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
7. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO.
8. Securities and Investment Company(UAE) LLC	100%	2011	UAE	Brokerage services
9. SICO Kingdom Equity Fund	64%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
10. SICO Fixed Income Fund	62%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks.

All figures in BD'000

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

	2017	2016
Other unit holders' share	**36%**	41%
Cash and cash equivalents	202	841
Investment at fair value through profit or loss	3,107	2,638
Other liabilities	(70)	(18)
Net assets	**3,239**	**3,461**
Carrying amount of payable to other unit holders – 36%	**1,155**	**1,417**
Investment income	288	120
Profit	214	52
Total comprehensive income	**214**	**52**
Profit allocated to other unit holders	**76**	**21**
Cash flows (used in) / from operating activities	(202)	463
Cash flows (used in) financing activities	(437)	(156)
Net (decrease) / increase in cash and cash equivalents	**(639)**	**307**

SICO Fixed Income Fund

	2017	2016
Other unit holders' share	**38%**	35%
Cash and cash equivalents	804	925
Investment at fair value through profit or loss	3,748	3,514
Other assets	60	51
Short-term bank borrowings	(659)	(682)
Other liabilities	(11)	(11)
Net assets	**3,942**	**3,797**
Carrying amount of payable to other unit holders – 38%	**1,496**	**1,413**
Investment income	165	54
Interest income	28	220
Profit	141	219
Total comprehensive income	**141**	**219**
Profit allocated to other unit holders	**54**	**82**
Cash flows (used in) / from operating activities	(125)	110
Cash flows from / (used in) financing activities	4	(99)
Net (decrease) / increase in cash and cash equivalents	**(121)**	**11**

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7. Cash and cash equivalents

	2017	2016
Cash and bank balances	16,840	24,737
Call deposits	261	1,203
Short-term placements	18,594	37,991
Due from other institutions	31,633	16,969
Total cash and cash equivalent as per balance sheet	**67,328**	**80,900**
Treasury bills	1,495	16,256
Total cash and cash equivalent as per cash flow	**68,823**	**97,156**

Cash and bank balances include bank balances amounting to BD 5,058 (2016: BD 12,394) held on behalf of discretionary customer accounts.

Due from other institutions of BD 31,633 (2016: BD 16,969) represent repurchase agreements transactions.

8. Investments at fair value through profit or loss

	2017	2016
Quoted equity securities – (listed)		
- Consolidated funds	3,107	2,638
- Parent	2,948	3,215
Funds		
- Quoted	7,051	3,710
- Unquoted	3,708	6,827
Quoted debt securities		
- Parent	8,934	8,136
- Consolidated funds	3,516	3,514
Unquoted debt securities		
- Consolidated funds	232	-
	29,496	**28,040**

Investments at fair value through profit or loss as at 31 December 2017 include securities amounting to BD 1,155 (31 December 2016: BD 4,108), sold under agreement to repurchase (note 13).

All figures in BD'000

9. Investments at fair value through other comprehensive income

	2017	2016
Equity securities		
- Quoted	3,662	2,185
- Unquoted	295	377
	3,957	**2,562**
Debt securities		
- Quoted	113	112
- Unquoted	2,088	2,119
	2,201	**2,231**
	6,158	**4,793**

10. Fees receivable

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

	2017	2016
Management and administration fees	735	1,086
Performance fee	109	61
Custody fee	31	17
	875	**1,164**

11. Other assets

	2017	2016
Receivables from clients and brokers	6,946	3,526
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	398	245
Interest receivable	540	480
Other receivables	1,205	730
	9,589	**5,481**

All figures in BD'000

12. Furniture, equipment and intangibles

	Software	Furniture and Equipment & Others	Capital work in progress	2017 Total	2016 Total
Cost					
At 1 January	2,472	983	-	3,455	3,211
Additions	-	149	-	149	284
Disposals	(8)	(88)	-	(96)	(39)
At 31 December	**2,464**	**1,044**	**-**	**3,508**	**3,455**
Depreciation					
At 1 January	1,083	865	-	1,948	1,775
Charge for the year	194	43	-	237	212
Disposals	-	(97)	-	(97)	(39)
At 31 December	**1,277**	**811**	**-**	**2,088**	**1,948**
Net book value at 31 December 2017	**1,187**	**233**	**-**	**1,420**	**-**
Net book value at 31 December 2016	1,040	29	438	-	1,507
Cost of fully depreciated assets in use	**-**	**-**	**-**	**2,863**	**1,280**

13. Short-term bank borrowings

Short-term bank borrowings include borrowings under repurchase agreements of BD 32,388 (2016: BD 34,354) and short-term inter-bank advances of BD 5,655 (2016: BD 4,901). The fair value of the investments at fair value through profit or loss and Investments at fair value through other comprehensive income pledged as collateral amounts to BD 1,155 (2016: BD 4,108) (refer to note 8 and 9). Additionally repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 39,103 (2016: BD 42,686) are pledged as collateral.

The following represents the movement in short-term bank borrowing during the year:

At 1 January 2017	39,255
Borrowings made during the year	33,868
Borrowings settled during the year	(35,080)
At 31 December 2017	**38,043**

All figures in BD'000

14. Customer accounts

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

15. Other liabilities

	2017	2016
Accrued expenses	952	868
Provision for employee indemnities	593	485
Employee share incentive scheme liability	1,634	1,348
Other payables	994	1,202
	4,173	**3,903**

16. Share capital

	2017	2016
Authorized share capital		
1,000,000,000 (2016: 1,000,000,000) shares of 100 fils each	**100,000**	100,000

	2017	2016
Issued and fully paid		
At 1 January 2017: 428,487,741 ordinary shares of 100 fils each (2016: 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 2017: 428,487,741 ordinary shares of 100 fils each (2016: 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.

Pursuant to a resolution of the extraordinary general meeting of the shareholders dated 11 December 2017, the Bank completed the repurchase of 10% of its issued and outstanding share capital. The repurchase was undertaken through an offer availed to all shareholders of the Bank at a price of BD 0.138 per share. The offer closed on 22 January 2018 with a total repurchase of 42,848,774 shares of SICO, representing the maximum legal limit of 10% of the Bank's issued and outstanding share capital. The repurchased shares will currently be held as treasury shares.

Notes to the 31 December 2017 Consolidated Financial Statements All figures in BD'000

16. Share capital (continued)

Appropriations

	2017	2016
Proposed dividend 5% (2016 5%)	**1,928**	2,142

The shareholders are:	Nationality	2017		2016	
		Capital	% holding	Capital	% holding
Social Insurance Organization	Bahrain	15,922.5	37.16	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	5,115	11.94	5,115	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	4,125	9.63	4,125	9.63
Arab Investment Resources Co EC	Bahrain	3,300	7.70	3,300	7.70
Bank ABC	Bahrain	3,300	7.70	3,300	7.70
Gulf Investment Corporation GSC	Kuwaiti	3,300	7.70	3,300	7.70
Al Salam Bank – Bahrain BSC	Bahrain	825	1.93	825	1.93
Volaw Trust & Corp Service Ltd.	Jersey	1,599	3.73	1,599	3.73
		42,849	**100**	**42,849**	**100**

Based on these consolidated financial statements, the Net Asset Value per share is BD 0.140 (2016: BD 0.136).

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 331 (2016: BD 234).

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. For 2017, no appropriations to general reserve are recommended.

All figures in BD'000

19. Net investment income

	2017	2016
Net gain on investments carried at fair value through profit or loss	935	458
Gain on sale of Investments at fair value through other comprehensive income	-	215
Interest income from debt instruments	1,512	1,316
Dividend income	567	544
	3,014	**2,533**

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

	2017	2016
Realized gain / (loss) on sale	858	(484)
Unrealized fair value gain	77	942
	935	**458**

The realized 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 unrealized 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 income/ (expense)

	2017	2016
Fee income from trust or other fiduciary activities		
- Management fee	2,537	2,217
- Performance fee	110	61
- Custody fee	374	314
- Investment banking fee	173	394
	3,194	**2,986**
Fee expense		
- Custody fee	(30)	(20)
Net fee income	**3,164**	**2,966**

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21. Brokerage and other income

	2017	2016
Brokerage income	1,275	967
Foreign exchange gain	661	229
Other income	136	229
	2,072	**1,425**

22. Other interest income / (expense)

	2017	2016
Interest income from:		
Placements, call deposits and reverse repos	1,635	1,037
Margin lending	108	150
	1,743	**1,187**
Interest expense on:		
Bank borrowings and repos	(715)	(330)
Net other interest income	**1,028**	**857**

23. Staff and related expenses

	2017	2016
Salaries, allowances and bonus	3,655	3,321
Social security costs	168	160
Other costs	111	100
	3,934	**3,581**

As at 31 December 2017, the Group employed 62 (2016: 59) Bahrainis and 38 (2016: 36) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 168 (2016: BD 160).

All figures in BD'000

24. Other operating expenses

	2017	2016
Rent	229	219
Communication expenses	403	382
Marketing expenses	150	139
Professional fees	146	144
Other operating expenses	743	656
Depreciation	237	212
	1,908	**1,752**

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 VIII BSC (c), and SICO Ventures Company SPC. In the ordinary course of business and also has investments in certain funds.

	2017	2016
Fee and commission income	**351**	316
Fee receivable	**106**	200
Investments at fair value through profit or loss:		
-Khaleej equity fund	**1,055**	1,036
-Bahrain liquidity fund company	**1,203**	1,209

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 5,655 (2016: BD 3,770). 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.

Notes to the 31 December 2017 Consolidated Financial Statements All figures in BD'000

25. Related party transactions (continued)

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.

	2017	2016
Fee and commission income	**495**	395
Fee receivable	**107**	115
Funds under management	**56,362**	55,429
Placements	**5,199**	11,056
Borrowings	**5,655**	3,770

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 financial officer and head of departments.

Compensation to key management personnel is as follows:

	2017	2016
Salaries and short term benefits	1,019	965
Post employment benefits	45	42
Equity compensation benefits	94	91
	1,158	**1,098**

Other operating expenses include BD 142 (2016: BD 48) 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 Trust has been set up by the transfer of shares of the Bank allotted to the employees under the Scheme.

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

The liability under the scheme has different vesting conditions based on the nature of incentive, which is based on the period of service with the Group. The liability vests pro-rata from the date of grant over a period of 5 years. 50% of the liability can be settled after 5 years, at the option of the employee while the remaining liability is settled after the employee leaves his employment. The settlement is based on the last net assets value as per the last annual financial statements of the Group.

All figures in BD'000

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

The Group has recognized an employee liability of BD 1,634 (2016: BD 1,348) on the shares granted till date. This liability has been determined on the value of the Group's net assets as at 31 December 2016 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:

	2017 No. of shares issued	2016 No. of shares issued
As at 1 January	15,987,741	15,987,741
Shares issued during the year *	-	-
	15,987,741	**15,987,741**

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

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.

	2017	2016
Investments in funds		
Khaleej equity fund	1,055	1,036
Bahrain liquidity fund	1,203	1,209
	2,258	**2,245**

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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 (2016: BD 106) and margin lending drawdown commitments of BD 3,124 (2016: BD 1,516).

Funds under management (net asset value)	2017	2016
Khaleej Equity Fund	16,114	17,432
SICO Gulf Equity Fund	1,506	2,939
Bahrain Liquidity Fund	41,298	41,517
SICO Kingdom Equity Fund	3,239	3,462
SICO Fixed Income Fund	3,941	3,796
Discretionary portfolio management accounts	399,268	326,758

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

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

	2017	2016
Assets under custody	**2,152,893**	1,947,789

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2017, assets amounting to BD 2,152,893 (2016: BD 1,947,789) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 294,024 (2016: BD 277,555) 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 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.

The civil case in relation to the above claim is under suspension by the court and at this stage of the action, we believe there is no need for a provision to be created in these consolidated financial statements, unless the civil case is taken up by the court and a possible claim has been invisaged.

Contingencies

The Company has letters of guarantee in the amount of BD 5,133 (31 December 2016: BD 5,133) in favour of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

29. Significant net open foreign currency positions

	2017	2016
QAR	418	7,212
US Dollar	46,106	25,718
JOD	4	45
KWD	637	(348)
SAR	8,852	13,620
GBP	16	14
AED	10,892	5,372
OMR	33	(186)
EUR	8	3
EGP	344	241

All the GCC Currencies except KWD are effectively pegged to the US Dollar.

30. Basic earnings per share

	2017	2016
Profit for the year	**3,306**	2,345
Weighted average number of equity shares (In 000's)	**428,487**	428,487
Less: Shares issued for employee share incentive scheme	**(15,988)**	(15,988)
Weighted average number of shares as at 31 December	**412,499**	412,499
Earnings per share (in fils)	**8.01**	5.69

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 2017	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	67,328	-	-	67,328
Treasury bills	1,495	-	-	1,495
Placements with banks	4,974	-	-	4,974
Investments at fair value through profit or loss	19,679	4,067	5,750	29,496
Investments at fair value through other comprehensive income	113	-	6,045	6,158
Investments at amortized cost	-	-	10,008	10,008
Furniture, equipment and intangibles	10	237	1,173	1,420
Fees receivable	875	-	-	875
Other assets	9,589	-	-	9,589
Total assets	**104,063**	**4,304**	**22,976**	**131,343**
Liabilities				
Short-term bank borrowings	38,043	-	-	38,043
Customer accounts	26,718	-	-	26,718
Other liabilities	4,173	-	-	4,173
Payable to other unit holders	2,651	-	-	2,651
Total liabilities	**71,585**	**-**	**-**	**71,585**
Liquidity gap	**32,478**	**4,304**	**22,976**	**59,758**
Cumulative liquidity gap	**32,478**	**36,782**	**59,758**	**59,758**

31 December 2016	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	80,900	-	-	80,900
Treasury bills	16,256	-	-	16,256
Investments at fair value through profit or loss	16,625	5,811	5,604	28,040
Investments at fair value through other comprehensive income	-	112	4,681	4,793
Investments at amortized cost	-	-	8,923	8,923
Furniture, equipment and intangibles	-	484	1,023	1,507
Fees receivable	1,164	-	-	1,164
Other assets	5,481	-	-	5,481
Total assets	**120,426**	**6,407**	**20,231**	**147,064**
Liabilities				
Short-term bank borrowings	39,255	-	-	39,255
Customer accounts	42,994	-	-	42,994
Other liabilities	3,903	-	-	3,903
Payable to other unit holders	2,830	-	-	2,830
Total liabilities	**88,982**	**-**	**-**	**88,982**
Liquidity gap	31,444	6,407	20,231	58,082
Cumulative liquidity gap	31,444	37,851	58,082	58,082

All figures in BD'000

32. Accounting classification and fair values

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

31 December 2017	Fair value through profit or loss	Fair value through other comprehensive income	Loans and receivables	Liabilities at fair value	At amortized cost	Total carrying value
Cash and cash equivalents	-	-	67,328	-	-	67,328
Treasury bills	-	-	-	-	1,495	1,495
Placements	-	-	4,974	-	-	4,974
Investments at fair value through profit or loss	29,496	-	-	-	-	29,496
Investments at fair value through other comprehensive income	-	6,158	-	-	-	6,158
Investments at amortized cost	-	-	-	-	10,008	10,008
Fees receivable	-	-	875	-	-	875
Other assets	-	-	9,191	-	-	9,191
	29,496	**6,158**	**82,368**	**-**	**11,503**	**129,525**
Short-term bank borrowings	-	-	-	-	38,043	38,043
Customer accounts	-	-	-	-	26,718	26,718
Other liabilities	-	-	-	-	4,173	4,173
Payable to unit holders in consolidated funds	-	-	-	2,651	-	2,651
	-	**-**	**-**	**2,651**	**68,934**	**71,585**

31 December 2016	Fair value through profit or loss	Fair value through other comprehensive income	Loans and receivables	Liabilities at fair value	At amortized cost	Total carrying value
Cash and cash equivalents	-	-	80,900	-	-	80,900
Treasury bills	-	-	-	-	16,256	16,256
Investments at fair value through profit or loss	28,040	-	-	-	-	28,040
Investments at fair value through other comprehensive income	-	4,793	-	-	-	4,793
Investments at amortized cost	-	-	-	-	8,923	8,923
Fees receivable	-	-	1,164	-	-	1,164
Other assets	-	-	5,236	-	-	5,236
	28,040	**4,793**	**87,300**	**-**	**25,179**	**145,312**
Short-term bank borrowings	-	-	-	-	39,255	39,255
Customer accounts	-	-	-	-	42,994	42,994
Other liabilities	-	-	-	-	3,903	3,903
Payable to unit holders in consolidated funds	-	-	-	2,830	-	2,830
	-	**-**	**-**	**2,830**	**86,152**	**88,982**

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32. Accounting classification and fair values (continued)

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.

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

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
Equities	3,662	-	295	**3,957**
Debt securities	113	2,088	-	**2,201**
Fair value through profit or loss:				
Equity	6,055	-	-	**6,055**
Debt securities	12,450	232	-	**12,682**
Funds	7,444	2,330	985	**10,759**
Investments at amortized cost:				
Debt securities	10,126	-	-	**10,126**
Liabilities				
Payable to unit holders in consolidated funds	(2,651)	-	-	**(2,651)**
	37,119	**4,650**	**1,280**	**43,129**

All figures in BD'000

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehen-sive income investments:				
Equities	2,185	-	377	2,562
Debt securities	112	2,119	-	2,231
Fair value through profit or loss:				
Equity	5,853	-	-	5,853
Debt securities	11,180	470	-	11,650
Funds	6,870	2,780	887	10,537
Investments at amortized cost:				
Debt securities	9,065	-	-	9,065
Liabilities				
Payable to unit holders in consolidated funds	(2,830)	-	-	(2,830)
	32,435	**5,369**	**1,264**	**39,068**

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 2017
At 1 January 2017	**1,264**
Total gain:	
in income statement	-
in other comprehensive income	16
Purchases	-
Settlements	-
Transfers into / (out) of level 3	-
At 31 December 2017	**1,280**

	Level 3 2016
At 1 January 2016	**575**
Total gain :	
in income statement	57
in other comprehensive income	130
Purchases	878
Settlements	(376)
Transfers into / (out) of level 3	-
At 31 December 2016	**1,264**

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 fair value through other comprehensive income financial assets is assessed as not significant to the other comprehensive income and total equity.

(iii) Valuation technique and significant unobservable input

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

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Level 2			
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, for the year or total equity of the Group.

Corporate Governance Review

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 2017, the Bank had issued 428,487,741 ordinary shares of Bahraini fils 100 each. The last Annual General Meeting was held on 30 March 2017.

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, since 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 to be of significance to the Bank.

Board composition and election

The Board's composition is guided by the Bank's Memorandum of Association. As at 31 December 2017, the Board consisted of nine Directors, three of whom are Independent directors, and six 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 Company Secretary is Matthew B. Hansen. The appointment of Directors is subject to prior approval by the CBB. The classification of 'Executive' Directors, 'Non-executive' Directors and '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 in 2017, the Board of Directors resolved that the three 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 periodically 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% 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 2017, five Board meetings were held in Bahrain, and the members' attendance is noted in the table below:

Directors' attendance: January to December 2017

Board meetings

Board committe members	16th Feb 2017 #126 - SICO	30th Mar 2017 #127 - Dipla-mat Hotel	9th May 2017 #128 - SICO	27th Sep 2017 #129 - SICO	13th Nov 2017 #130 - SICO
Shaikh Abdulla bin Khalifa Al Khalifa (Chairman of the Board)	✓	✓	✓	✓	✓
Hussain Al Hussaini (Vice Chair-man of the Board)	✓	✓	✓	✓	✓
Fahad Murad	✓	✓	✓	✓	✓
Waleed K. Al-Braikan	✓	✓	✓	✓	
Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	✓	✓
Mahmoud Al Zewam Al-Amari (Director until March 2017)	✓				
Mohammed Abdulla Isa	✓	✓	✓	✓	✓
Prakash Mohan	✓	✓	✓	✓	✓
Yusuf Saleh Khalaf (Director until March 2017)	✓				
Khurram Mirza (Observer Meetings #127 and #128)		✓	✓	✓	✓
Emad Al Saudi (Observer Meetings #127 and #128)		✓	✓	✓	✓

Investment Committee meetings

Board committe members	#22, 24th Jan 2017 - SICO	#23, 4th Apr 2017 - SICO	#24, 13th Jun 2017 - SICO	#25, 24th Oct 2017 - SICO
Shaikh Abdulla bin Khalifa Al Khalifa (Chairman of Investment Committee)	✓	✓	✓	✓
Hussain Al Hussaini	✓	✓	✓	✓
Prakash Mohan	✓		✓	✓

Audit Committee meetings

Board committe members	#53, 9th Feb 2017 - SICO	#54, 8th May 2017 - SICO	#55, 26th Sep 2017 - SICO	#56, 9th Nov 2017 - SICO
Waleed K. Al-Braikan (Chairman of Audit Committee since May 2017)	✓	✓	✓	✓
Yusuf Saleh Khalaf (Chairman of the Audit Committee until March 2017)	✓			
Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	✓
Emad Al Saudi		✓	✓	✓

Nomination, Remuneration and Corporate Governance Committee meetings

Board committe members	#20, 17th Jan 2017 - SICO	#21, 22nd Feb 2017 - SICO	#22, 17th Oct 2017 - SICO	#23, 5th Dec 2017 - SICO
Fahad Murad (Chairman of the Nominations, Remuneration and Corporate Governance Committee)	✓	✓	✓	✓
Mahmoud Al Zewam Al-Amari (Director until March 2017)	✓	✓		
Mohammed Abdulla Isa	✓	✓	✓	✓
Khurram Mirza (Director since March 2017)			✓	✓

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

Nomination, remuneration and corporate governance committee

Objective

- Identify and screen suitable and qualified candidates as members of the Board of Directors, or 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 and Executive Director since 2011, representing Social Insurance Organisation-Bahrain

Chairman of SICO Board Investment Committee
Chief Executive Officer, Osool Asset Management BSC
Board Director, BBK, Amanat Holding PJSC, Amlak Social Insurance Organization Company, Bahrain Marina Development Company, Ageila Capital Management and Bina Al Bahrain

Professional experience: 21 years

Education: BSc in Business Administration, George Washington University, Washington DC, USA

Hussain Al Hussaini
Vice Chairman and Executive Director since 1997, representing the National Bank of Bahrain BSC- Bahrain

Member of SICO Board Investment Committee
Chief Executive: Treasury, Capital Market & Wealth Management, National Bank of Bahrain BSC
Chairman, Esterad Investment Company BSC

Professional experience: 36 years

Education: PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing & Management Change, DePaul University Chicago, USA; and BA in Economics, Concordia University, Montreal, Canada

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Fahad Murad
Independent Director since 2011, representing Arab Investment Resources Company-Bahrain

Chairman of SICO Board Nomination, Remuneration & Corporate Governance Committee
Managing Director - Head of Placement for Bahrain, Investcorp Bank BSC

Professional experience: 33 years

Education: BBA and MBA in Finance from the University of Houston, Texas, USA

Directors' profiles

Waleed K. Al-Braikan Independent Director since 2014, representing Gulf Investment Corporation- Kuwait	Chairman of SICO Board Audit Committee Director, GCC Equity Markets, Gulf Investment Corporation **Professional Experience:** 32 years **Education:** BA in Finance from Kuwait University, Kuwait
Anwar Abdulla Ghuloom Ahmadi Executive Director since 2002, representing Social Insurance Organisation- Bahrain	Member of SICO Board Audit Committee Board Director, Seef Properties **Professional experience:** 36 years **Education:** ACPA, GED, CIPA; and BSc in Accounting
Mohammed Abdulla Isa Executive Director since 2009, representing BBK BSC - Bahrain	Member of SICO Nomination, Remuneration and Corporate Governance Committee Group Chief Financial Officer, BBK BSC Board Director, The BENEFIT Company **Professional experience:** 26 years **Education:** Certified Public Accountant, American Institute of Certified Public Accountants, Delaware State Board of Accountancy (2001), USA
Prakash Mohan Executive Director since 2015, representing Ahli United Bank BSC- Bahrain	Member of SICO Board Investment Committee, Group Head, Ahli United Bank BSC **Professional experience:** 25 years **Education:** 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
Khurram Ali Mirza Executive Director since 2017, representing Social Insurance Organization – Bahrain	Member of SICO Board Nomination, Remuneration & Corporate Governance Committee Head of Asset Allocation, Osool Asset Management BSC **Professional Experience:** 25 years **Education:** Fellow, Institute & Faculty of Actuaries, UK; BSc in Actuarial Science & MSc in Mathematical Trading & Finance from Cass Business School, University of London, UK
Emad Al Saudi Independent director since 2017, representing Bank ABC – Bahrain	Member of SICO Board Audit Committee Head of Derivatives & Foreign Exchange, Bank ABC **Professional Experience:** 26 years **Education:** BSc in Business Administration from Pepperdine University, California, USA; General Certification from International Securities Market Association

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 four management committees: Asset Management Committee; Assets, Liabilities and Investments Committee (ALIC); Internal Control Committee; and Research Committee. Profiles of Managers are listed later in this Review.

Management committees

Managers	Asset Management Committee	Assets, Liabilities and Investments Committee	Internal Control Committee
Chief Executive Officer	Chairperson	Chairperson	Chairperson
Chief Operating Officer			
Chief Financial Officer			
Head of Internal Audit	x	x	
Head of Brokerage	x		
Head of Asset Management			
Head of Treasury		x	
Head of Research	x	x	
Risk Management	x		
Head of Internal Control			x

Note:
Shaded = Voting committee members
X = Non-voting member

Asset management committee

Objective

To oversee the fiduciary responsibilities carried out by the Asset Management unit in managing clients' discretionary portfolios as well as the funds operated and managed by SICO. It also reviews the investment strategy of the Bank's funds and portfolios; reviews and approves asset allocations; and reviews 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.

Internal control committee (ICC)

Objective

To oversee the Internal Control functions carried out in SICO by various departments. The remit of ICC is to look into strengthening the internal control culture throughout the company by ensuring that each department head takes ownership and responsibility and accountability for internal control.

The Committee is entrusted with the responsibility to consult and advise the Board of Directors in the assessment and decision making concerning the Bank's system of risk management, internal control, and corporate governance.

Management profiles

Najla Al Shirawi

Chief Executive Officer

Najla Al Shirawi has more than 20 years of investment banking experience, bookended with her appointment as SICO's Chief Executive Officer in 2014. Having joined SICO in 1997, her extensive career with the Bank also included an appointment to Deputy CEO in June 2013. 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 includes a Lectureship in Engineering at the University of Bahrain. Najla is a Board member at the Bahrain Economic Board (EDB) and a Chairperson on the Board of Directors for two SICO subsidiaries: SICO Funds Services Company (SFS) in Bahrain and SICO Financial Brokerage in Abu Dhabi. She is also an Independent Board Member of Eskan Bank BSC(c), Bahrain, Board Member of the Deposit Protection Scheme, Bahrain, Board Member of Bahrain Associations of Banks, and a Board Member of the Bahrain Institute of Banking and Finance. She holds an MBA and a BA in Civil Engineering from University of Bahrain. She was included in the Forbes Middle East 100 Most Powerful Arab Businesswomen List 2017 for the third consecutive year 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, and by the University of Bahrain for her contribution to the Kingdom's banking and financial sector as part of Bahrain Women's Day 2015.

***Fadhel Makhlooq**

Chief Capital Markets Officer

With over 35 years of professional experience, Fadhel Makhlooq joined SICO in 2004 as Head of Brokerage before being appointed Head of Investments & Treasury in 2008. He was re-appointed Head of Brokerage in 2010 and then assumed the position of Chief Capital Markets Officer in 2018. 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.

Anantha Narayanan

Chief Operating Officer

With over 27 years of diversified experience in the areas of operations, audit, and risk in the banking industry, Anantha Narayanan joined SICO in 2008. He was Head of Internal Audit before being appointed to his current role of Chief Operating Officer. 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 from the University of Manchester, UK.

K. Shyam Krishnan

Chief Financial Officer

K. Shyam Krishnan has 27 years of experience in finance, accounting, audit, investments and risk management, with the majority of his career spent in conventional and Sharia-compliant banking. Prior to joining SICO in 2015, 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. He is a Chartered Accountant and Management Accountant from India and a Chartered Financial Analyst, Certified Internal Auditor and also a Certified Information Systems Auditor. He holds a Bachelor of Commerce from Madras University, India.

*Appointed in 2018

Shakeel Sarwar

Co-Head of Asset Management

Shakeel Sarwar joined SICO in 2004, and has accumulated over 23 years of investment industry experience in the UK, Pakistan and the Middle East over the length of his career. Prior to joining SICO, he worked with Riyad Bank's Asset Management Division and was part of the team that managed over USD 3 billion in Saudi equities. He has also held positions with ABN Amro Asia Securities in the UK and Pakistan. Shakeel holds an MBA in Banking and Finance from IBA, Karachi, Pakistan.

Ali Marshad

Co-Head of Asset Management

Ali Marshad has over 11 years of experience in asset management, investments, treasury and brokerage. Joining SICO in 2008 as an Analyst in the Investments & Treasury division, Ali then headed up the newly established Fixed Income Desk in 2012 before being promoted to Head of Fixed Income in 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) in Banking, Finance & Management from Loughborough University, UK.

Wissam Haddad

Head of Investment Banking and Real Estate

Wissam has 16 years of experience in investment banking, private equity and corporate finance. Prior to joining SICO in 2014, he was a Director with Gate Capital in Dubai and had previously held senior positions with UAE-based Najd Investments, Unicorn Capital, Emirates NBD's NBD Sana Capital, Saudi National Commercial Bank's NCB Capital, and Eastgate Capital among others. Wissam holds a BCom degree from Concordia University, Canada.

***Mariam Isa**

Head of Brokerage

Mariam Isa has 13 years of experience in regional equity trading and sales. She joined SICO in 2005. Before becoming the Head of Brokerage she held the positions of Chief Broker. Mariam has also worked as a Senior Officer in the Placement Department at Gulf Finance House. She holds an MBA in Islamic Finance from University College of Bahrain and has an Associate Diploma in Accounting from University of Bahrain; and a Treasury & Capital Market Diploma from BIBF, and has completed the Leadership Development Program, University of Virginia, USA.

Abdulrahman Saif

Head of Treasury

Abdulrahman Saif has over 18 years of experience in investments and treasury. Prior to joining SICO in 2003, he was with the Asset Management team at Taib Bank. He has also worked for Gulf International Bank and Arab Banking Corporation. 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.

*Appointed in 2018

Nishit Lakhotia

Head of Research

Nishit Lakhotia has close to 15 years of diversified experience in the fields of investment research, risk management, hedge funds and private equity. He has been involved in sell side Research in SICO since beginning of 2009 when he joined the Bank and actively covers sectors such as telecommunications, consumers, aviation, and construction across the GCC. Prior to joining SICO, Nishit worked for an Iceland-based private equity firm with a focus on the Indian infrastructure sector and a US based global hedge fund. 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.

Ehab Amiri

Head of Distribution & Business Development

Having joined SICO in 2017, Ehab Amiri brought with him over 30 years of international and regional experience, with the majority spent in asset management, private banking, and treasury. Before joining SICO, he was Managing Director of AllianceBernstein's Middle East office in Bahrain, where he was responsible for marketing asset management services to institutional clients in Europe and the MENA region. Before this, he was Marketing Director for Institutional Asset Management at Gulf International Bank, Bahrain, having formerly headed the Marketing division of ABN AMRO Bahrain for Private Clients Asset Management. He was also Head of the Treasury & Capital Markets division of Citibank, Bahrain. Ehab holds an MA and BA in Business Administration from California State University, USA.

Amal Al Nasser

Head of Operations & Client Relations

Amal Al Nasser has more than 29 years of banking experience. After having joined SICO in 1997, Amal was Head of Operations at the Bank for 10 years before being appointed General Manager of SFS, a wholly owned subsidiary of SICO, when it was established in 2006. Amal resumed her role as Head of Operations at SICO in 2010. Before joining the Bank, 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 in Economics from Poona University, India.

Nadia Albinkhalil

Head of HR & Administration

Nadia Albinkhalil has been with SICO since inception, during which time she established the HR & Administration Department and had been responsible for Board meeting 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

Nadeen Oweis joined SICO in 2008, and has accumulated over 18 years of professional experience. Prior to joining SICO, Nadeen 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. She also held posts at Proctor & Gamble Jordan and managed the advertising and promotions account for Radio Fann FM in Jordan. Nadeen holds an MA in Diplomatic Studies from the Jordan Institute of Diplomacy, a BA in Law from the University of Jordan, and a Certificate of Digital Marketing from Columbia Business School.

Mohammed Ibrahim

Head of Information Technology

Mohammed Ibrahim has over 17 years of experience in the field of information technology (IT), which includes IT project management, business analysis, complex system builds and interfaces, business continuity planning, and information security. After having joined SICO's IT division in 2007, he was promoted to Head of Information Technology in 2016. Prior to SICO, he was Training Head & Technical Consultants Team Lead at the Bahrain Institute of Technology and Technical & Training Manager at YAT Group, Egypt. Mohammed is a Certified Information Systems Security Professional (CISSIP), a Master Certified Internet Web Professional (MCIW), a Microsoft Certified Solutions Expert, and a Microsoft Certified Trainer. He holds a Bachelor of Science & Education degree and a Postgraduate Special Diploma in Science & Education from Alexandria University, Egypt.

Joseph Thomas

Head of Internal Audit

Joseph Thomas has over 15 years of experience in internal audits, assurance engagements, and other financial advisory services. Joseph joined SICO in 2015 after having been Head of Internal Audit at Global Banking Corporation and holding a post 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. A founding Board member of the Institute of Internal Auditors Bahrain Joseph is a Chartered Accountant, a Certified Internal Auditor, and a Member of the Institute of Internal Auditors (USA). He holds a Bachelor of Commerce degree from Mahatma Gandhi University in India.

Sreenivasan Konnat

General Manager

SICO Funds Services Company (SFS)

Sreenivasan Konnat has over 26 years of professional experience, with the majority of this time spent in funds administration, financial control and accounting, and back office operations. Joining SICO in 1998 as a member of the Financial Control department, he transferred to the Bank's subsidiary, SICO Funds Services Company (SFS), in 2007 as Head of Asset Administration. He was promoted to Acting General Manager in 2015 and assumed his current position as General Manager in 2017. Prior to joining SICO, Sreenivasan 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 from the University of Calicut, India and has completed an Intermediate Level certification from the Institute of Chartered Accountants, India.

Bassam A. Khoury

General Manager

SICO Financial Brokerage LLC

Bassam has over 32 years of international experience in brokerage, investments, and financial consultancy. He joined SICO in 2008 as Head of Brokerage before leaving in 2010 to join QInvest, Qatar as Headof Regional Brokerage. Prior to re-joining SICO in 2013 as General Manager of SICO Financial Brokerage , 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; 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.

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.sicobank.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 2017, 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:

HC-1.4.6 & HC-1.4.8, which stipulate that the chairman of the Board of Directors should be an independent director, SICO Chairman Shaikh Abdulla bin Khalifa Al Khalifa is considered an Executive Director as he represents SICO's major shareholder. However, this does not compromise the high standards of corporate governance as the bank follows strict policies to manage conflict of interest in Board decisions.

HC-1.8.2 & HC-4.2.2, states that both the Corporate Governance Committee & Nomination Committee must include only 3 independent directors. The chairman of the Nomination, Remuneration and Corporate Governance Committee is an independent director, however the remaining two members are executive directors. The bank is of the opinion that this does not compromise the high standards of corporate governance as the bank has implemented measures to manage potential conflict of interest.

SICO REMUNERATION POLICY & RELATED DISCLOSURES

The Bank'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 policy framework and incentive components were approved by the shareholders in the Annual General Meeting held on March 30, 2015. The policy is effective from the year 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. The Bank'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. The Bank'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 Bank'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 as 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.
- 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 of the following members:

NRCGC Member Name	Number of meetings attended
Mr. Fahad Murad Chairman of the NRCG committee	4
Mr. Mohammed Abdulla Isa	4
Mr. Mahmoud Al Zewam Al Amari *	2
Mr. Khurram Mirza **	2

* Director until March 2017
** Director since March 2017

The aggregate remuneration paid to NRCGC members during the year in the form of sitting fees amounted to BHD 9,000 [2016: BHD 6,000].

External consultants

The NRCGC did not appoint any external consultants during the year.

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.

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.

The Bank 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 the Bank 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, the Bank 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 Bank's 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. The Bank 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:

a. The cost and quantity of capital required to support the risks taken;
b. The cost and quantity of the liquidity risk assumed in the conduct of business; and
c. 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 Bank's 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 Bank's 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 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

BD 000's	2017	2016
• Sitting Fees	38	39
• Remuneration	90	-
• Others	14	9

(b) Employee remuneration

2017 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	7	606,758	25,080	126,400	31,600	789,838
Approved persons in control functions	9	518,894	20,295	74,400	18,600	632,189
Other material risk takers	25	735,434	22,950	95,624	20,000	874,008
Other employees	64	1,167,710	36,810	145,008	25,220	1,374,748
Total	**105**	**3,028,796**	**105,135**	**441,432**	**95,420**	**3,670,783**

2016 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	6	546,107	22,860	102,000	31,500	702,467
Approved persons in control functions	11	491,549	17,430	59,000	16,750	584,729
Other material risk takers	25	687,219	21,825	73,580	21,230	803,854
Other employees	64	1,174,906	36,402	118,404	24,230	1,353,942
Total	**106**	**2,899,781**	**98,517**	**352,984**	**93,710**	**3,444,992**

Notes:

The amounts reported above represent actual awards for 2017 and 2016 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

2017 BD 000'	Shares	Amount
Opening balance	14,741,428	2,004,834
Awarded during the period	1,432,536	200,555
Paid out / released during the period	(322,264)	(43,828)
Service, performance and risk adjustments	-	-
Changes in value of unvested opening awards	-	(57,677)
Closing balance	**15,851,700**	**2,219,238**

2016 BD 000'	Shares	Amount
Opening balance	14,907,041	2,027,358
Awarded during the period	1,413,434	192,227
Paid out / released during the period	(1,579,047)	(214,750)
Service, performance and risk adjustments	-	-
Changes in value of unvested opening awards	-	-
Closing balance	**14,741,428**	**2,004,834**

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 recognized in the financial statements over the vesting period of awards.

Risk and Capital Management

Basel III, Pillar 3 Disclosures

31st December 2017

Executive summary

This Risk and Capital Management Disclosures encompass the qualitative and quantitative disclosures required by the Central Bank of Bahrain (CBB) in compliance with Basel III guidelines.

The information presented herein pertains to SICO 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

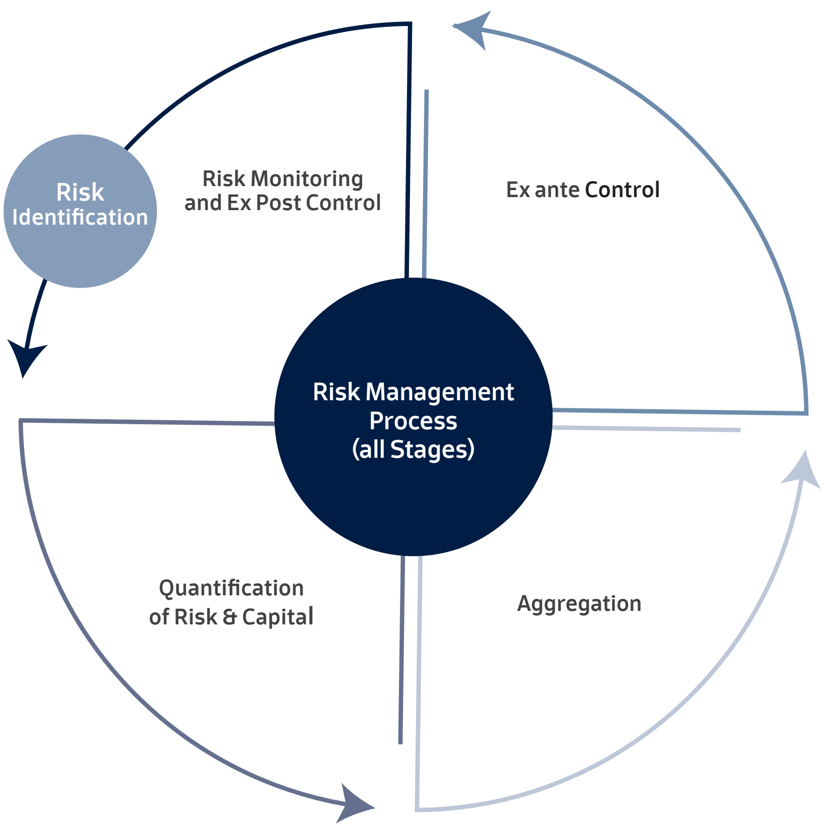
1. Overview and structure of risk management

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 establishing appropriate controls and ensuring that effective monitoring and reporting processes are in place.

The major risks types to which SICO is exposed are:

- Credit risk
- Concentration risk
- Market risk
- Operational risk
- Liquidity risk
- Fiduciary risk
- Legal and regulatory risk
- Reputational 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 to evaluate and manage its risks. The stages in the risk management process are as follows:



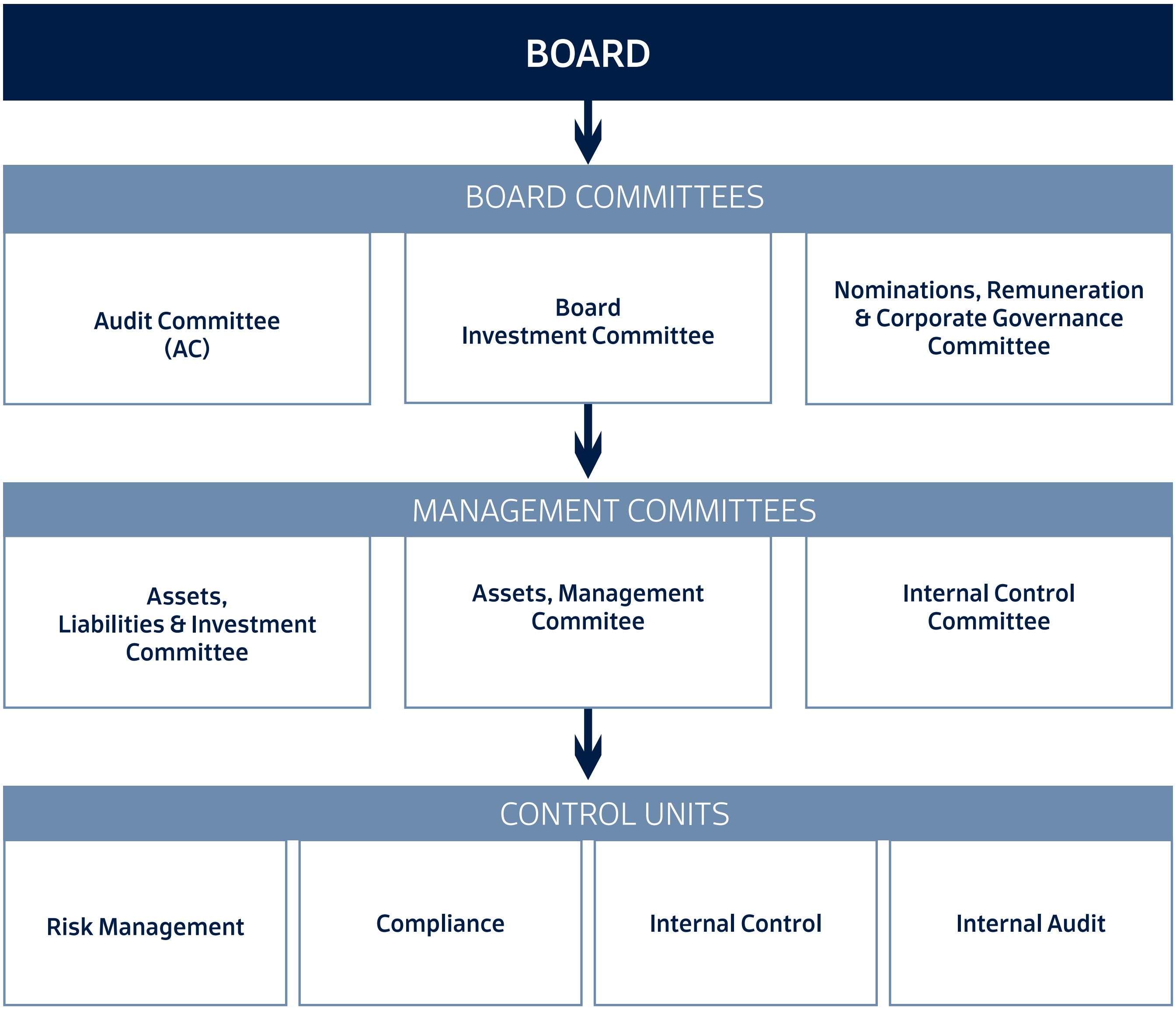
- **Risk identification:** Identification of the risks that impact SICO's various business activities.
- **Quantification of risks and capital coverage:** This step involves quantifying the risks identified in the risk identification process. It creates the objective basis for decision-making and enables Senior Management to make decisions regarding SICO's risk-bearing capacity within this 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 risks.
- **Risk monitoring and ex post control:** The risk monitoring process ensures that SICO's risk profile remains in line with its risk tolerance. In this context, there is a standardised procedure for dealing with increasing levels of limit utilisation and limit breaches.

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 that reflect the Bank's maximum risk appetite.

2. Risk governance structure

SICO has established a strong organisational structure including disciplined control functions to support the Bank's business strategy and risk management.

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 SICO's risk profile. 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 of directors (BOD):** The BOD is primarily responsible for approving the Bank's risk strategy, risk appetite and risk policies to manage risks that arise from 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 stage where decision making surrounding SICO's investment activities is considered. This committee approves investments within its discretionary powers as delegated by the BOD, and in some cases the BIC recommends proposals to the BOD for approval.
- **Audit committee (AC):** The AC is responsible for reviewing the Bank's accounting and financial practices to ensure integrity of the Bank's financial statements and adequacy on internal controls. The committee also oversees the Internal Audit function while also providing sound support to the compliance framework.
- **Nominations, remuneration and corporate governance committee (NRCGC):** The NRCGC contributes to the control framework by nominating qualified Board Members and key management positions. It also approves the remunerations that factor in the risk taken by the business and oversees corporate governance-related issues.
- **Assets, liabilities and investment committee (ALIC):** ALIC acts as the principal policy-making body at the management level which is 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 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 fund management. The committee is also responsible for formulating and reviewing the Bank's investment policies (subject to approval by the BOD), strategies and performance measurement and assessment.

- **Assets management committee (AMC):** AMC is a management committee that oversees the fiduciary responsibilities carried out by the Asset Management unit in managing clients' discretionary portfolios as well as the funds operated and managed by SICO. It also reviews the investment strategy of the Bank's funds and portfolios and reviews asset allocations, subscriptions and redemptions and adherence to client guidelines.
- **Internal control committee (ICC):** The ICC is a management committee that oversees the internal control functions carried out by SICO's various departments. The remit of ICC is to strengthen the internal control culture throughout the company and to ensure adequacy of controls in the various processes followed in the Bank.
- **Risk management department (RMD):** RMD is responsible for establishing a sound risk management framework to assist the Bank in the realisation of its business objectives. 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. It also ensures that the principles and requirements of managing risk are consistently adopted throughout the Bank.
- **Compliance unit:** The unit is responsible for internal compliance, regulatory compliance and KYC and AML functions. It ensures compliance with internal and external rules and regulations and is responsible for implementing the compliance framework across the entire Bank.
- **Internal control unit:** The unit is responsible for ensuring the internal control framework of the Bank's business units are adequate and recommends changes wherever deemed. The unit is also responsible for ensuring that all policies and procedures are followed correctly.
- **Internal Audit:** The unit 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 falls under Volume 1 (Conventional Banks) of the CBB Rulebook. This quantitative disclosure document follows the requirements of Basel III - 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 three Basel III pillars are as follows:

- Pillar 1 - Describes the minimum capital requirements by applying risk-based methodology in the calculation of risk weighted assets (RWAs) and capital requirements for major asset classes to obtain 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 III		
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 and 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

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

Below are the approaches used for deriving the CAR:

<table>
<tr><th colspan="3">Approaches for determining regulatory capital requirements</th></tr>
<tr><th>Credit Risk</th><th>Market Risk</th><th>Operational Risk</th></tr>
<tr><td>Standardised Approach</td><td>Standardised Approach</td><td>Basic Indicator Approach</td></tr>
<tr><td>Foundation IRB Approach (Internal Ratings Based)</td><td rowspan="2">Internal Models Approach (IMA)</td><td>Standardised Approach</td></tr>
<tr><td>Advanced IRB Approach (Internal Ratings Based)</td><td>Advanced Measurement Approach (AMA)</td></tr>
</table>

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

Pillar 2

This pillar sets out the supervisory review and evaluation process of an institution's risk management framework as well as its capital adequacy assessment through ICAAP framework.

This pillar sets out the supervisory review and evaluation process of an institution's risk management framework as well as its capital adequacy assessment through ICAAP framework.

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, allocate adequate capital and employ sufficient resources 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 not covered by the minimum capital requirements in Pillar 1 include liquidity risk, interest rate risk in the banking book, concentration risk, reputational risk and other risks. These are covered either by capital or risk management and mitigation processes under Pillar 2.

Pillar 2 also comprises ICAAP, which 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 ICAAP is 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

This pillar 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 standalone as well as consolidated basis.

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

The Group is also consolidating SICO Kingdom Equity Fund ("SKEF") and SICO Fixed Income Fund ("SFIF") under IFRS 10.

4. Capital structure and capital adequacy

For the purpose of computing the regulatory 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 that 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, eligible reserves and unrealised losses arising from fair valuing equity securities classified under fair value through other comprehensive income.
c. The Bank does not maintain any additional Tier 1 (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

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	5,969
Share premium	692
Retained earnings brought forward	5,113
Current interim cumulative net income / losses	3,306
Securitisation exposures subject to deduction	-
Accumulated other comprehensive income and losses	211
Total common equity Tier 1 capital (A)	**59,758**
Other capital (AT1 & Tier 2)	
Instruments issued by parent company	-
Instruments issued by banking subsidiaries to third parties	-
Share premium	-
Assets revaluation reserve - property, plant, and equipment	-
General loan loss provisions	-
Total AT1 & Tier 2 (B)	**-**
Total available capital (C) = (A) + (B)	**59,758**
Credit risk weighted exposures	55,725
Market risk weighted exposures	30,063
Operational risk weighted exposures	15,288
Total risk weighted exposures (D)	**101,076**
CET1 capital ratio (A) / (D)	**59.12%**
Total capital adequacy ratio (C) / (D)	**59.12%**

4.2. Capital adequacy ratio

Consolidated and subsidiaries above 5% of Group capital

Subsidiaries	31 December 2017	
	Total capital adequacy ratio	Tier 1 capital ratio
SICO consolidated (Group)	59.12%	59.12%
SICO UAE*	7.63	4.64

* 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 features of regulatory capital instruments

5. Credit risk

Credit risk represents 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
- Proprietary investments in fixed income instruments
- Overdrafts to brokerage clients
- Settlement risks with delivery versus payment (DVP) customers, counterparty brokers and custodians
- Secured financing transactions (i.e. REPO and reverse REPO)
- Margin trading facilities

Risk management works in coordination with business units 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 activities. To measure counterparty risk, SICO employs an internal rating model to assign ratings to each 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 on its clients during the screening and on a subsequent periodic 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 applies haircuts to the collateral value, which acts as a margin of safety in case it is to offset collateral against outstanding obligations. Moreover, SICO employs margin calls to ensure collateral coverage does not drop below the agreed parameters.

To measure the aforementioned credit risk components, SICO employs several methodologies for mitigating credit risk. SICO also uses ratings issued by external credit assessment institutions (ECAIs), such as Standard & Poor's, Moody's and Fitch, to derive the risk weightings under the CBB's Basel III 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 more conservative rating is adopted.

Credit risk is monitored and controlled by policies and procedures that are put in place by RMD and that have been approved by Management and the BOD where required. The policy framework establishes approval authorities, concentration limits, risk-rating methodologies and guidelines for managing exposures. For lending exposures such as margin trading and reverse REPO, financial securities obtained as collateral are liquid in nature, and appropriate haircuts are also applied to them. The lending exposures are closely monitored along with their collaterals, which are marked to market on a daily basis, and margin calls are enforced where collateral coverage drops below the required level. The Bank also adheres strictly to the large exposure norms as prescribed by the CBB under the Credit Risk Management Module.

5.1. Gross credit exposures

As of 31st December 2017	Gross credit exposure On-balance sheet (Funded)	Off-balance sheet (Unfunded)	Total	Credit risk weighted assets	Capital requirement @ 12%
Cash items	-	-	**-**	-	-
Claims on sovereigns	21,737	-	**21,737**	-	-
Claims on Bahraini PSE	500	-	**500**	-	-
Claims on banks	50,765	-	**50,765**	16,049	1,926
Claims on corporates	10,924	-	**10,924**	5,704	684
Regulatory retail portfolios	6,946	-	**6,946**	3,477	417
Investments in securities	12,444	-	**12,444**	16,808	2,017
Holdings in real estate	2,271	-	**2,271**	4,542	545
Other assets	8,353	-	**8,353**	8,353	1,002
Total	**113,940**	**-**	**113,940**	**54,933**	**6,591**

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

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

As of 31st December 2017	Less than 1 year	Over 1 year to 5 years	Above 5 years	Total
Cash and cash equivalents	67,328	-	-	**67,328**
Treasury bills	1,495	-	-	**1,495**
Placements with banks	4,974	-	-	**4,974**
Investments at fair value through profit or loss	19,679	4,067	5,750	**29,496**
Investments at fair value through other comprehensive income	113	-	6,045	**6,158**
Investments at amortized cost	-	-	10,008	**10,008**
Furniture, equipment and intangibles	10	237	1,173	**1,420**
Fees receivable	875	-	-	**875**
Other assets	9,589	-	-	**9,589**
Total gross credit exposures	**104,063**	**4,304**	**22,976**	**131,343**
Commitments	3,230	-	-	**3,230**
Contingencies	5,133	-	-	**5,133**

Note: Commitments and contingencies mentioned above do not have a defined maturity and hence conservatively considered less than 1 year.

5.3. Sectoral distribution

As of 31st December 2017	Financial	Sovereign	Diversified funds	Real estate	Others	Total
Cash and cash equivalents	57,835	9,492	-	-	-	**67,328**
Treasury bills	-	1,495	-	-	-	**1,495**
Placement with banks	4,974					**4,974**
Investments at fair value through profit or loss	7,696	1,012	9,782	6,885	4,121	**29,496**
Investments at fair value through other comprehensive income	4,771	-	-	678	708	**6,158**
Investments at amortized cost	-	10,008	-	-	-	**10,008**
Fees receivables	-	-	-	-	875	**875**
Other assets	**-**	**-**	**-**	**-**	11,009	**11,009**
Total assets	**75,275**	**22,008**	**9,782**	**7,564**	**16,714**	**131,343**

Note: The above table excludes furniture & fixtures

5.4. Geographical distribution

As of 31st December 2017	Middle East and Asia	North America	Europe	Total
Cash and cash equivalents	65,168	-	2,160	**67,328**
Treasury bills	1,495	-	-	**1,495**
Placements with banks	4,974	-	-	**4,974**
Investments at fair value through profit or loss	22,118	1382	5996	**29,496**
Investments at fair value through other comprehensive income	6,158	-	-	**6,158**
Investments at amortized cost	10,008	-	-	**10,008**
Fees receivable	866	-	9	**875**
Other assets	11,006	**-**	3	**11,009**
Total assets	**121,793**	**1,382**	**8,168**	**131,343**

5.5. Large exposure limits

As of 31st December 2017, the following 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
Khaleeji Commercial Bank	Bahrain	12,451	20.84%
Central Bank of Bahrain	Bahrain	11,420	19.11%

6. Market risk

Market 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 specific instruments or the market in general.

The Bank's exposure to market risk primarily comes from investment and trading activities of proprietary book.

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 are adhered for proprietary book Investments and are also monitored independently by RMD. Market risk is monitored and also controlled by policies and procedures that are put in place and followed across the Bank. The policy framework establishes and clearly defines the approval authorities and portfolio review parameters.

Market risk 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		As of 31-Dec-2017	Capital requirement @ 12%
	Minimum	Maximum		
Interest rate position risk	1,088	1,389	1,356	163
Equities position risk	952	1,179	969	116
Foreign exchange risk	80	137	80	10
Total minimum capital required for market risk			**2,405**	**289**
Multiplier			12.5	12.5
Total			**30,063**	**3,608**

6.1. Equity price risk

A significant portion of the Bank's proprietary portfolio comprises equity instruments that are affected by equity price risk. Uncertain conditions in 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.

Equity positions in the banking book

	Gross exposure	Risk weighted assets	Capital requirement @ 12%
Equity investments			
- Listed	2,662	2,662	319
- Unlisted	-	-	-
Investment in rated funds	-	-	-
Investment in unrated funds – listed / unlisted	9,782	14,146	1,698
Total	**12,444**	**16,808**	**2,017**

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. The Investments and Treasury Unit monitors and manages these exposures 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. Moreover, SICO does not trade speculatively in derivatives.

Bank placements are mostly short term (less than three months) with a fixed interest rate and are subject to re-pricing risk at rollover. Investments in bonds are subject to interest rate risk, and the Bank controls the same by managing the portfolio duration by combining floaters and short-duration bonds along with longer-duration ones.

6.2.(a) Interest rate risk sensitive assets and liabilities

As of 31stDecember 2017	Effective interest rate% p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	16,840	**16,840**
Call deposits*	-	261	-	-	**261**
Placements	2.28%	55,201	-	-	**55,201**
Treasury bills	2.21%	1,495	-	-	**1,495**
Investments at fair value through profit or loss	6.46%	2,866	9,817	16,813	**29,496**
Investments at fair value through other comprehensive income	3.41%	113	2,088	3,957	**6,158**
Investments at amortized cost**	-	-	10,008	-	**10,008**
Fees receivable	-	-	-	875	**875**
Other assets	-	-	-	9,589	**9,589**
Furniture, equipment and intangibles	-	-	-	1,420	**1,420**
Total assets		**59,936**	**21,913**	**49,494**	**131,343**
Short-term bank borrowings	2.19%	38,043	-	-	**38,043**
Customer accounts	-	-	-	26,718	**26,718**
Other liabilities	-	-	-	4,173	**4,173**
Payable to unit holders in consolidated funds	-	-	-	2,651	**2,651**
Total liabilities		**38,043**	**-**	**33,542**	**71,585**
Total Equity		**-**	**-**	**59,758**	**59,758**
Total liabilities and equity		**38,043**	**-**	**93,300**	**131,343**
Interest rate sensitivity gap		21,893	21,913	(43,806)	**-**
Cumulative interest rate sensitivity gap		**21,893**	**43,806**	**-**	**-**

* At 31 December 2017, the effective interest rate on Bahraini Dinar call deposits is 0.45% and on USD call deposits is 0.15%.
** At 31 December 2017, the effective interest rate of Investments at amortized cost is 6.44%.

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

6.2.(b) Interest rate risk in the banking book

A 100 bps and 50 bps increase in market interest rates would affect the value of the fixed rate debt instruments in the banking book as follows:

100 bps increase	50 bps increase
591.5	**295.7**

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 USD and/or 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 BOD. 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 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 Control, Compliance and Internal Audit functions support this activity.

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

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

	2013	2014	2015
Gross income	10,284	6,495	7,673
Average gross income (A)			8,151
Alpha (B)			15%
(C) = (A) * (B)			1,223
Risk weighted exposures (D) = (C) * 12.5)			**15,288**
Capital requirement @ 12% of (D)			**1,835**

8. Other risks

8.1. Concentration risk

Concentration risk arises when the Bank’s exposure is concentrated with one or more related counterparties, Asset Classes, sectors or geographies. 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 Bank continues its efforts to maintain an acceptable level of concentration by adhering to the limits set by the investment guidelines.

8.2. Liquidity risk

Liquidity risk is the inability to meet contractual and contingent financial obligations, on- or off-balance sheet, as they are due as a result of the potential inability to liquidate financial assets at the required time and price to cope with a pay out of liabilities or investment obligations in assets. Such risks 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.

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 its maturity profile are also monitored and reported to the BOD periodically.

8.3. Fiduciary risks

Fiduciary risk is defined as the risk that funds entrusted to a financial institution through investments 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 value-for-money objectives.

The RMD carries out risk assessment on the various fiduciary activities of the Bank by working alongside the Bank’s relevant lines of business and committees to ensure SICO fulfils its fiduciary duties to 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 its subsidiary SFS that can give rise to the following fiduciary risks:

Asset management: The Bank has 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 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.

Investment Banking: 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.

8.4. 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 any disturbance or unexpected events affecting business operations. The BCP provides 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 fully 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 tested by conducting actual business from the BCP site as required under CBB regulations.

8.5. Compliance risk

Compliance risk is risk of current and prospective risk to earnings or capital arising from the violation of or non-compliance with laws, regulations, rules, prescribed practices, contractual agreements or ethical standards. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential and even to the cessation of operations. The Bank ensures adherence to all applicable regulations provided by various regulatory authorities, including regulations by the CBB and Bahrain Bourse. In addition, the Bank's internal policies ensure that its practices are in line with best market practices.

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.

Appendix 2

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

	Published financial statements 31-Dec-17 BD '000	Consolidated PIR data 31-Dec-17 BD '000
Assets		
Cash and cash equivalents	67,328	
of which Cash and balances at central banks		26
of which Placements with banks and financial institutions		67,302
Treasury bills	1,495	
of which other assets		1,495
Investments at fair value through profit and loss	29,496	29,496
Investments at fair value through other comprehensive income	6,158	6,158
Investments at Amortized Cost	10,008	10,008
Furniture, equipment and intangibles	1,420	
of which intangibles (computer software)		1,187
of which furniture and equipment		233
Fees receivable	875	
of which other assets		875
Other assets	14,563	
of which loans and advances (margin receivables)		6,946
of which interest receivable		540
of which other assets		7,077
Total assets	**131,343**	**131,343**
Liabilities		
Short-term bank borrowings	38,043	
of which amounts relating to repo transactions		32,388
of which other short-term borrowings		5,655
Customer liabilities	26,718	
of which other liabilities		26,718
Other liabilities	4,173	
of which Interest payable		29
of which other liabilities		4,144
Payable to other unit holders (Other liabilities)	2,651	2,651
Total liabilities	**71,585**	**71,585**
Shareholders' Equity		
Share Capital - eligible for CET1	42,849	42,849
Shares under employee share incentive scheme	(1,599)	(1,599)
Statutory reserve	6,992	
of which share premium		692
of which legal reserve		6,300
General reserve	3,217	3,217
Investments fair value reserve	307	
of which unrealised gains from fair valuing equities		275
of which unrealised gains from other financial instruments		32
Retained earnings	7,992	
of which retained earnings brought forward from previous year		4,686
of which net profits for the current period		3,306
Total shareholder' equity	**59,758**	**59,758**
Total liabilities and equity	**131,343**	**131,343**

Appendix 3

Step 3:Composition of capital common template (transition)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	42,849		
2	Retained earnings	5,113		
3	Accumulated other comprehensive income (and other reserves)	11,796		
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**59,758**		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		
26	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier 1**	-		
29	**Common Equity Tier 1 capital (CET1)**	**59,758**		
	Additional Tier 1 capital: instruments			

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-		
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	-		
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-		
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
41	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-		
	OF WHICH: ...	-		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	**Additional Tier 1 capital (AT1)**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**59,758**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-		
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	-		
51	Tier 2 capital before regulatory adjustments	-		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
57	**Total regulatory adjustments to Tier 2 capital**	**-**		
58	**Tier 2 capital (T2)**	**-**		

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
59	**Total capital (TC = T1 + T2)**	**59,758**		
	Risk weighted assets in respect of amounts subject to pre-2015 treatment	-		
	Of which: significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible	-		
60	**Total risk weighted assets**	**101,076**		
	Capital ratios			
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**59.12%**		
62	**Tier 1 (as a percentage of risk weighted assets)**	**59.12%**		
63	**Total capital (as a percentage of risk weighted assets)**	**59.12%**		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9%		
65	of which: capital conservation buffer requirement	2.5%		
66	of which: bank specific countercyclical buffer requirement (N/A)	0%		
67	of which: D-SIB buffer requirement (N/A)	0%		
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)**	**59.12%**		
	National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	**9%**		
70	CBB Tier 1 minimum ratio	**10.5%**		
71	CBB total capital minimum ratio	**12.5%**		

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-		
73	Significant investments in the common stock of financials	-		
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-		
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-		
77	Cap on inclusion of provisions in Tier 2 under standardized approach (1.25% of Credit Risk weighted Assets)	-		
78	NA	-		
79	NA	-		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)			
80	Current cap on CET1 instruments subject to phase out arrangements	-		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		
82	Current cap on AT1 instruments subject to phase out arrangements	-		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on T2 instruments subject to phase out arrangements	-		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-		

Appendix 4

Disclosure template for main feature of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments		
1	Issuer	SICO 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 recognized 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

Disclosure template for main features of regulatory capital instruments		
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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