



Risk and Capital Management Disclosures

For the period ended 30th June 2022

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.

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1. OVERVIEW AND STRUCTURE OF RISK MANAGEMENT

Risk management is the systematic process of identifying, assessing and mitigating the 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
- Compliance and reputational risk
- Legal and regulatory 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 the Board and Senior Management to make decisions regarding SICO's risk-bearing capacity within this framework.

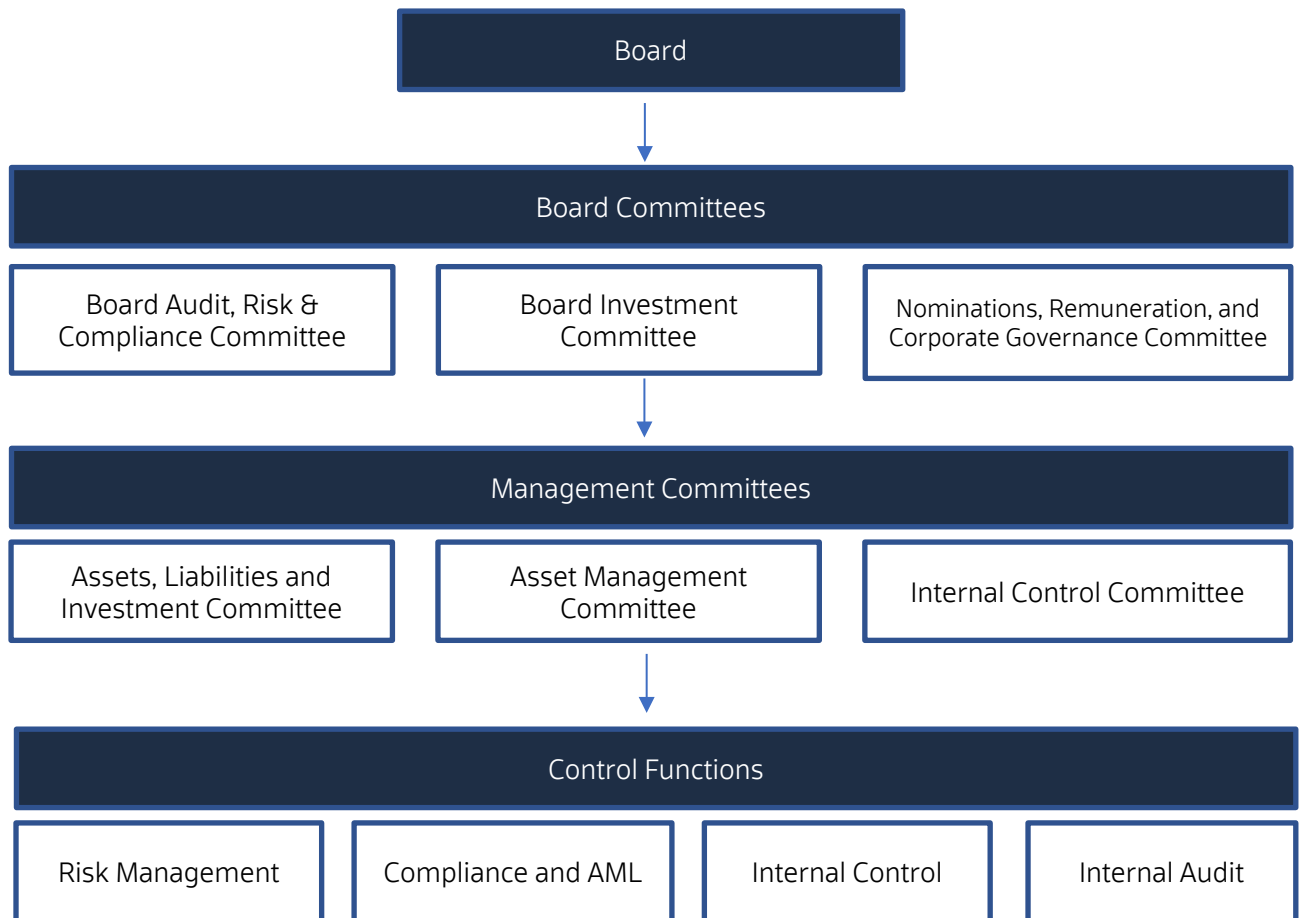
- **Aggregation:** Once risks have been identified and quantified, individual risks are aggregated to determine SICO's risk exposure and impact.
- **Ex ante control:** SICO has established various tolerance limits based on the overall risk strategy of the Bank. These limits are revised periodically, 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 Audit, Risk & Compliance Committee (BARCC):** The BARCC is responsible for reviewing the Bank's accounting and financial practices to ensure integrity of the Bank's financial statements and adequacy of risk management, compliance and internal control frameworks. The committee also oversees the Internal Audit function. The committee provides active oversight on the risk management framework, approves risk policies and limits and ensures adequacy of risk controls.
- **Board Investment Committee (BIC):** The BIC is the second stage where decision making surrounding SICO's investment and credit 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.
- **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. The RMD has an independent reporting line directly to the BARCC through the Chief Risk Officer.
- **Compliance Unit:** The unit is responsible for internal compliance, regulatory compliance and KYC and Anti Money Laundering 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 is adequate and recommends changes wherever deemed. The unit is also responsible for ensuring that certain departmental policies and procedures are followed correctly.
- **Internal Audit Unit:** 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

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 three pillar framework 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: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - Specific quantitative and qualitative disclosures - Transparency for market participants concerning the bank's risk position (scope of application, risk management etc.) - Enhanced comparability between 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:

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

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.

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 capital requirements 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 capital management 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.

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.



Risk and Capital Management Disclosures

For the year ended 30 June 2022

All figures in BD '000s

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; SICO Financial Brokerage LLC, incorporated in Abu Dhabi and providing brokerage services in the UAE.

The Bank has controlling interest in SICO Fixed Income Fund ("SFIF") and SICO Kingdom Equity Fund ("SKEF"); and therefore consolidates the SKEF and SFIF financials as per requirements of IFRS 10. In addition, the Bank has acquired 72.7% of the share capital of Muscat Capital Company ("MCC"), a Saudi Closed Joint Stock Company, which has been subsequently rebranded as SICO Capital Company ("SCC"). The acquisition was completed on 15 March 2021 and the transaction is being accounted as per the requirements of IFRS 3 Business Combinations.

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:

- 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.
- 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 investment securities classified under fair value through other comprehensive income.
- The Bank does not maintain any additional Tier 1 (AT1).
- The Bank's Tier 2 capital comprises of general provisions recognized under IFRS 9 Expected Credit Losses
- The Bank has prepared its capital structure in accordance with the CBB's Basel III capital adequacy framework
- The Bank has no subsidiaries and/or investments that are required to be deducted from capital.
- 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	44,134
Less: Employee stock incentive program funded by the bank (outstanding)	(2,263)
Less: Treasury Shares	-
General Reserve	3,217
Legal / Statutory reserves	8,221
Share Premium	761
Retained Earnings Brought forward	11,327
Current interim cumulative net income / losses	2,473
Securitisation exposures subject to deduction	-
Accumulated other comprehensive income and losses	955
Total minority interest in banking subsidiaries given recognition in CET1 capital	59
Less: Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	-
Less: Goodwill	(140)
Less: Intangibles other than mortgage servicing rights	(650)
Total Common Equity Tier 1 Capital (A)	68,094
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	-
Expected Credit Losses (ECL) Stages 1 & 2	95
Total AT1 & Tier 2 (B)	95
Total Available Capital (C) = (A) + (B)	68,189
Credit risk weighted exposures	57,473
Market risk weighted exposures	24,176
Operational risk weighted exposures	26,737
Total Risk weighted exposures (D)	108,386
CET1 Capital Ratio (A) / (D)	62.83%
Total Capital Adequacy Ratio (C) / (D)	62.91%

4.2 CAPITAL ADEQUACY RATIO

Consolidated and subsidiaries above 5% of Group capital

Subsidiaries	Total capital adequacy ratio	Tier 1 capital ratio
SICO consolidated (Group)	62.91%	62.83%
SICO Fund Services Company BSC (c)	543.64%	543.64%
SICO Financial Brokerage LLC*	5.63	3.90
SICO Capital**	3.18	3.18

* SICO Financial Brokerage LLC (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 1.0 with anything above 1.25 considered healthy.

** SICO Capital CAR has been computed by using the Capital Adequacy Model provided by Saudi's Capital Market Authority, wherein the minimum required ratio is 1.0.

4.3 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. The Bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include liquidity risk, interest rate risk in the banking book, concentration risk, reputational risk and other risks. The ICAAP also keeps in perspective the Bank's strategic plans, growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Bank's capital adequacy to determine capital requirement and planning to ensure that the Bank is adequately capitalised in line with the overall risk profile. The Bank has complied with regulatory capital requirements throughout the year.

4.4 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 performs a detailed assessment of the counterparty risk using both qualitative and quantitative factors.

Settlement Risk: SICO is exposed to settlement risk through its brokerage services on unfunded deals where exposure remains until settlement of the trade or transaction. 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. 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 the Board. 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.

The Bank maintains collective impairment provisions in line with the requirements under IFRS 9. The collective Impairment provision is a forward-looking calculation and is established based on various factors. These factors include credit risk ratings of the counterparty, historical default rates adjusted considering multiple scenarios of the future macroeconomic outlook, loss ratios given an event of default, and rating migrations.

5.1 GROSS CREDIT EXPOSURES

As at 30th June 2022	Gross credit exposure	Eligible CRM	Credit exposure after CRM	Average Risk Weight	Credit Risk Weighted Assets	Capital requirement @ 12.5%
Cash items	-	-	-	-	-	-
Claims on sovereigns	50,230	-	50,230	2%	918	115
Claims on Bahraini PSE	500	-	500	-	-	-
Claims on banks	102,190	39,003	63,188	34%	21,530	2,691
Claims on corporates	73,594	67,209	6,385	100%	6,393	799
Claims on Investment Firms	-	-	-	-	-	-
Regulatory retail portfolios	7,569	7,143	426	-	319,275	40
Investments in securities	13,411	-	13,411	107%	14,328	1,791
Holdings in real estate	3,252	-	3,252	200%	6,504	813
Other assets	7,481	-	7,481	100%	7,481	935
Total Funded	258,227	113,355	144,872		57,473	7,184
Off Balance Sheet exposures	6,498		6,498	100%	6,498	812

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 at 30th June 2022	Less than 1 year	Over 1 year to 5 years	5-10 year	10-20 years	Above 20 years	Total
Cash and cash balances	62,456	-	-	-	-	62,456
Treasury bills	15,054	-	-	-	-	15,054
Securities bought under repurchase agreements	129,556	-	-	-	-	129,556
Investments at fair value through profit or loss	9,205	12,589	2,755	-	997	25,545
Investments at fair value through other comprehensive income	-	9,385	759	-	-	10,144
Investments at amortized cost	-	4,977	4,948	-	-	9,925
Fees receivable	2,260	-	-	-	-	2,260
Other assets	10,738	-	-	-	-	10,738
Property and equipment	341	795	-	-	-	1,136
Intangible assets and Goodwill	274	335	1,148	-	-	1,757
Total gross credit exposures	229,884	28,081	9,610	-	997	268,571
Commitments	5,809					5,809
Contingents	3,593					3,593

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 at 30th June 2022	Financial	Sovereign	Diversified Funds	Real Estate	Others	Total
Cash and Bank balances	62,433	24	-	-	-	62,456
Treasury bills	-	15,054	-	-	-	15,054
Placements with banks	-	-	-	-	-	-
Securities bought under repurchase agreements	94,347	22,239	-	-	12,970	129,556
Investments at fair value through profit or loss	11,863	2,575	3,642	1,857	5,608	25,545
Investments at fair value through other comprehensive income	3,143	4,242	-	775	1,985	10,144
Investments at amortized cost	-	9,925	-	-	-	9,925
Fees receivable	1,501	646	-	9	104	2,260
Other assets	1,751	5	-	-	8,982	10,738
Property and equipment	-	-	-	-	1,136	1,136
Intangible assets and goodwill	-	-	-	-	1,757	1,757
Total assets	175,037	54,711	3,642	2,641	32,542	268,571

5.4 GEOGRAPHICAL DISTRIBUTION

As at 30th June 2022	Middle East and Asia	North America	Europe	Total
Cash and bank balances	59,508	450	2,498	62,456
Treasury bills	15,054	-	-	15,054
Securities bought under repurchase agreements	129,556	-	-	129,556
Investments at fair value through profit or loss	17,814	5,522	2,209	25,545
Investments at fair value through other comprehensive income	10,060	85	-	10,144
Investments at amortized cost	9,925	-	-	9,925
Fees receivable	2,176	84	-	2,260
Other assets	10,738	-	-	10,738
Property and equipment	1,136	-	-	1,136
Intangible assets and goodwill	1,757	-	-	1,757
Total assets	257,724	6,140	4,708	268,571

5.5 LARGE EXPOSURE LIMITS

The following exposures were in excess of the 15% large exposure limit as defined in the Credit Risk Management Module of the CBB's rule book. However, these exposures qualified to be considered as exempt from the large exposure limits of CBB, on account of their short term tenor (of less than 3 months), lending collateralized by GCC Government securities and inter-bank nature. These exposures have been pre-notified to the CBB in accordance with the requirements of rule CM-5.6.2 of the Credit Risk Management module of the Rulebook.

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For the year ended 30 June 2022

All figures in BD '000s

Counterparty	Country	Amount	Exposure as a % to eligible capital base
SAYACORP	Bahrain	44,461	65.2%
GFH + KHCB	Bahrain	40,036	58.7%
CBB	Bahrain	25,208	37.0%
AWRAQ ALSAFA COMPNAY	Bahrain	11,999	17.6%
KFH	Bahrain	10,655	15.6%

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 its investment and trading activities that are conducted by its Proprietary Investments Unit. The Bank invests and trades across different products, such as equities and fixed income, and through different types of funds in regional and international markets.

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

These limits are adhered by the Proprietary Investments Unit 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			Capital Requirement @ 12.5%
	During the Year to date period		As at 30-Jun-22	
	Minimum	Maximum		
Interest Rate Position Risk	782	880	782	98
Equities Position Risk	1,074	1,474	1,074	134
Foreign Exchange Risk	16	78	78	10
Total min capital required for market risk			1,934	242
		Multiplier	12.5	12.5
		TOTAL	24,176	3,022

6.1 EQUITY PRICE RISK

A significant portion of the Bank's proprietary investments 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 @ 12.5%
Equity investments			
- Listed	3241	3241	405
- Unlisted	-	-	-
Investment in rated funds	-	-	-
Investment in unrated funds - Listed/Unlisted	10,170	11,087	1,386
TOTAL	13,411	14,328	1,791

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, lending to counterparties through repos, and bank placements, as well as bank borrowings and repo borrowings give rise to interest rate risk. The 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.

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

6.2(a) INTEREST RATE RISK SENSITIVE ASSETS AND LIABILITIES

<u>As at 30th June 2022</u>	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and Bank balances	-	-	-	39,174	39,174
Call deposits*	-	2,517	-	-	2,517
Treasury bills	2.76%	15,054	-	-	15,054
Short-term placements with banks	2.41%	20,764	-	-	20,764
Securities bought under repurchase agreements	2.45%	129,556	-	-	129,556
Investments at fair value through profit or loss	6.13%	188	7,144	18,215	25,545
Investments at fair value through other comprehensive income	5.84%	-	4,996	5,148	10,144
Investments at amortized cost**	6.90%	-	9,925	-	9,925
Fees receivable	-	-	-	2,260	2,260
Other assets	-	-	-	10,738	10,738
Property and Equipment	-	-	-	1,136	1,136
Intangible assets and goodwill	-	-	-	1,757	1,757
Total Assets		168,080	22,065	78,429	268,571
Short-term bank borrowings	1.99%	8,355	-	-	8,355
Securities sold under repurchase agreements	1.80%	137,067	-	-	137,067
Customer accounts	-	-	-	40,989	40,989
Other liabilities	-	-	-	8,771	8,771
Payable to unit holders in consolidated funds	-	-	-	2,489	2,489
Total Liabilities		145,422	-	52,249	197,671
Total Equity				70,900	70,900
Total Liability and Equity		145,422	-	123,149	268,571
Interest rate sensitivity Gap		22,658	22,065	(44,720)	
Cumulative Interest rate sensitivity gap		22,658	44,723	-	

* At 30th June 2022 the effective interest rate on Bahraini Dinar call deposits is 2% and on USD call deposits is 1.75%.

The Bank also applies stress testing to monitor interest rate shocks on its banking book on a periodic basis. The result is presented to the CBB on a semi-annual basis.

6.2(b) INTEREST RATE RISK IN THE BANKING BOOK

A 50 bps, 100 bps and 200 bps increase/decrease in market interest rates would negatively/positively affect the value of the fixed rate debt instruments in the banking book as follows:

Amounts in BD '000					
50 bps increase	100 bps increase	200 bps increase	50 bps decrease	100 bps decrease	200 bps decrease
(251)	(503)	(1,005)	251	503	1,005

The interest rate risk on the Bank's placements, reverse-repo loans and short-term borrowings is considered minimal, and hence no sensitivity analysis has been presented. Moreover, on the liabilities side, the customer liabilities are not interest rate sensitive. The short term borrowings are at fixed rates wherein the interest rate risk is considered minimal and therefore, 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.

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 Bank has in place a Risk and Controls Self-Assessment (RCSA) framework to review and manage its operating risks.

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)

	2019	2020	2021
Gross income	14,636	10,432	17,711
Average gross income (A)			14,260
Alpha (B)			15%
(C) = (A) * (B)			2,139
Risk weighted exposures (D) = (C) * 12.5			26,737
Capital requirement @ 12.5% of (D)			3,342

8. OTHER RISKS

8.1 CONCENTRATION RISK

Concentration risk arises when the Bank's exposure is concentrated with one or more related counterparties, assets 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 Credit Risk Management 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.

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 ALIC and Board. Moreover, the bank's investment book which is also majorly invested in liquid assets provides support to the Bank's liquidity profile. Liquidity risk is also managed through ensuring compliance with regulatory liquidity requirements. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are the ratios which the Bank follows as per CBB requirements.

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.

8.6 LEGAL RISK

Legal risk is risk from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. Currently, there are no on-going lawsuits against the company and based on our assessment, we do not consider the need for the creation of any provision in these consolidated financial statements with respect to the lawsuits.

APPENDIX 1

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

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

APPENDIX 2

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

	Published financial statements	Consolidated PIR data*
	30-JUN-2022	30-JUN-2022
	BD '000	BD '000
Assets		
Cash and cash equivalents	62,456	62,464
<i>of which Cash and balances at central banks</i>	24	24
<i>of which Placements with banks and financial institutions</i>	20,756	20,763
Treasury bills	15,054	15,054
Securities bought under repurchase Agreement	129,556	129,576
Investments at fair value through profit and loss	25,545	25,545
Investments at fair value through other comprehensive income	10,144	10,144
Investments at Amortized Cost	9,925	9,925
Fees receivable	2,260	2,260
Other assets	10,738	10,806
<i>of which loans and advances (margin receivables)</i>	8,242	8,310
<i>of which interest receivable</i>	830	830
<i>of which other assets</i>	1,666	1,666
Property, plant and equipment	1,136	1,136
Intangible assets and goodwill	1,757	1,757
Total assets	268,571	268,666
Liabilities		
Short-term bank borrowings	8,355	8,355
Securities sold under repurchase agreement	137,067	137,067
Customer Accounts	40,989	40,989
Other liabilities	8,771	8,771
<i>of which Interest payable</i>	237	237
<i>of which other liabilities</i>	8,534	8,534
Payable to other unit holders (Other liabilities)	2,489	2,489
Total liabilities	197,671	197,671
Shareholders' Equity		
Share Capital - eligible for CET1	44,134	44,134
Shares under employee share incentive scheme	(2,263)	(2,263)
Treasury shares	-	-
Statutory reserve	8,982	8,982
<i>of which share premium</i>	761	761
<i>of which legal reserve</i>	8,221	8,221
General reserve	3,217	3,217
Investments fair value reserve	955	955
<i>of which unrealised gains from fair valuing equities</i>	815	815
<i>of which unrealised gains from other financial instruments</i>	140	140
Retained earnings	13,800	13,800
<i>of which retained earnings brought forward from previous year</i>	11,327	11,327
<i>of which net profits for the current period</i>	2,473	2,473
NCI	2,075	2,075
Expected Credit Losses (Stages 1 & 2)	-	95
Total shareholder' equity	70,900	70,995
Total liabilities and equity	268,571	268,666

*The figures are gross of expected capital loss.

APPENDIX 3

Step 3: Composition of Capital Common Disclosure Template as of 30 JUNE 2022

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)
	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	41,871
2	Retained earnings	13,800
3	Accumulated other comprehensive income (and other reserves)	13,154
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	68,825
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	140
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	650
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	Investment in CET1 of subsidiaries	-
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	-
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	-
	Investment in financial entities where ownership is < 10% of issued common share capital	-
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)	68,035
	Additional Tier 1 capital: instruments	

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	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	-
45	Tier 1 capital (T1 = CET1 + AT1)	68,035
	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	-
	Expected Credit Losses (Stage 1 & 2)	95
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	95
58	Tier 2 capital (T2)	95

59	Total capital (TC = T1 + T2)	68,130
	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	108,386
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	62.83%
62	Tier 1 (as a percentage of risk weighted assets)	62.83%
63	Total capital (as a percentage of risk weighted assets)	62.91%
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)	62.83%
	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%
	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)	95
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

Step 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	Commercial Companies Law, Bahrain
<i>Regulatory treatment</i>		
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 41.87 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	NA
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA