SICO
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Informed
Financial Services

A YEAR LIKE NO OTHER

Annual Report 2020

sicobank.com

A YEAR LIKE NO OTHER

The year 2020 marked the start of a new decade, which by definition entails new beginnings and new possibilities. Unfortunately, it did not take long for us to realize that what we had hoped would be a contained outbreak of COVID-19 in Wuhan City, China, was going to change life as we know it and turn 2020 into a year like no other.

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 and the Prime Minister of the Kingdom of Bahrain

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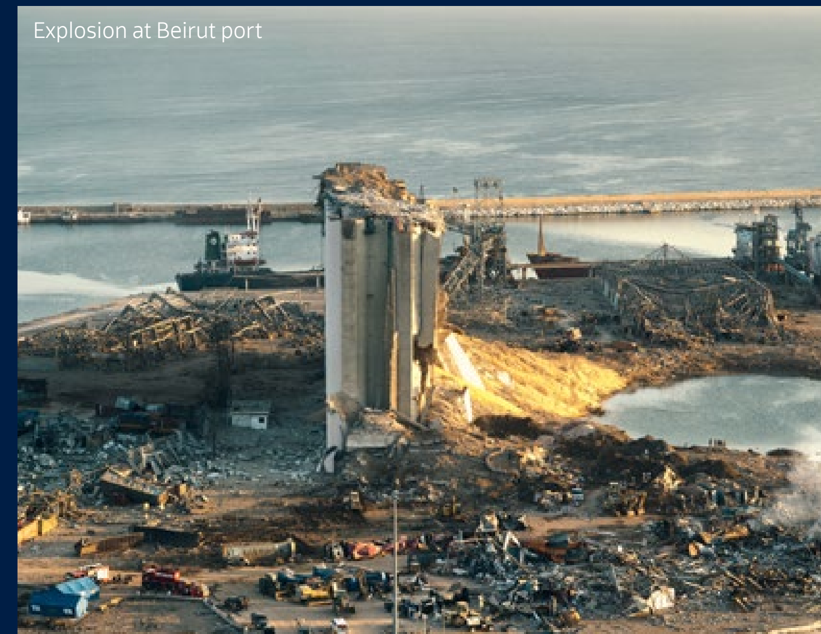
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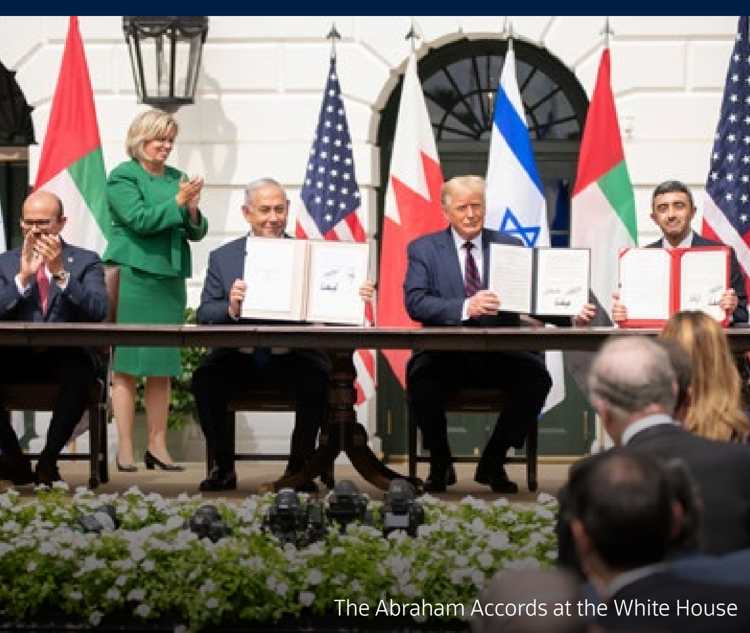
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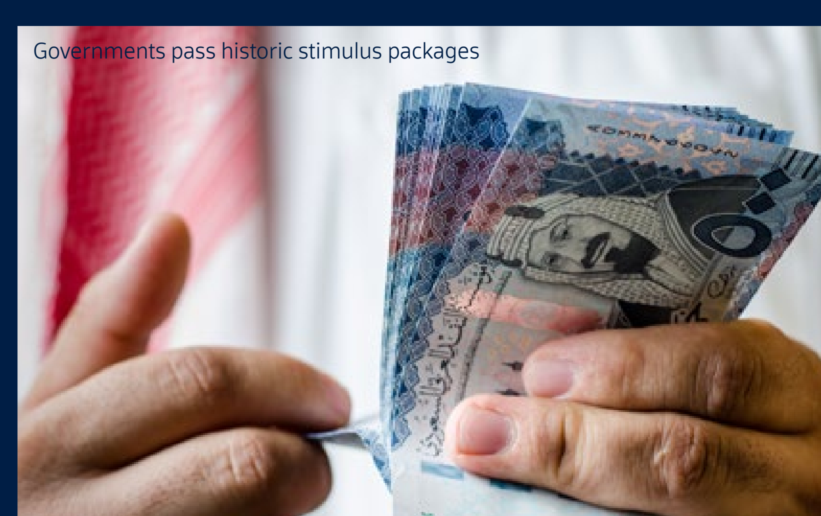
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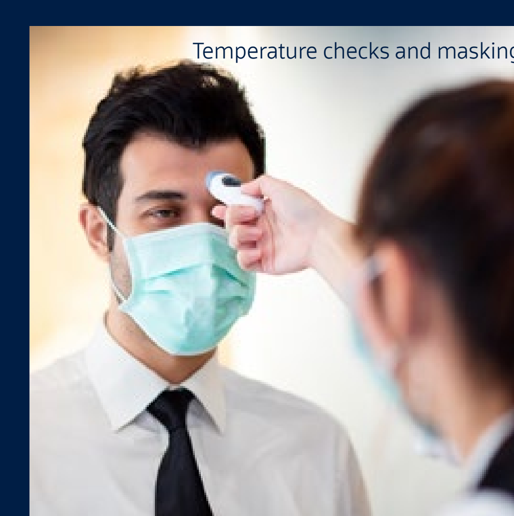
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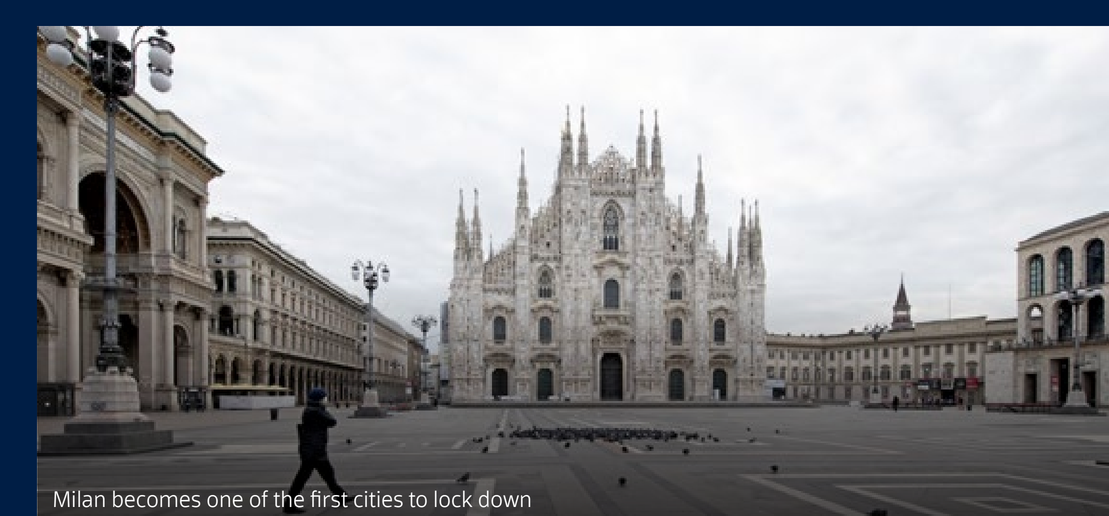

Milan becomes one of the first cities to lock down

SICO at a Glance

SICO is a leading regional asset manager, broker, market maker, and investment bank with USD 2.3 billion in assets under management (AUM). Today, SICO operates under a wholesale banking licence from the Central Bank of Bahrain and also oversees three wholly owned subsidiaries: an Abu Dhabi-based brokerage firm, SICO Financial Brokerage, a specialised regional custody and fund administration house, SICO Fund Services Company (SFS), and an investment banking company, SICO Capital, (subject to approvals) in Saudi Arabia. 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, market making, investment banking, advisory, treasury, and custody and fund administration, backed by a robust and experienced research team that provides regional insight and analysis of more than 90 percent of the region's major equities. Since inception in 1995, SICO has consistently outperformed the market and developed a solid base of retail and institutional clients. Going forward, SICO will invest in both digitalization and human resources to scale its business and seek sustainable growth opportunities in regional markets where the Bank can leverage its expertise as an advisor on some of the region's most high-profile and complex deals.

Mission

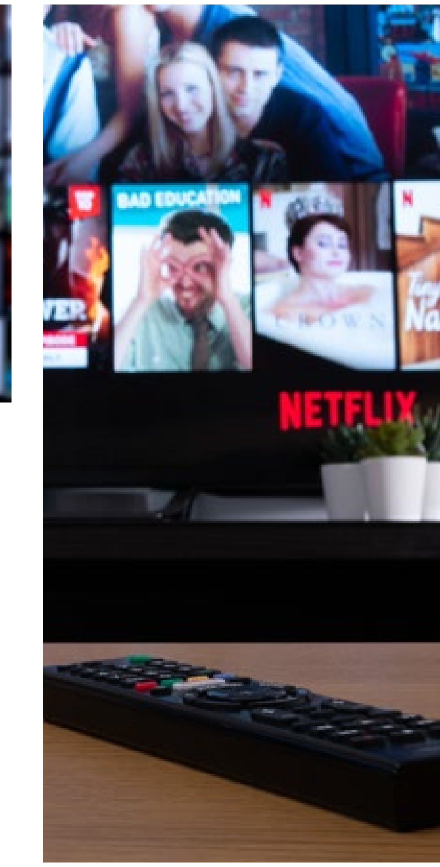
Our mission is to provide innovative and reliable financial services that add to the wealth of our shareholders, clients, employees, and community.

Vision

We aspire to become the GCC's number one investment bank and the partner of choice for sophisticated financial solutions that create growth and opportunities for the economies and people in our region.

Values

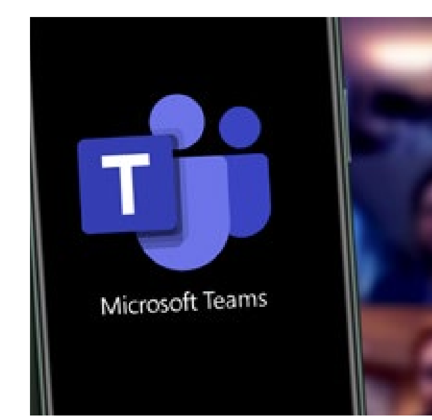
We at SICO, in all our personal and professional day-to-day interactions, value integrity, transparency, and building long-term partnerships.

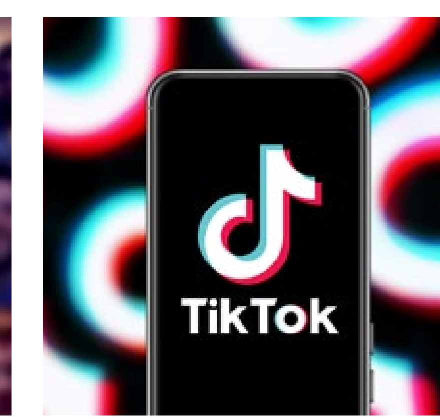


In 2020, the world became increasingly reliant on

'BIG TECH'

to work, learn, socialize, entertain, eat, and shop





2020 Milestones

January
SICO closes mandate as issue execution adviser, receiving agent, and allotment agent on the acquisition of Bahrain Islamic Bank (BISB) by National Bank of Bahrain (NBB), one of Bahrain's largest transactions to date

February
SICO is appointed as Bahrain receiving agent, Bahrain execution advisor, and cross-listing advisor for Kuwait Finance House's offer to acquire 100% of Ahli United Bank

March
The Social Insurance Organization of Bahrain (SIO) increases ownership stake in SICO to 50.38%

July
SICO signs agreement with Bahrain Bourse to offer new sukuk-based Murabaha service

August
SICO debuts updated SICO LIVE platform, offering online trading access to Bahraini and regional markets

September
SICO partners with IdealRatings to embed ESG data into research products, featuring insights into companies' ESG progress to providing investors with a full picture of their performance

September
SICO launches all-new SICO LIVE Global platform, offering clients access to more than 30 global markets with support for over 25 currencies

November
SICO ranks fourth in Bahrain overall and first in the diversified financial services sector by ESG Invest in their annual ranking, climbing up from 13th in the previous year

December
SICO signs agreement with Bank Muscat SAOG to acquire a majority stake in Saudi-based Muscat Capital, the wholly owned investment banking outfit of Bank Muscat

2020 Awards

SICO's team of highly dedicated professionals works tirelessly in order to provide clients with a comprehensive suite of world-class services able to meet their financial needs. During 2020, SICO has received a number of accolades attesting to the Bank's robust operations, diverse services, and capabilities of its team, including the following:

Bahrain's Best Investment Bank 2020
Global Finance

Best Investment Bank in Bahrain 2020
Euromoney Awards

Best Investment Bank in Bahrain 2020
Global Banking and Finance Awards

Asset Management Company of the Year 2020
Global Banking and Finance Awards

Best Securities Brokerage in Bahrain 2020
Global Banking and Finance Awards

Fund Administration Company of the Year 2020
Global Banking and Finance Awards

Bahrain Asset Manager of the Year 2020
Global Investor Group

MEA Fixed Income Manager of the Year 2020
Global Investor Group

Best Equity Research House in Bahrain 2020
International Business Magazine

Next 100 Global Awards
Banking Group

Next 100 Global Awards
Investment Banking

Best Local Investment Bank in Bahrain
EMEA Finance

Best Broker in Bahrain
EMEA Finance

Best Asset Management in Bahrain
EMEA Finance

CEO Najla Al-Shirawi named among Forbes Middle East Power Businesswomen 2020

Chairman's Note

A Year Like No Other

> "The diversification of our business model allowed us to tap into **alternative sources of income that mitigated** the negative impact of the pandemic

2020 was a year that has redefined our existence. It has redefined the way we work, the way we invest, the way we live, the way we learn, and the way we interact with one another. All of these changes have culminated in a seismic shift, the ramifications of which will continue to be studied for years to come.

The year may have passed, but the uncertainty that was brought about by the Coronavirus Pandemic is still very much with us. As we all work to grapple with the impact of this life changing event we should reflect on the lessons learned in 2020 and focus on making sure that we optimize the resources that are currently available to us to ensure the well-being of all our stakeholders, our employees, our clients, our shareholders, and our community at large.

I think we can all be very proud of the performance that SICO has delivered in 2020, a year that has brought about unprecedented challenges. SICO has proven that it is an organization with an outstanding amount of resilience in the face of a public health crisis, a massive global recession, major selloffs, and the biggest oil crash in decades. In March 2020 alone, emerging

Abdulla bin Khalifa Al Khalifa — Chairman of the Board

economies saw investors pull out a monthly record of USD 83.3 billion in cash. Oil exporting countries in the GCC had to deal with a pandemic coupled with a historic crash in oil prices that saw governments take decisive action to fill in the gaps with austerity measures and debt issuance.

With this backdrop, SICO witnessed a sharp 94% y-o-y decline in consolidated net profit from the BD 2.9 million to BD 159,000 in the first half of the year. Our net investment income during the six-month period recorded a loss of BD 342,000 in the first half of 2020 compared to an income of BD 3.5 million in the corresponding period of 2019, and our AUMs took a hit reaching USD 1.7 billion, a decrease of 18% from the USD 2.1 billion that we closed out the year with in 2019.

While all of this was naturally attributable to the adverse market conditions that prevailed globally and regionally, management was mindful throughout about finding ways to mitigate the impact of the pandemic.

Fortunately, the diversification of our business model allowed us to tap into alternative sources of income. SICO's first half results were supported by strong aggregate net fee, brokerage and other income, which came in at BD 3.8 million, 18% higher than the same period of the previous year. Brokerage and other income alone reached BD 2.1 million in 1H-2020, a 71% increase y-o-y. Throughout the turmoil of the first half of the year, SICO maintained a strong balance sheet owing to higher cash and bank balances and securities bought under repurchase agreements.

A historic wave of government stimulus packages breathed new life into capital markets during the third quarter with money pouring back into emerging markets and global stocks skyrocketing up to record levels. As markets began to recover, our resilience as an organization went on full display.

Despite some negative impact that the external environment had on our full-year results, we still managed to record some significant wins this year with all core business lines delivering commendable performances. AUMs rebounded to reach USD 2.3 billion, an increase of 9% from the USD 2.1 billion posted at the end of 2019. SICO's balance sheet footings increased by 9% during the year to BD 181.8 million, attesting to the team's abilities to adapt and weather even the most challenging of times and to continue creating shared value for our stakeholders.

SICO recorded a consolidated net profit of BD 3 million for the full year 2020 compared to BD 6.0 million recorded at year-end 2019. EPS for the year were 8 Bahraini fils, compared to 16.32 Bahraini fils at the end of 2019. SICO's total comprehensive income for 2020 came in at BD 2.9 million compared to BD 6.8 million posted at year-end 2019.

Our year-end results were not only a product of improving market conditions, they were also a testament to our clients' trust in our proven capabilities and our longstanding position as a leading regional investment house. Our diversified revenue stream together with our strong and liquid balance sheet enabled us to progress further with our strategic plans in 2020, even amid such turbulent times.

As 2021 gets underway, we look forward to our expansion into the Saudi market and our new partnership with Bank Muscat. The fact that we were able to move forward with our acquisition of a 72.7% stake in the Saudi based Muscat Capital is proof of our forward-looking vision. The acquisition will allow us to capture new business with a full offering of investment banking services in the Kingdom in 2021.

We would like to extend our deepest thanks and appreciation to our outgoing Board Members who have successfully served their tenure and provided us with invaluable insight and direction over the years; Hussain Al Hussaini, Vice Chairman and Executive Director since 1997, representing the National Bank of Bahrain, Fahad Murad, Independent Director since 2011, Waleed K. Al-Braikan, Independent Director since 2014, representing Gulf Investment Corporation – Kuwait, Anwar Abdulla Ghuloom Ahmadi, Executive Director since 2002, representing Social Insurance Organization – Bahrain, Prakash Mohan Executive Director since 2015, representing Ahli United Bank BSC – Bahrain, and Emad Al Saudi, Independent Director since 2017, representing Bank ABC – Bahrain.

This year, it was also my pleasure to welcome six new members to SICO's esteemed Board of Directors. These ladies and gentlemen began their tenure with us in March 2020 and have already provided a tremendous amount of support to SICO's management during this historic year. We look forward to working with them in the years to come.

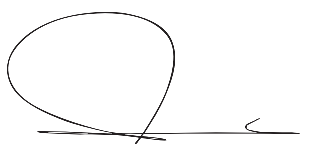
9%

increase in assets under management y-o-y

I would also like recognize and thank our senior management team as well as each and every member of the SICO family for their perseverance during this difficult time. The loyalty and dedication that they have exhibited and their ability to seamlessly transition to a safe work-from-home environment during peaks in the pandemic is commendable and it is the reason that we have remained profitable and successful.

It remains uncertain what the rest of this year will bring, but we are cautiously optimistic that there is light at the end of the tunnel with the expedited rollout of multiple vaccines across the globe. The outlook for emerging markets is promising, and we are fortunate to be operating in a region that is still positioned to be one of the fastest growing regions in the world in the coming decade. I think that I speak for the entire Board at SICO when I say that we have faith in the Bank's ability to overcome the external challenges and volatility that remain a part of our day-to-day life. We will keep developing our internal capabilities with investments in people, IT infrastructure, and products that will position us to grow and prosper.

On behalf of the Board and the entire team at SICO we would like to offer our deepest condolences to the Kingdom of Bahrain and the Royal Family on the passing of Prime Minister Sheikh Khalifa Bin Salman Al Khalifa. He will long be remembered for his achievements and contributions to the wellbeing of our country. We would also like to extend our utmost gratitude to the Central Bank of Bahrain and the Bahrain Bourse for their continued support, and we wish to express our thanks and appreciation to His Majesty the King and His Royal Highness the Crown Prince Salman bin Hamad Al Khalifa, who has just been appointed as Bahrain's Prime Minister. We wish him success in the years to come as we embark on a new journey to rebuild our economy post-pandemic.



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)
- Chairman: Batelco; Amlak Social Insurance Organization Development Company
- Board Director: BBK; Bahrain Marina Development Company
- Professional experience: 24 years
- Education: BSc in Business Administration, George Washington University, Washington DC, USA

Hisham Alkurdi

Vice Chairman and Executive Director since 2020, representing National Bank of Bahrain BSC - Bahrain

- Member of SICO Board Investment Committee
- Chief Executive - Corporate and Institutional Investment Banking, National Bank of Bahrain, BSC
- Professional experience: 23 years
- Education: Bachelor's in Engineering in Systems Control from the University of Huddersfield, UK

Mohammed Abdulla Isa

Executive Director since 2009, representing BBK BSC - Bahrain

- Chairman of SICO Board Nomination, Remuneration, and Corporate Governance Committee
- Group Chief Financial Officer, BBK BSC
- Board Director, Bahrain Credit
- Professional experience: 30 years
- Education - Certified Public Accountant, American Institute of Certified Public Accountants, Delaware State Board of Accountancy (2001), USA

Tala Fakhro

Independent Director since 2020

- Chairperson of SICO Board Audit and Risk Committee
- Chief Project Officer, Bahrain Economic Development Board (EDB)
- Board Director: Benefit BSC; Bahrain Development Bank
- Professional experience: 24 Years
- Education: Juris Doctor from Georgetown University Law Center in Washington and Bachelor of Arts in Economics from Smith College in Northampton

Khurram Ali Mirza

Executive Director since 2017, representing Social Insurance Organization – Bahrain

- Member of SICO Board Nomination, Remuneration, and Corporate Governance Committee
- Chief Investment Officer, Osool Asset Management BSC (c)
- Board Director, Amlak Social Insurance Organization Development Company
- Professional Experience: 28 years
- Education: Fellow, Institute and Faculty of Actuaries, UK; BSc in Actuarial Science and MSc in Mathematical Trading and Finance from Cass Business School, University of London, UK

Dana Raees

Executive Director since 2020, representing Social Insurance Organization – Bahrain

- Member of SICO Board Nomination, Remuneration, and Corporate Governance Committee
- Legal Counsel, Osool Asset Management BSC (c)
- Professional experience: 15 years
- Education: Bachelor of Laws (LLB) from the University of Warwick and LPC from the College of Law, London

Abdulla Kamal

Executive Director since 2020, representing Social Insurance Organization – Bahrain

- Member of SICO Board Audit and Risk Committee
- Head of Operations, Osool Asset Management BSC (c)
- Board Director: Bahrain Car Parks Company BSC.; Osool Pension Fund BSC; Amlak Social Insurance Organization Development Company
- Professional experience: 16 Years
- Education: Bachelor of Science in Accounting, University of Bahrain, Certified Internal Auditor (CIA), Association of Chartered Certified Accountants (ACCA) and Associate Professional Risk Manager (APRM)

Naseema Haider

Non-Executive Director since 2020, representing Ahli United Bank – Bahrain

- Member of SICO Board Audit and Risk Committee
- Head of Private Banking, Ahli United Bank BSC
- Professional experience: 23 Years
- Education: Bachelor of Science in Accounting, University of Bahrain

Khalid Al-Jassim

Independent Director since 2020

- Member of SICO Board Investment Committee
- Chairman and Managing Director, Afkar Holding
- Board Director: Bahrain Islamic Bank; Bahrain Flour Mills
- Professional experience: 30 Years
- Education: BSC in Computer Science and Mathematics from California State University, Long Beach as well as an Executive MBA from Pepperdine University

CEO's Note

A Year Like No Other

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In 2020, we have proven that the whole is greater than the sum of its parts. **SICO's diversified business model** is where we gain our strength and derive our resilience

The year 2020 has truly been a year like no other. The dramatic nature of the historic events that took place in the past year has forced us all to think beyond financial results and operational achievements, and to focus on our core and on the value that we bring to the market.

At SICO, this began with ensuring the health and safety of our people and our broader community of stakeholders. We also made sure that we could remain fully operational under a completely new set of rules and guidelines. We kept a watchful eye on news and events that were beyond our control while managing the impacts and expectations for all our stakeholders. The efforts of our exceptional team ensured that our business remained on solid footing and that the evolving needs of our clients were addressed in the face of the unfolding crisis.

If there was one big thing that this year taught us, it's how to be resilient. Resilience is a word that has been used extensively in the past, but this year it has taken on an entirely new meaning and new relevance. There are many factors that can make an organization resilient, but in our case, I believe that our resilience comes from our diversity.

We are widely recognized by institutional investors across the GCC as a top asset manager, as well as

Najla M. Al Shirawi — Chief Executive Officer

Bahrain's leading broker. We are also regarded by private sector corporates in Bahrain and beyond as an investment bank, a custodial administrator, an advisor, and a co-investor. But as the saying goes, "the whole is greater than the sum of its parts." I believe that we have proven that. SICO's diversified business model is where we gain our strength and derive our resilience.

The fact that we were able to recover from a 20% drop in AUM in the first half when the market was first hit with the shock of COVID, to break even by the third quarter, and AUM gains by the end of the year, is proof of our resilience and our asset management team's unparalleled ability to actively and successfully fund-raise and to quickly capitalize on improving conditions for both debt and equity. Our brokerage business also continued to fare well with a broadening of our client base and the rollout and expansion of our digital platform SICO LIVE and SICO LIVE Global.

This ability to maintain a diversified revenue stream that can bolster one end of the business when another is down, along with our liquid balance sheet kept us on track with our strategic expansion plans despite the pandemic. In last year's annual report, we communicated our acquisition of an asset management license in the Kingdom of Saudi Arabia (KSA), which was our first step towards establishing a direct presence in the GCC's largest market. Today we are proud to say that we have taken that license several steps further with a strategic acquisition that will fast-track our Saudi presence and allow us to hit the ground running with a full suite of financial services.

In December, SICO signed a landmark agreement with Bank Muscat to acquire a majority stake amounting to 72.7% in their subsidiary, Saudi-based Muscat Capital. The acquisition shall be a share swap, with SICO swapping treasury shares for a majority stake in Muscat Capital, which will in turn give Bank Muscat a 9% stake in SICO. We naturally welcomed such a move as it is giving us immediate access to not only an asset management license, but also brokerage, investment banking and custody licenses. Instead of incrementally growing our business in KSA and stretching out our ROI over a period of 5 years, we opted to pursue this acquisition whereby we have a comprehensive established platform with AUM, a client base, a strong team on the ground, and a well-managed balance sheet that allows us to leverage on our strength from day one. With Saudi Arabia's recent upgrade to emerging market status on the FTSE and MSCI indices and subsequent market growth, SICO is now poised to capture new opportunities as they arise across the Saudi market.

Market Background

Today we find ourselves in a low interest rate environment with plenty of liquidity in the market due to the government stimulus packages to combat the negative impact of COVID on the economy. However, asset valuations have increased and the outlook for 2021 will be dependent on factors like the speed and effectiveness of vaccine rollout and how quickly the economy recovers from COVID lockdowns. The full impact on certain hard-hit sectors of the economy like hospitality, airlines, and retail also remains to be seen.

I think the theme for next year in terms of equity investments will be about balance sheet resilience and a combination of value and growth. For fixed income, asset valuations are toppish. Going forward it will be a credit space, one should be looking at high yield and at where we have anomalies in terms of market pricing of certain credit.

Within the GCC region, we expect to see market traction in both Saudi Arabia and the UAE in the coming year. We have witnessed strong commodity prices, which combined with the gradual normalization of markets post-COVID, will see multiple sectors and themes which may benefit listed companies. Additionally, Dubai will see increased investor appetite in the wake of the revival of its travel and tourism sectors, which will create a ripple effect across other sectors nationwide.

Operational Highlights

Despite the adverse market conditions, we are proud of the results that SICO has achieved in 2020 against a backdrop that has perhaps presented the biggest global challenge of our lifetime. If we look at SICO's financial performance during the course of the year, it clearly illustrates the rollercoaster ride that has been 2020. We went from recording a BD 159,000 in consolidated net profit for the first six months of the year, a decrease of 94% y-o-y, to a consolidated net profit BD 1.6 million for the third quarter of 2020, marking a 119% increase compared the same period in the previous year. The upward trajectory continued into the fourth quarter, which saw us close out the year with a total net profit of BD 3 million, proof of our talented team's ability to steer SICO through the volatility, develop agile solutions to meet our clients' needs and our operational resilience, which has demonstrated our flexibility and efficiency as an institution.

While we were not alone on the rollercoaster ride, I feel that we managed to differentiate ourselves through significant achievements throughout the year. Our biggest achievement is that our AUM has increased y-o-y even though we had a dip during the first quarter. Total assets under management currently stand at USD 2.3 billion compared to USD 2.1 billion at the end of 2019. This stands as a testament to both our clients' confidence in our capabilities as well as the stellar performance of our fixed income and equities asset management team during these challenging times. They have not only maintained their client base through diligent and consistent communication, they have also won new mandates in the GCC and beyond achieving one of our strategic initiatives to turn SICO into a MENA asset manager with winning funds and mandates in MENA.

We continued to make progress in terms of our ambition for a Saudi presence with the acquisition of Muscat Capital, which will soon be rebranded as SICO Capital. The acquisition is unique as it will constitute a share swap of treasury shares purchased by SICO in 2018, rather than a cash acquisition, with the objective of bringing in a strategic shareholder. This in itself marks a success for SICO representing forward thinking and allowing us to preserve cash, which is key in the current environment.

Our overall brokerage trading capabilities both regional and international have increased significantly this year. The growth in our client base has been supported by our electronic trading platform where we have added developed, emerging, and frontier markets for all asset classes. These plans to expand and enhance our online trading services continued with the successful launch of Global Markets, a service that gives our clients access to more than 30 international markets and 125 exchanges through a platform called SICO LIVE Global. With SICO LIVE Global, clients are now able to trade multiple asset classes from fixed income, to money market, to equities, to ETFs in regional and international markets through their SICO account. We have also launched corporate services and services for newly established SPVs and Funds through our subsidiary SICO Fund Services (SFS).

We are extremely proud of the turnaround of SICO UAE, our brokerage subsidiary in the Emirates. For the first time since its establishment in 2012, SICO UAE is profitable and has made good progress in terms of gaining market share in a very challenging market. Despite an overall drop in market volumes, our volumes have increased.

Our Investment Banking division has perhaps had the most challenging year with a number of public market transactions being put on hold due to adverse market conditions. In spite of this, however, we have at least three active mandates including one which has been postponed until the market recovers.

Our Research division's model portfolio or top picks continue to perform remarkably well. SICO Research has also enhanced its ability to host company calls and to provide access to newly listed companies, such as BBK. In an effort to always remain ahead of the curve and provide value added services for our clients, we will also begin embedding IdealRatings' ESG data as part of SICO's Research platform, making us among the first in the MENA region to highlight ESG performance in company reports in response to increasing demand for ESG data by clients. The idea is to create more regional awareness on ESG reporting through our Research Portal and this is just the beginning. From there we hope to move on and look at other products where we can apply the same concept. For example, as we look to expand to wealth management services, we can create ESG compliant sustainable portfolios.

Perhaps this year more than any other, SICO's support and control functions have played a tremendous role in keeping the business intact and fully functional throughout the COVID crisis. If we had not progressed in terms of automation, reporting and internal policies and procedures, the seamless transition to 'Work from Home' and 'Virtual Everything' would not have been possible. When COVID came, we were ready for it. We had already automated the onboarding of clients, including the KYC capability. HR stepped up to ensure that both internal and external face-to-face meetings were migrated to virtual meetings from day one so that staff could remain safe and not take any unnecessary risks. We were able to conduct contact tracing and provide technical support for each and every staff member to work from home.

Institutional Capability

As we expand into new markets and launch new products, we have made several key additions to our management team at SICO, including a Head for our newly established Global Markets division and a new Acting Head of Distribution and Business Development. Both gentlemen are regional industry veterans with diversified skillsets that will be of immense value to SICO in the years to come.

This year, we are also proud to announce that we have a new Board of Directors that includes three new female board members; Tala Fakhro, an Independent Director and Chairperson of the SICO Board Audit and Risk committee, Dana Raees, representing the Social Insurance Organization, and Naseema Haider, representing Ahli United.

Having female representation on our Board is in line with both international governance best practices and best practices in the Bahrain banking sector. The Bahrain Bankers Association are officially endorsing equal opportunities and the empowerment of women. Women currently represent 30% of our Board and 30% of the total workforce at SICO, but our goal is to eventually have more than 30% female representation on our management team. We are not quite there yet, particularly on the trading and asset management sides of the business, but I am confident that we will reach our goal. In the meantime, it is my great honor to be moving the needle in the right direction and to lead by example.

ESG

COVID and the year 2020 has made one thing clear: the way forward is through inclusive growth that provides equal opportunities to all without further damage to the environment. The best way to ensure that we are moving towards a more inclusive path is through adherence to environmental, social and governance principles. COVID 19 has raised the stakes and shown the entire world that we are interconnected and that damage to the environment can lead to the emergence of new viruses, which leads to the tragic loss of life and a negative impact on the global economy and on our bottom line.

Last year we began aligning our ESG strategy with the UN Sustainable Development Goals (SDGs) with special emphasis on health and well-being, education, gender equality, innovation and responsible consumption and production. The push to embed ESG principles into the fabric of our operation has already borne fruit. We are very proud to have improved our ESG Ranking with ESG Invest, an organization that quantifies the ESG performance of companies in the Arab world. We moved up in the ratings to first place in the diversified financial services sector and fourth place overall in Bahrain from 13th the previous year. We will continue to do more in order to become a more sustainable organization in every sense of the word.

When all is said and done companies will be judged not just on whether they generated profits for their shareholders during COVID but for how they stood by their people and supported their communities. At SICO we are trying to push forward on both fronts. This year we made a number of donations to charitable organizations across the Kingdom such as the Fina Khair campaign and the Supreme Council of Women in order to alleviate the worst impacts of COVID, and we continued our efforts to support young Bahraini students with academic scholarships.

The Year Ahead

Hope of a better 2021 rests on the successful rollout of COVID vaccines and a gradual return to normality. However, the recent spike in cases as a result of new COVID variants has introduced yet another element of uncertainty to the equation. Accordingly, market volatility is likely to remain elevated until a clear end to the pandemic post vaccine is in sight. Nevertheless, the recent strength in oil prices and the continuation of OPEC+ cooperation is a positive sign.

Oil price recovery coupled with low interest rates presents an opportune time for GCC sovereigns to borrow at attractive rates to bridge their fiscal deficit. We have already seen multiple issuances in the first month of the year and expect the momentum to continue in the near future. We also expect Equity markets to see robust action as participants look for higher returns. Unless we witness a scenario where the current COVID vaccines fail to be effective against the new variants, we can expect a steady return of investor appetite in beaten-down sectors that have been directly hit by travel restrictions and lockdowns. Where else but emerging markets? We have the red carpet ready.

No matter what the coming year brings, whether or not we are forced to live with the pandemic for several more months or another year, I can safely say that we have learned a lot. We have learned that 'work from home' is not only possible but sometimes more efficient. Giving people, particularly working mothers, the flexibility to work from home at least partially can and will continue. We have learned that technology can give us broader reach, through things like webinars and virtual conferences, than business travel ever could. But most of all we have learned that we can rely on each other and work together as a team to continue achieving superior results, and for that I am very grateful. It is an honor and a privilege to work with such a talented and dedicated team of professionals at SICO.

I would like to take this opportunity to thank our Chairman, Sheikh Abdullah bin Khalifa Al Khalifa for his steadfast support. I would like to thank our previous Board, who ended their three-year tenure in 2020, for their tireless efforts and service to SICO, and I would like to welcome each and every member of our new Board of Directors. We look forward to working with you and making use of your invaluable experience. As always, special thanks also goes out to all our partners, shareholders, and clients as well as the Central Bank of Bahrain and the Bahrain Bourse.

On behalf of the entire team at SICO, we would like to offer our deepest condolences to the Kingdom of Bahrain and the Royal Family on the passing of Prime Minister Sheikh Khalifa Bin Salman Al Khalifa. Sheikh Khalifa's legacy as the Kingdom's Prime Minister has been a key part of our country's modern history ushering in the development of our economy.

We honor his legacy and mourn his loss alongside the entirety of the Kingdom.

Finally, we would like to extend our congratulations to Crown Prince Sheikh Salman bin Hamad Al Khalifa on his appointment as the Kingdom of Bahrain's new Prime Minister. We are confident that he will build on the late Prime Minister's legacy and continue to lead our great country into prosperity.

Najla M. Al Shirawi
Chief Executive Officer

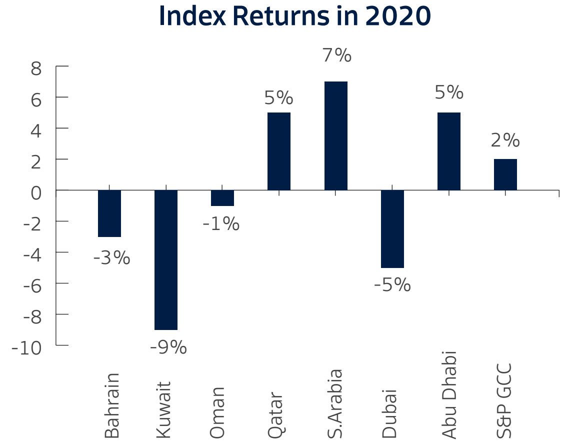
GCC Market Snapshot

GCC markets closed the year positively, with the S&P total return index ending 2% higher. This comes following a recovery from the significant sell-off across the board during March, which saw the index fall by 17%. COVID-related shutdowns and uncertainty created significant volatility across GCC markets in addition to fluctuating oil prices which resulted in WTI briefly trading in negative territory. Not surprisingly, CDS spreads in the region spiked during April-May as oil prices crashed.

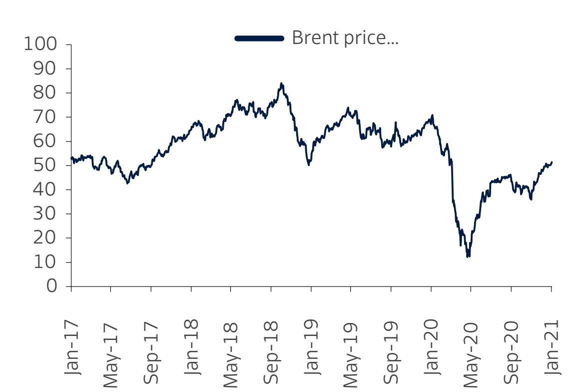
Most GCC governments proactively tapped into the debt markets in order to provide COVID-related relief and address increasing concerns over the fiscal deficit. As a result, market confidence returned following an increase in liquidity levels, and all regional equity markets recovered from the lows posted in March. Saudi Arabia was the best performing market with a total return of 7% in 2020, followed by Abu Dhabi and Qatar at 5% each. In terms of turnover, the biggest notable jump was in Saudi Arabia where average daily turnover increased 2.5x and exceeded USD 3 billion consistently towards the end of the year. Kuwait also witnessed a notable increase (+40% y-o-y) in its turnover in 2020, led by MSCI related inflows (inclusion in the emerging markets index). However, factors such as political impasse, uncertainty regarding the new debt law as well as the COVID-19 pandemic affected market sentiments, making it the worst performing market for 2020 with a negative total return of -9%.

GCC markets ended 2020 on a relatively better note, with CDS spreads considerably normalizing, achieving higher y-o-y returns, and oil prices gradually moving higher than USD 50 / bbl (Brent), with OPEC+ countries continuing to voluntarily cut output and delay expected increases in production. Further, hopes from the roll-out of the COVID-19 vaccination and the eventual return to normalcy also helped market sentiments. Going forward in 2021, factors such as commodity prices, inflation, OPEC agreement, and the speed of vaccination will continue to influence market sentiments and volatility.

Index Returns in 2020



Brent price (USD/bbl)



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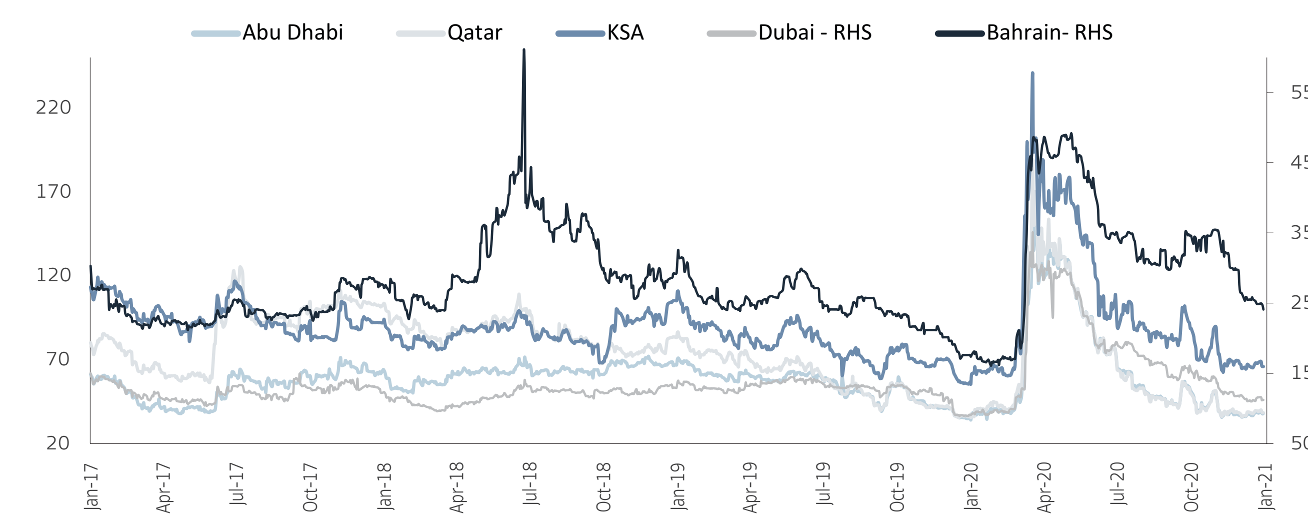
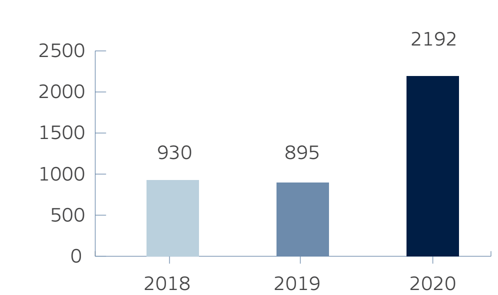
>
> GCC governments **proactively tapped into debt markets** to provide COVID-related relief

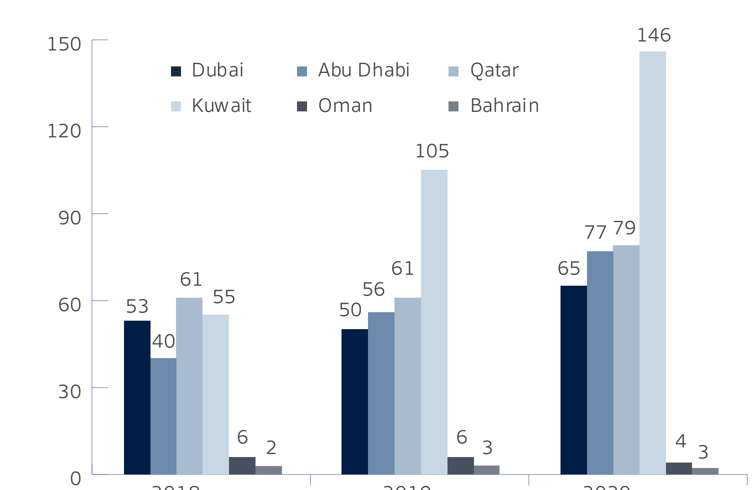
CDS Spreads (2017-2020)



Saudi Average Daily Turnover (USD mn)



GCC Average Daily Turnover (USD mn)



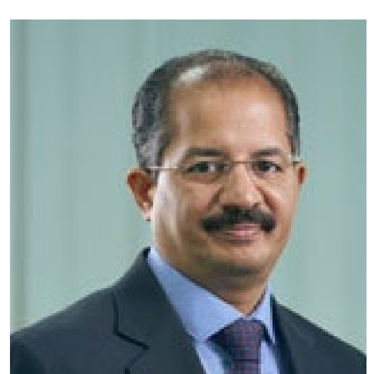
Management Team

“

SICO’s **top-notch team of industry professionals worked seamlessly** often under great duress to continue achieving superior results during an unprecedented year of challenges

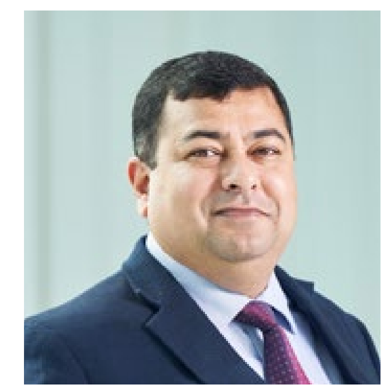
Najla Al Shirawi
Chief Executive Officer

Fadhel Makhlooq
Chief Capital Markets Officer



Anantha Narayanan
Chief Operating Officer

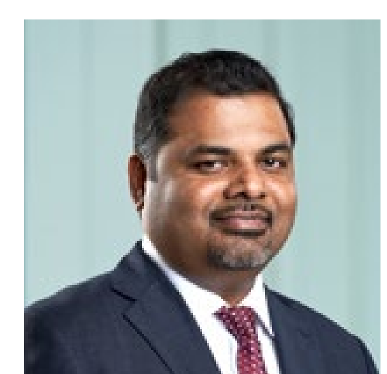
K. Shyam Krishnan
Chief Financial Officer



Shakeel Sarwar
Head of Equities Asset Management

Ali Marshad
Head of Fixed Income Asset Management

Wissam Haddad
Head of Investment Banking and Real Estate



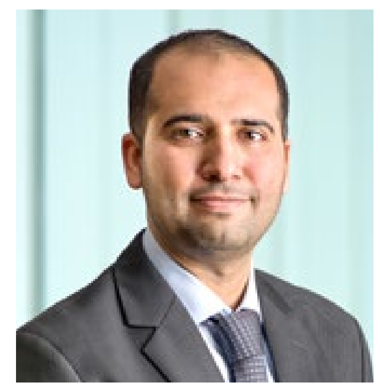
Jithesh K. Gopi
Head of Proprietary Investments

Mariam Isa
Head of Brokerage

Salman Al Sairafi
Head of Global Markets

Shaikha Mohammed Kamal
Head of Market Making

Nishit Lakhotia
Head of Research



Husain Najati
Head of Treasury

Nadeen Oweis
Head of Corporate Communications

Khaled AbdulRazak Zainalabedin
Acting Head of Distribution and Business Development

Fatima Mansoor
Head of Client Relations

Nadia Albinkhalil
Head of HR and Administration

Husain Ahmed
Head of Operations

Mohammed Ibrahim
Head of Information Technology

Simone Del Nevo
Head of Legal and Board Secretary

Mohammed Juma
Head of Compliance and MLRO

Joseph Thomas
Head of Internal Audit

"

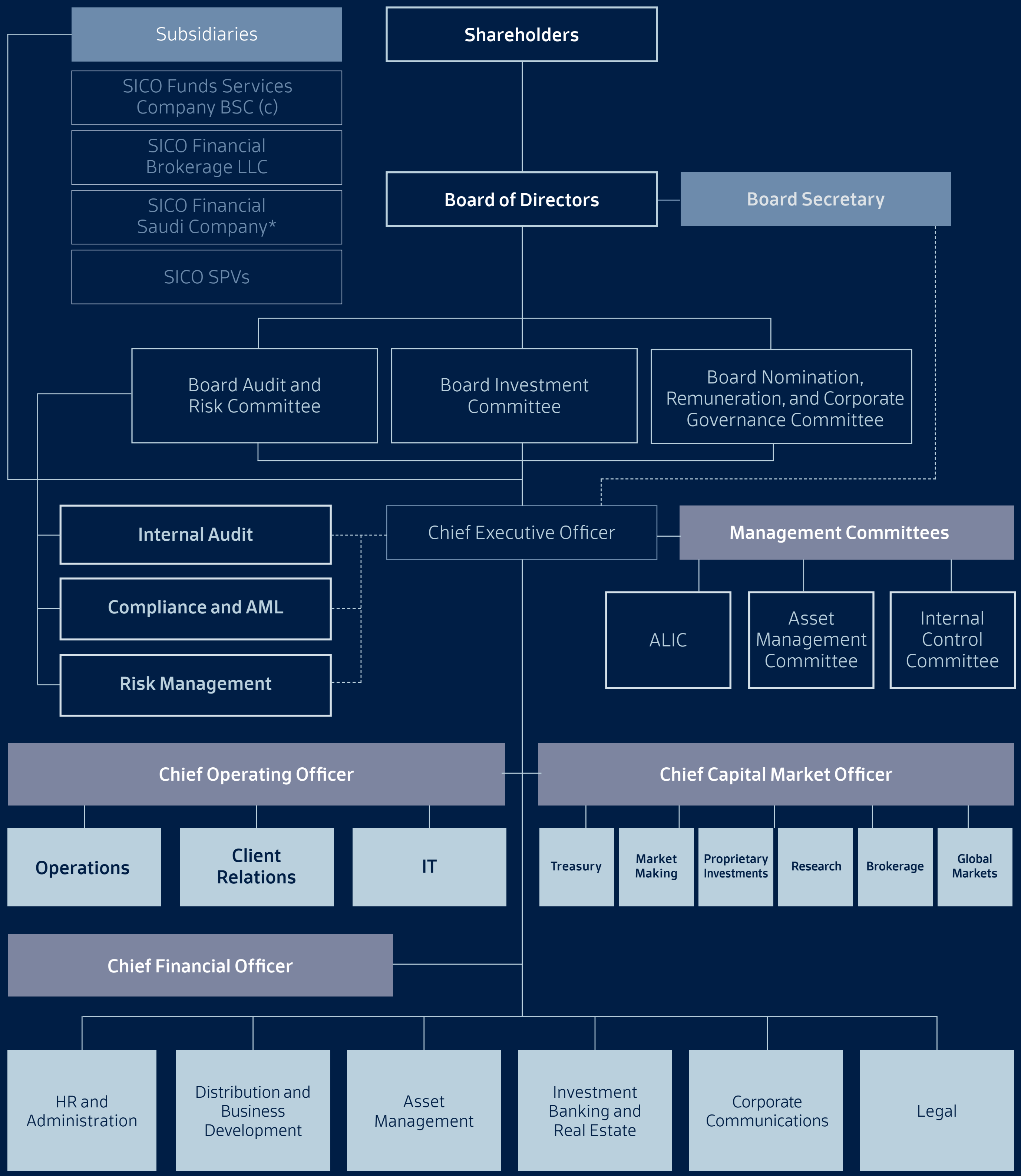
Through innovation and the quick deployment to digital tools, **SICO's management team continued to capture market** opportunities across all business lines

Srikanth Sethuraman
Acting Head of Risk

Naser Obaid
Chief Executive Officer, SICO Funds Services BSC (c)

Bassam A. Khoury
General Manager, SICO Financial Brokerage LLC

Organization Chart



*Subsidiary converted to SICO Capital following March 2021 acquisition of Muscat Capital

2020 FINANCIAL PERFORMANCE

Despite market turbulence, SICO demonstrated an ability to adapt to unforeseen conditions and leveraged its diversified capabilities to continue delivering positive results.

Et rem volore magnat eatqui ut pa consedi genimin veliqui

2020 Financial Highlights

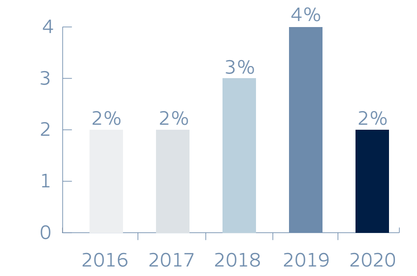
Net Interest Income	Net Investment Income	Brokerage Income
1.45 BD MN	2.24 BD MN	1.70 BD MN
1.41 BD MN	4.32 BD MN	1.39 BD MN
2019	2019	2019

"

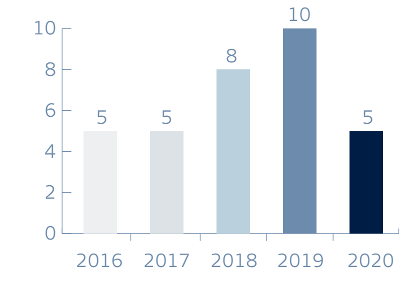
SICO's results in **2020 were driven primarily by an increase** in the Bank's brokerage and other income

Asset Management Income and Other Fee Income	Other Income	Investment Banking Income
3.46 BD MN	1.42 BD MN	0.16 BD MN
6.16 BD MN	1.23 BD MN	0.11 BD MN
2019	2019	2019

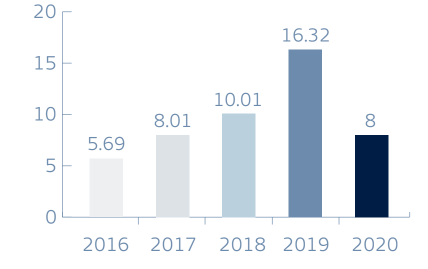
Return on Average Assets
Annual Ratio



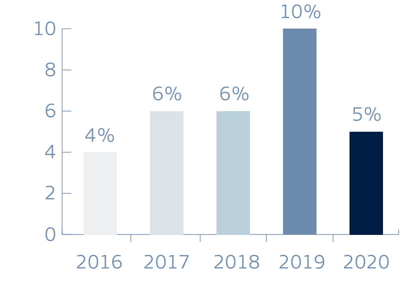
Dividends per Share (Fils)



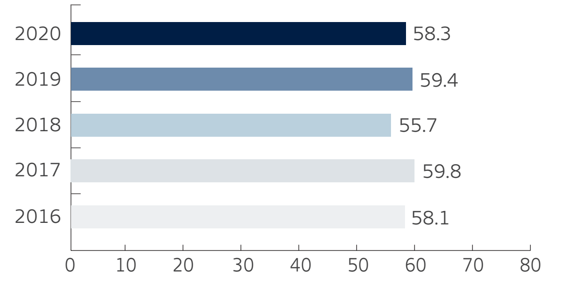
Earnings per Share (Fils)



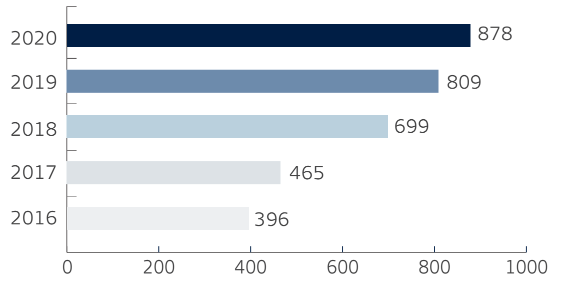
Return on Average Equity
Annual Ratio



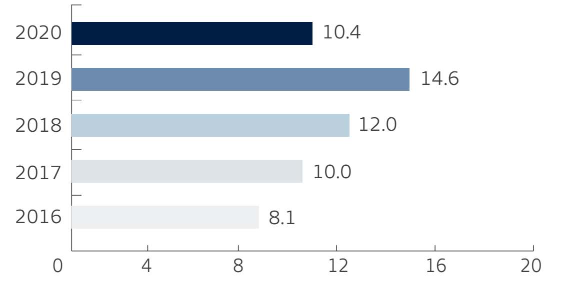
Shareholders' Equity BD mn



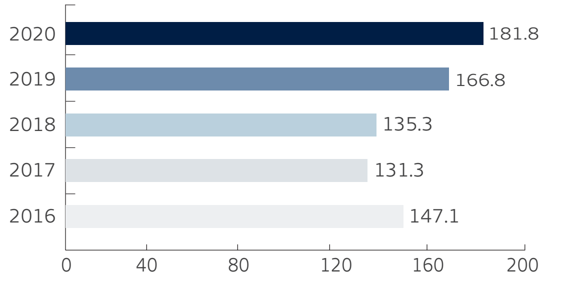
Assets Under Management BD mn



Total Revenues BD mn



Total Assets BD mn



Management Discussion and Analysis

> SICO continued to make progress on its **strategic objectives by expanding its geographic footprint** while attracting new mandates and broadening its client base

GCC capital markets faced a volatile year in 2020 as the COVID-19 pandemic and oil price fluctuations took a toll on regional securities. Regional equity markets saw a total of seven IPOs during the year with proceeds totaling USD 1.6 billion, down from eight IPOs in 2019 raising a total of USD 27.0 billion. Saudi Arabia's Tadawul remained the most active GCC equity market in 2020, contributing nearly 90% of regional IPO proceeds for the year. Meanwhile, GCC fixed income issuances climbed for a second consecutive year in 2020, reaching a record USD 140.3 billion against the USD 139.1 billion issued in 2019. Fixed income activity during the year was dominated by sovereign issuers, with a relative increase in bond issuances compared to issuances of sukuk in 2020. GCC fixed income securities provided the best overall return in emerging markets during the year, posting a yield of 8.7% as the region continues to develop into a key destination for emerging market investors.

Despite market turbulence, SICO demonstrated an ability to adapt to unforeseen conditions and leveraged its diversified capabilities to continue delivering positive operational results. SICO also continued to make progress on its strategic objectives of widening its product offering and expanding its geographic footprint while attracting new mandates and broadening the client base. The strategic progress achieved in 2020 leaves SICO in a strong position to leverage the expected recovery as market conditions normalize from 2021 onwards.

SICO booked a consolidated net profit of BD 3.0 million in 2020, down by 50% from the BD 6.0 million recorded for 2019. This bottom-line contraction was driven by a year-on-year decrease of 29% in SICO's net operating income, which recorded BD 10.4 million for 2020. Although SICO's financial performance in 2020 was impacted in the beginning of 2020 by adverse market conditions stemming from the onset of the COVID-19 pandemic, significant recoveries were made during the latter part of the year. The Bank also partially mitigated such effects by a reduction in staff and other operating expenses during the year. SICO booked a total comprehensive income of BD 2.9 million for 2020, a decrease of 57% from the BD 6.8 million recorded for the year 2019. Earnings per share amounted to 8.00 Bahraini fils per share for 2020, down from the 16.32 Bahraini fils per share booked for 2019.

Total assets as of 31 December 2020 stood BD 181.8 million, 9% higher compared to the BD 166.8 million as at end of December 2019. SICO's overall liquidity position continues to be very healthy with the Bank's capital adequacy ratio remaining well above regulatory requirements.

I. Appropriations

SICO's Board of Directors has recommended a cash dividend of 5% of the share capital, equivalent to 5 Bahraini fils per share, subject to the approval of the Central Bank of Bahrain and the General Assembly. The dividend proposed by the Board of Directors for 2020 is lower than the cash dividend of 10 fils per share distributed for 2019.

II. Asset Management

SICO's Asset Under Management (AUMs) came in at USD 2.3 billion as of 31 December 2020, up by 9% from the USD 2.1 billion booked at year-end 2019. This increase came despite significant market volatility faced during the year, reflecting the addition of new client mandates, a significant inflow of subscriptions from existing clients, an increase in advisory mandates over the second half of 2020, as well as the continued strength of the asset management team's performance.

SICO Asset Management enjoyed another highly successful year in attracting additional fixed income mandates, with Fixed Income AUM more than doubling to USD 893 million by the close of 2020.

Performance fees marked a significant decline in 2020 of BD 2.2 million in comparison to the previous year, resulting from prevalent market conditions during the year. Management fees booked BD 3.0 million in 2020 in comparison to the BD 3.6 million one year previously. Management fees were lower by 15% mainly due to market impact during the year and redemptions effected by clients to meet their liquidity needs.

III. Securities Brokerage

SICO Securities Brokerage leveraged market volatility during 2020 to deliver strong results and maintain its first place ranking on the Bahrain Bourse, growing its market share of the traded value to 56% from 41% one year previously. SICO has maintained this standing on the Bahrain Bourse for 22 consecutive years. Operating across both the equity and fixed income spaces, SICO offers brokerage services out of Bahrain and through its fully owned subsidiary SICO Financial Brokerage (SFB), based in Abu Dhabi, UAE. In 2020, SFB booked its largest annual revenues since inception, continuing to expand SICO's market share in the UAE.

Brokerage achieved a net operating income of BD 1.7 million which is almost 22% higher than the BD 1.4 million booked in the previous year. Volatility in the equities market has resulted in more trading activities and an expansion in SICO's client base as the Bank continued to provide informed brokerage services backed by its in-house sell side research capabilities. The increase in brokerage revenue is also attributable to the increase in fixed income brokerage activities as well as introducing the ability to trade in international markets.

IV. Investment Banking and Real Estate

SICO Investment Banking maintained its upward trajectory in 2020, gaining several key mandates and cementing the Bank's position as a leading regional provider of value-added services and innovative advisory solutions. This is clearly evidenced by the Bank's advisory fees earned in 2020, which increased by more than 40% compared to the previous year.

Market conditions in 2020 resulted in a number of capital market transactions either being cancelled or postponed. Consequently, opportunities to earn success fees on investment banking transactions did not exist during the year.

V. Proprietary Investments

SICO's proprietary investments are classed under three components: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortized cost (AC). The Bank's proprietary book continued to generate positive contributions to SICO's bottom line in 2020, despite significant volatility in global markets during the year. Proprietary investments generated net investment income of BD 2.2 million in 2020 against BD 4.3 million one year previously. Investment income was significantly impacted due to a sharp and swift decline in markets in the first half of 2020. However, significant recoveries were made in the second half of the year. At end of March 2020, investment income was negative BD 2.4 million compared to positive BD 2.2 million at the end of December 2020, which is more than BD 4.5 million recovery in the last nine months of the year.

This resilient performance was driven by the Bank's strategic allocation of funds, along with tactical hedges and derivative purchases which successfully limited SICO's exposure to downside risk during the sharp market correction of March 2020.

VI. Treasury

SICO's Treasury division successfully weathered COVID-related market disruption, significant monetary loosening by major central banks, and commodity price volatility in 2020. Treasury generated net interest income of BD 752,000 in 2020, in comparison to the BD 954,000 booked one year previously. FX income contributed BD 926,000 to overall Treasury income for the year. Meanwhile, SICO continued to maintain a strong and liquid balance sheet in 2020, with a capital adequacy ratio exceeding 50% and a liquidity coverage ratio of over 100%.

VII. Market Making

SICO maintained its position as the leading market maker on the Bahrain Bourse in 2020. The Bank recorded a participation rate of approximately 56% of the total traded value in the Bourse, up from 44% in 2019. SICO received regulatory renewals for all market making mandates in the Bahraini market. The Bank recorded total market making income of BD 501,000 in 2020, about 15% down from BD 591,000 one year previously.

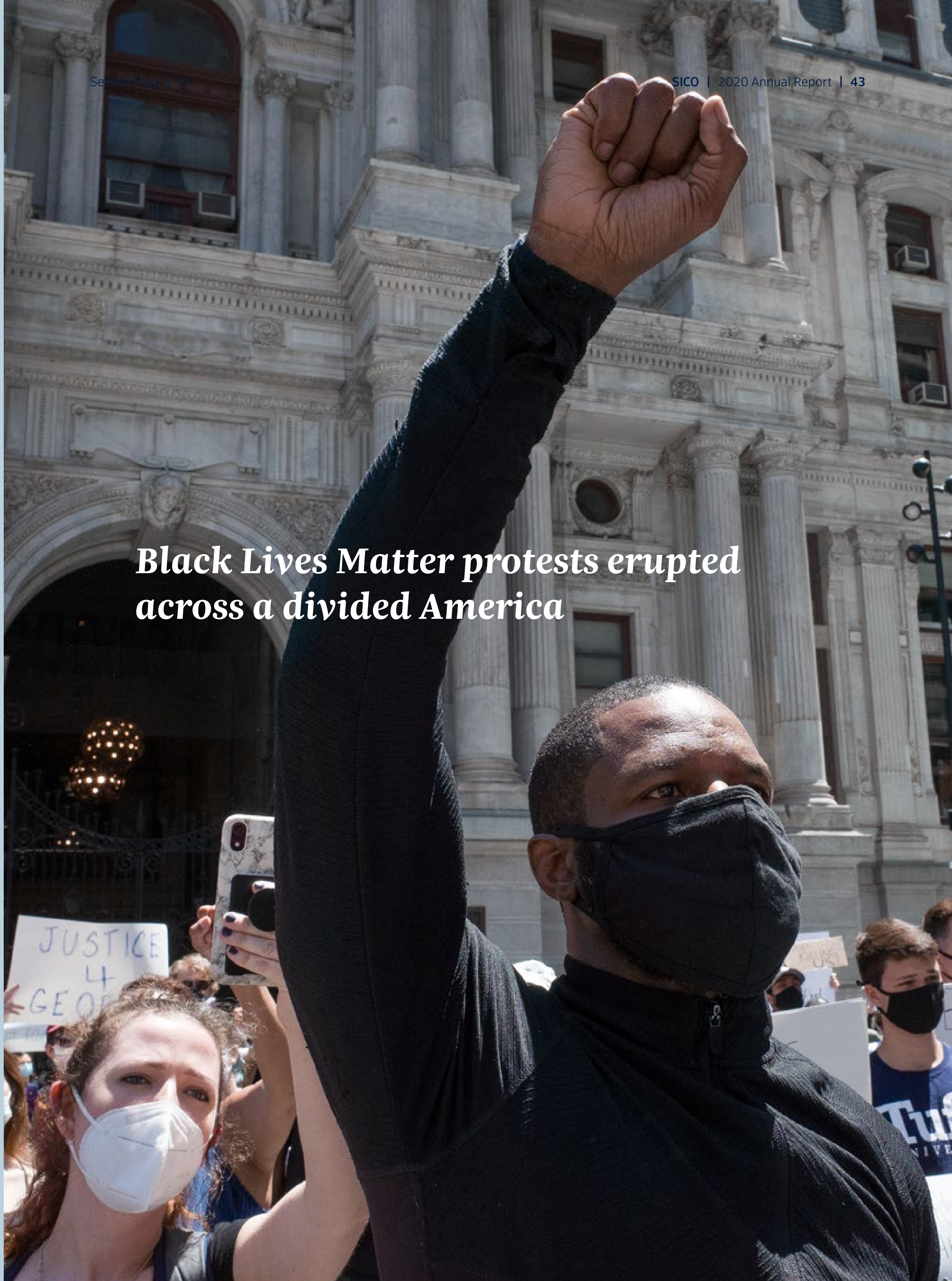
A Region

HIT HARD

Oil producing countries in the GCC were hit particularly hard as COVID-19 restrictions impacted non-oil economic sectors, and lower oil prices and crude output cuts negatively impacted regional economies. As a result, a record amount of debt was issued and the drive for economic diversification gained momentum

2020 OPERATIONAL REVIEW

SICO has proven that it is a **resilient** organization with a **diversified** business model offering a broad bouquet of financial services to an expansive group of clients in multiple geographies. Our resilience is a factor of this **diversity**, **the excellence of our team, and the fact that we were a digitally enabled institution** that was able to pivot successfully to a fully automated virtual work environment as soon as it became necessary. We took care of our people, communicated well with our clients, put health and safety first, and still managed to come out on top.



Black Lives Matter protests erupted across a divided America

Asset Management

SICO Asset Management displayed remarkable resilience in the face of unprecedented market disruptions in 2020, maintaining a highly proactive operational approach and a prudent risk management posture that has safeguarded the division's financial performance.

Overview

SICO Asset Management is a leading boutique asset manager focused on GCC and MENA mandates. Backed by a team of highly experienced industry professionals, the division consistently outperforms regional markets by placing innovation and diversity at the core of its investment strategy. Serving a wide and expanding base of institutional investors, sovereign wealth funds, family offices and private banks, SICO Asset Management caters to variant risk profiles and investment objectives.

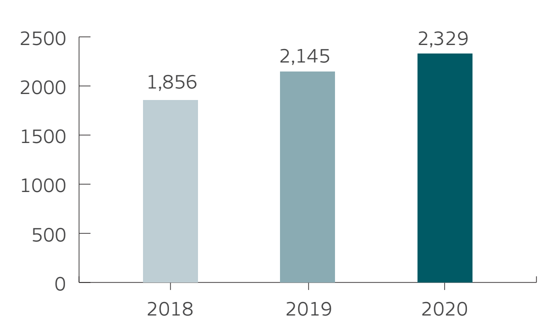
The division's investment methodology prioritizes healthy risk-adjusted returns, targeting securities with strong fundamental profiles, significant margins of safety, and limited downside risk. SICO Asset Management's mandates cover conventional and Sharia-compliant equities, money market and fixed income securities. Several external funds are also managed on behalf of leading regional financial institutions. SICO's mutual funds and discretionary portfolios consistently outperform their respective benchmarks, maintaining top rankings across a variety of league tables.

Operational Review 2020

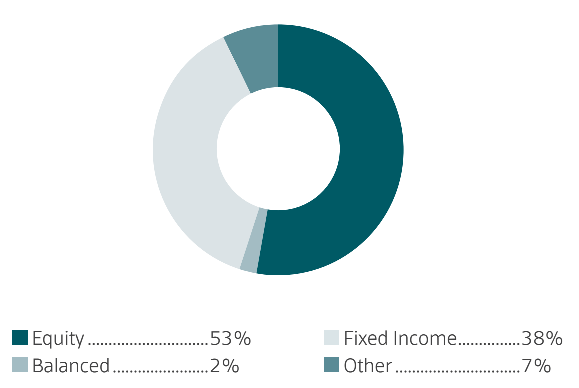
Capital markets witnessed a string of unprecedented developments in 2020. The onset of the COVID-19 crisis in Q1-2020 brought a steep and sudden decline in equity prices, with high uncertainty triggering a dash for cash among investors seeking to settle short-term debts or cover losses. Dysfunction and rising repo rates spread even to safe-haven markets such as that for US Treasuries, which is usually deep and highly liquid. Meanwhile, lockdowns precipitated sharp increases in unemployment in several major markets and a consequent collapse in commodity prices. In the GCC, a major decrease in oil prices was compounded by the heavy weight of government spending in aggregate demand, with bid-offer spreads on a number of sovereigns trading at record highs due to a shortfall in liquidity. At the close of the first half, SICO Asset Management's AUMs were down by nearly 20% coming in at USD 1.7 billion in June 2020, compared to the USD 2.1 billion at year-end 2019, driven by asset price decreases and client redemptions.

Capital markets began a sharp and sustained recovery in the second quarter of 2020, buoyed by massive fiscal stimulus packages and unprecedented central bank interventions that have driven interest rates to historic lows. Decisive government intervention provided a significant boost in liquidity, with confidence in a post-COVID economic recovery in 2021 spurring a strong and speedy rebound in global markets and a decline in repo rates that has extended to emerging markets, including those in the GCC and MENA regions. By Q3-2020, SICO Asset Management had largely reversed the decline in AUMs sustained during the first half, successfully leveraging its diversified product offering to capture market upside and secure a significant influx of new institutional subscriptions. Despite

AUM Growth
USD mn



AUM by Asset Class



“

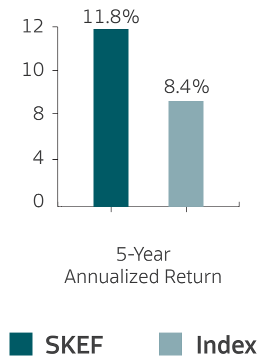
SICO Asset Management targets securities with strong fundamental profiles, significant margins of safety, and limited downside risk

USD/BN
1.26
Equity AUM

USD/MN
893
Fixed Income AUM

USD/BN
2.33
Total AUM

SICO Kingdom Equity Fund



Khaleej Equity Fund

significant restrictions on travel during the period, the influx was sourced largely from new and existing international clients. By year-end 2020, SICO Asset Management had enjoyed one of its most successful years on record in attracting additional fixed-income mandates, while the division's repo book had attained a record size of USD 199 million. As of 31 December 2020, SICO Asset Management held total AUMs of USD 2.3 billion, up by 9% from the USD 2.1 billion booked one year previously.

Equities

SICO's Equity Asset Management team manages three equity funds, including its top-performing SICO Kingdom Equity Fund (SKEF) and Khaleej Equity Fund (KEF), together with several discretionary portfolio management accounts. SICO's equity AUMs were significantly affected by COVID-related volatility during Q1-2020, falling to a trough of c. USD 972 million from the level of USD 1.5 billion booked at the close of FY2019. This quarterly decline was driven equally by market-driven price decreases and client redemptions. SICO's equity AUMs began a sharp recovery in Q2-2020 as global equity markets rebounded and the division secured several new subscriptions. By year-end 2020, SICO's equity AUMs had largely recovered to USD 1.26 billion, with SICO's equity funds once again outperforming benchmarks to leave SICO in the top decile of regional fund managers for the year.

Strong performance in the face of unprecedented market volatility has reinforced clients' confidence in the equity division's ability to produce healthy and sustainable investment returns.

SICO's flagship Khaleej Equity Fund, which invests in equities listed on stock markets in the GCC and Egypt, ended 2020 with a return of 5.8%, maintaining its position as one of the top performing funds in the MENA region. Meanwhile, SICO's Kingdom Equity Fund, which offers investors market-beating exposure to Saudi equities, delivered positive returns of 7% in 2020, significantly outperforming the broader market.

SICO Asset Management continues to successfully manage external funds on behalf of Riyad Bank and Al Ahli Bank of Kuwait, a 16-year long relationship that has seen SICO generate solid returns for both funds.

Fixed Income

Fixed Income was subject to the same dislocations witnessed in equity markets at the start of 2020. The rush to liquidity caused by the COVID-19 crisis precipitated an across-the-board increase in bond yields, affecting even safe-haven assets such as US Treasuries and bringing on a sharp rise in repo rates. MENA bond markets were not immune to instability during the period, with their recent inclusion in the JP Morgan EM Bond index amplifying the transmission of volatility from abroad. Investor uncertainty was further compounded by a

Travel and hospitality suffer a HUGE BLOW

2020 was the year that people stopped going on vacation. Airlines, the cruise ship industry, hotels, and restaurants were devastated by the severe decline in both leisure and business travel

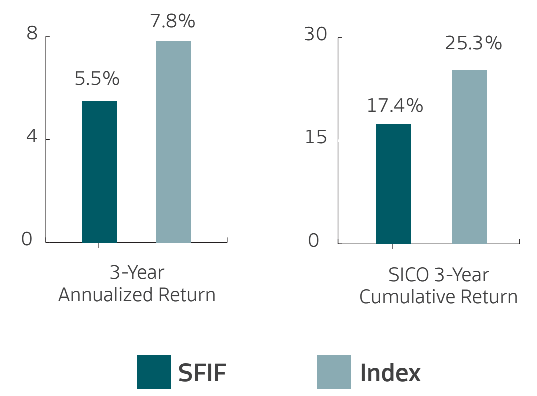
sharp decline in oil prices, with which GCC markets are tightly correlated and on which most regional sovereigns are dependent for budget finance. At the peak of the crisis, z-spreads on sovereign bonds, such as those issued by Bahrain and Oman, had reached record highs.

Debt capital markets began a sharp recovery in Q2-2020 as central banks injected massive amounts of liquidity into financial systems, heavily cutting interest rates and intervening directly in corporate and other markets for private debt. Helped by improving global conditions and by strong fundamentals, GCC debt capital markets saw a remarkable rebound following Q1-2020, with sovereign and quasi-sovereign issuers, corporates, and financial institutions seeking to leverage the low-interest-rate environment to reinforce their balance sheets — a task made more urgent by the decline in oil prices. On the other hand, investors were eager to deepen their exposure to MENA fixed income, attracted by credit ratings higher than those offered by most emerging market bonds and by yields higher than those to be found in more developed markets such as the US and Europe. GCC sovereigns and corporates issued a record total of USD 142.3 billion during 2020, up from USD 140.8 billion in 2019.

Despite historic volatility in 2020, SICO's fixed income asset management business enjoyed a record-breaking year in multiple respects. The division ended 2020 with USD 893 million in AUMs, up by 109% from the level booked at year-end 2019.

The division's flagship SICO Fixed Income Fund generated returns of 4.2% for 2020, driven by the recovery in MENA fixed income activity during the year. Additionally, several of SICO's discretionary portfolios, outperformed benchmark indices in 2020.

SICO Fixed Income Fund Performance



2021 Outlook

SICO's Asset Management division is approaching 2021 in a spirit of cautious optimism, fully committed to the prudent risk management approach that has served it well over previous years. Although the US Federal Reserve's new policy displays a bias to keeping rates on hold well after economic and inflation growth set in, global economic recovery may be sluggish and uneven. Global economic activity will not fully normalize until a vaccine for COVID-19 is produced at scale and widely distributed, compounding the uncertainty. Performance in GCC markets is expected to remain relatively subdued during 2021. The IMF forecasts no significant recovery in oil prices in 2021, predicting a price range of USD 40 to USD 50, while the World Bank forecasts an average oil price of USD 44, significantly below the level required to balance certain GCC sovereign budgets.

Although the correlation between oil prices and GCC bonds is limited, investor sentiment toward broader indices of economic performance may compromise the fixed income environment, with

the IMF forecasting that the GCC economies will experience a real GDP contraction of 6% for 2020. On the other hand, as yields on US Treasures fall closer to zero and the negative correlation between equities and fixed income continues to reverse, international investors could seek to deepen their exposure to emerging market debt and equity, of which GCC issuers have come to comprise an increasingly larger portion. Notwithstanding the dislocations of the pandemic and the rapid decline in oil prices, GCC issuers now account for more than 20% of sovereign and corporate emerging market bond indices.

Based on earnings growth and dividend yields, SICO Asset Management anticipates flat to low-single-digit returns of around 3% on GCC and MENA equities in 2021. On the fixed income front, SICO Asset Management sees less room for significant spread compression and therefore performances will mainly be driven by carry trades. Nevertheless, MENA fixed income is expected to be a prime beneficiary of a return to 'normal' in 2021. A combination of low interest rates, additional stimulus, the arrival of a vaccine, progressive economic US policies as well as reasonable EM valuations should bode well for MENA fixed income assets going forward. Market shifts towards lower volatility and further risk premia reduction are likely to extend, while pro-cyclical EM assets are likely to get a boost. The entirety of the MENA region is further expected to benefit from an inflow of EM ETF trackers as developed market liquidity continues to find its way into emerging markets.

2020 Asset Management Highlights

- AUMs during the year increased by 9% from FY2019 levels, closing the year on a high note, despite a drop during the first half and the onset of the COVID-19 crisis.
- The recovery was led by an overall rebound in markets, following increased subscriptions and government stimulus.
- SICO is in final stages of negotiation to acquire Muscat Capital, a full-service investment banking firm based in Riyadh, Saudi Arabia.
- Significant upgrades were made to SICO Asset Management's operating infrastructure, with a successful transition to Bloomberg's Asset and Investment Manager (AIM) system.

> SICO Asset Management **is cautiously optimistic about the upcoming year and will leverage its successful prudent risk management approach**

SICO Fund Performance 2020

Fund Name	Launch Date	Principal Investment Focus	Benchmark	Peer Group	Return (January - December 2020)	Annualized Return (5 Years)
Khaleej Equity Fund	March 2004	Equity securities listed on stock markets of GCC countries	S&P GCC Index	GCC	5.8% vs. benchmark -1.7%	10.9% vs. benchmark 7.7%
SICO Kingdom Equity Fund	February 2011	Equity securities listed in Saudi Arabia	Tadawul	Equity Saudi	7.0% vs. benchmark 6.4%	11.8% vs. benchmark 8.4%
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	5.5% vs. benchmark 7.8%	29.1% vs. benchmark 37.5%

POLITICS TAKE CENTER STAGE

From the dramatic end of the Trump administration, to the election of the first female vice president in the United States, Brexit, a new era for Middle East Peace, and race riots that erupted across the globe, politics were in the spotlight as the world struggled to contain a raging pandemic.

Brokerage

With the launch of SICO LIVE Global, SICO Securities Brokerage provides access to over 30 markets and 125 exchanges across developed and emerging markets backed by superior sell-side research capabilities, particularly within the GCC, that have secured the bank's position as the leading brokerage house in Bahrain for more than two decades.

Overview

SICO Securities Brokerage has cemented its position as Bahrain's leading broker for 22 consecutive years and is highly-regarded as a pioneer on the Bahrain Bourse giving access to equities and fixed income securities to a diverse range of institutional and individual clients across the region.

Since 2012, SICO has operated a second brokerage arm and its first regional presence, based in Abu Dhabi, through its wholly owned subsidiary SICO Financial Brokerage, offering equities brokerage services with access to multiple UAE markets including the Dubai Financial Market, Abu Dhabi Stock Exchange, and NASDAQ Dubai.

SICO's Brokerage division provides a comprehensive product offering that includes direct securities, such as equities, bonds, and sukuks, as well as single-product brokerage across the GCC and the wider MENA region, margin trading facilities for equities, and repurchase agreements (repos) for fixed income. SICO's Fixed Income Trading Desk, active since 2011, has also established itself as a market leader in the industry with a diversified service offering that goes beyond regional markets backed by a superior research team.

2020 Operational Review

Despite a challenging external environment, SICO Brokerage was able to deliver solid results and maintain its first-place position on the Bahrain Bourse, increasing its market share of the traded value to 56% in 2020 from 41.25% in 2019.

The team traded a total of 1.318 billion shares through 18,827 transactions, amounting to 49.9% of total market executions on the Bahrain Bourse.

Volatility during the year worked in Brokerage's favor taking its numbers to some of its highest levels. Brokerage's resilience particularly in the third quarter is a testament to its ability to pivot strategically and navigate volatility whilst maintaining its leading market position in the region. As markets rallied in the third quarter, SICO managed to capture new business with market share in Bahrain peaking at 60%, a new milestone for SICO Brokerage. Saudi Arabia's inclusion in the MSCI Emerging Markets Index also helped to drive up volumes with SICO brokerage seeing their volumes in KSA increase by 50% in October 2020.

SICO remained the broker of choice for institutional clients as well as individuals who rely on SICO's second-to-none capabilities and service offering in both the fixed income and equities market. SICO was able to differentiate itself and gain new market share by giving clients access to lucrative trading opportunities during the very volatile period between March-April 2020 supported by the Bank's sell-side Research products particularly the Top 20 GCC Stock Picks that have performed remarkably well. Clients, in particular, have been reacting positively to the recommendations translating to increased volumes for brokerage.

The Brokerage division continued to enhance functionality on its regional online trading platform, SICO LIVE, which saw more active clients in 2020 than in any other year with an increase of over 600% in value of client trades. The platform provided an essential digital channel for SICO's clients to access key stock markets in the GCC and Egypt during a year where countries around the world

> “ As markets rallied in the third quarter, **SICO Brokerage captured new business** and set a new record with market share in Bahrain peaking at 60%

250%

Increase in total no. of orders

SICO LIVE

639%

Increase in total orders value (BD)

SICO LIVE

2020 Bahrain Bourse Performance	Amount	Market Share	Ranking
Total value of shares traded	BD 240,352,096	56.70 %	1
Total volume of shares traded	1,317,791,326	54.71 %	1
Total number of transactions	18,827	49.90 %	1

were witnessing lockdowns due to COVID-19. SICO LIVE empowers clients to trade in real time and access SICO's unrivalled research products on-the-go from any digital mobile device.

SICO Financial Brokerage

SICO Financial Brokerage (SFB), SICO's Abu Dhabi based subsidiary, offers equity trading for retail and institutional clients on the Dubai Financial Market (DFM), Abu Dhabi Stock Exchange (ADX), and Nasdaq Dubai in addition to derivatives trading on Nasdaq Dubai and the DFM.

In 2020, SFB's traded value continued to grow, increasing by 5% year-on-year. Interest revenue from margin activity also increased to AED 3.82 million in 2020, compared to AED 939,000 in 2019. All in all, total revenue for the year of AED 8.22 million compared to AED 5.73 million in 2019, which was the highest ever achieved by SFB since inception. SFB also witnessed an increase in retail margin activity and steady growth in institutional business.

Global Markets

2020 was a turbulent year for many markets, fixed income included. Benchmark rates dropped significantly as central banks scrambled to support their markets with various easing programs outmatching similar programs from the 2008 financial crisis. In total, G20 countries injected liquidity amounting to over 7% of their cumulative GDP over the year.

Regional fixed income benefited significantly from this tightening despite credit premiums increasing for high yield regional names. After a drop of 13.8% in March, the Bloomberg Barclays GCC Credit and High Yield market index ended the year up 8.7%.

SICO's Fixed Income Trading Desk has established itself as a leading player in fixed income securities across the region, successfully competing with regional blue-chip banks and brokers to provide some of the most efficient trading facilities, competitive pricing, and coverage in the market. SICO offers clients broad coverage of domestic, regional, and international fixed income markets.

In 2020, overall fixed income trading volumes reached USD 1.40 billion, witnessing a 6% y-o-y increase compared to USD 1.32 billion in 2019. Additionally, domestic trading volumes ended the year at nearly USD 320 million down from USD 548 million in 2019 on lower short-term CBB rates.

Global Markets is SICO's newest division set up to provide access to international stocks, bonds, ETFs, options, and other liquid tradeable asset classes across more than 30 countries including the US, UK and Europe, and covering over 130 exchanges globally.

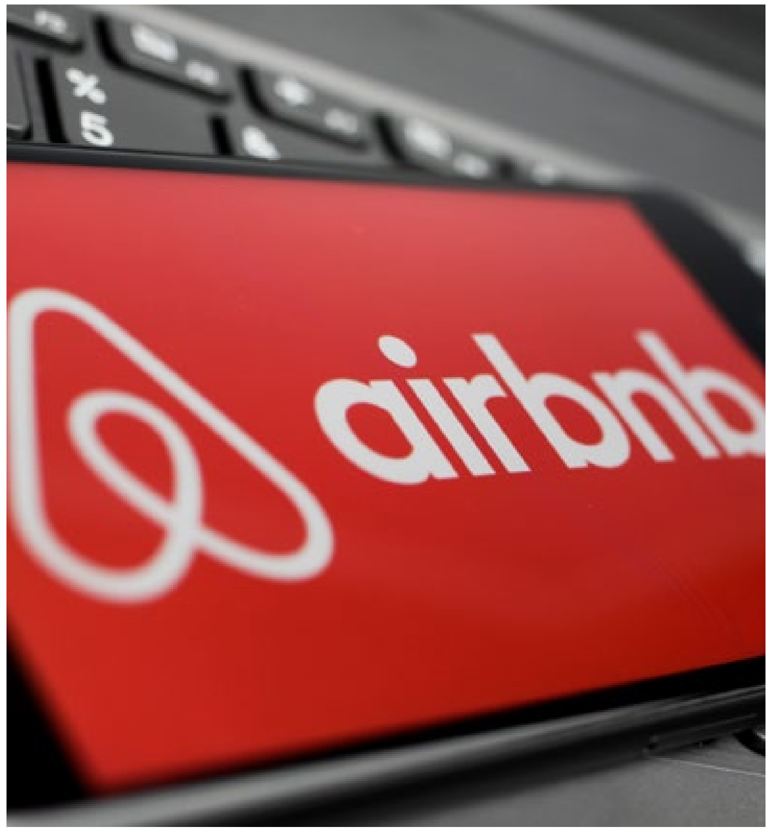
The Global Markets division successfully completed the soft launch of its international trading platform, SICO LIVE Global, which allows clients to trade and invest in a diverse array of asset classes across international markets directly. With a multi-asset class and multi-market offering, SICO has one of the broadest and most diversified offerings of any investment bank in the region.

2021 Outlook

In the coming year, investors will continue to witness challenges, with market valuations remaining high and many investors potentially abstaining from active investments and institutional investors diversifying and seeking more passive,

Three of the biggest tech IPOs took place in 2020: Airbnb, DoorDash, and Snowflake

It was a great year for tech. Investors rushed to buy tech stocks, driving up their value. The three IPOs each raised over USD 3 billion and have market caps between USD 55 billion and USD 100 billion. Tech giants Microsoft, Apple, Amazon, Google owned Alphabet, and Facebook are now worth more than USD 7.5 trillion combined.



cost-effective investments. Meanwhile, a lack of liquidity across the region will also see pension funds, sovereign funds, as well as family offices decrease their investments across the region.

However, with increasing interest across the region from retail interest, owing in large to the adoption of digital investment platforms, and regional credit premiums returning to early 2020 levels for investment-grade names, we expect to see increased search for higher-yield and growth asset classes. Accordingly, our Global Markets division will seek to diversify its investment offerings across a number of international markets, including international equities and expansion into new asset classes.

Following the success of the soft launch of SICO LIVE Global, the team will see the service roll out in full in early 2021, increasing investor access to a broader pool of investments across multiple geographies and asset classes, as well as provide a base for future product offerings in the international market space.

2020 Brokerage Key Highlights

- Achieved strong results despite the impacts of COVID
- Developed capability to trade multiple asset classes across several geographies
- Continued to expand market share with institutional and retail investors in both Bahrain and the UAE
- Launched a global markets brokerage platform, SICO LIVE Global, and enhanced its regional platform, SICO LIVE

Cancelled events including theater, concerts, the summer Olympics, and Expo 2020 translated into billions in lost revenue

Investment Banking

Despite delays stemming from the pandemic, SICO Investment Banking remained the advisor of choice for equity and debt capital markets transactions and high-profile listings and M&A deals in the Kingdom of Bahrain in 2020

Overview

SICO Investment Banking is a market leader in the Kingdom of Bahrain, backed by a team of highly experienced professionals delivering a comprehensive suite of tailored financial services. For over two decades, SICO Investment Banking has been the trusted partner of regional corporations and key public sector clients due to its unmatched on-the-ground knowledge of the Bahraini market and investment landscape.

Having executed deals across a wide spectrum of sectors, including construction, tourism, real estate, telecoms, banking, insurance, and consumer finance, SICO Investment Banking is the Bahraini market's go-to house for equity and debt capital market transactions, IPOs, M&A deals, and advisory services. From arranging primary and secondary issuances to deal structuring, valuations, and corporate and family business advisory services, SICO Investment Banking offers unparalleled insights, textbook execution, and a flexible platform that provides innovative and fit-for-purpose solutions.

2020 Operational Review

Despite a volatile year for global equity and debt capital markets, SICO Investment Banking handily maintained its position as the Bahraini market's preferred partner on landmark transactions. In recent years, SICO has found itself at the forefront of a wave of dynamic M&A activity in the Bahrain and GCC banking sectors. In January 2020, the Investment Banking division closed its mandate as issue execution adviser, receiving agent, and allotment agent on the acquisition of Bahrain Islamic Bank (BISB) by National Bank of Bahrain (NBB). The transaction, one of Bahrain's largest to date, involved two of the Kingdom's leading financial institutions and concluded with NBB acquiring a controlling 78.81% stake in BISB, leaving the latter with a market capitalization of approximately BD 124 million.

In February 2020, SICO Investment Banking was appointed by Kuwait Finance House (KFH) as Bahrain receiving agent, Bahrain execution adviser, and cross-listing adviser in KFH's offer to acquire Ahli United Bank (AUB). The cross-border listing marks the division's first-ever cross-listing of a prominent GCC Islamic bank on the Bahrain Bourse and promises to create a USD 104 billion regional banking powerhouse that would be the world's largest Islamic bank by asset value. As the receiving agent and execution adviser, SICO will manage the process of AUB shareholders participating in the offer, including the announcement of satisfied conditionality thresholds, advise KFH on the various processes required for successful closure, while also settling payment and share issuance by KFH. The Bank's selection by KFH is a clear vote of confidence in SICO's proven execution capability, with the transaction involving simultaneous execution in Bahrain and Kuwait, as well as a 100% share exchange structure and substantial offer conditions, requiring significant synchronization with numerous stakeholders.

KFH obtained permission from the Central Bank of Bahrain (CBB) in April 2020 to postpone the acquisition due to the COVID-19 pandemic and is looking to kickstart the process again once market conditions are favorable in 2021.

In March 2020, SICO exited its role as sub-investment manager on the Eskan Bank Realty Income Trust (REIT), Bahrain's first public REIT, which SICO structured and took public in 2016, marking the end of a three-year involvement. SICO continues to support the REIT with its ongoing investment in the trust.

SICO's position as the go-to investment bank for global capital market players seeking to deepen their Bahraini footprint was once again on display in 2020. The year saw SICO continue its appointment as Bahrain placement agent by one of the world's largest asset management firms for the launch of one of their new funds, as it seeks to grow its exposure to the Kingdom's equity capital market.

> "SICO maintained its position as the **go-to investment bank for global capital market** players seeking to deepen their Bahraini footprint

2020 Investment Banking Key Highlights

- Completed mandate as issue execution advisor, receiving agent, and allotment agent in National Bank of Bahrain acquisition of Bahrain Islamic Bank
- Mandated as Bahrain receiving agent, Bahrain execution adviser, and cross-listing adviser in Kuwait Finance House's acquisition of Ahli United Bank, a landmark cross-border transaction
- Appointed as Bahrain placement agent on transaction by one of the globe's leading private equity firms
- Appointed by Mumtalakat Holding Company as financial advisor for potential merger in Bahraini poultry sector

Additionally, the Investment Banking team's expertise in providing discrete private advisory services remained in high demand during the year. In 2020, SICO was approached by an entity seeking alternative sources of capital following its involvement in global debt markets over recent years. SICO Investment Banking has conducted the requisite studies and proposed a number of equity transactions utilizing innovative financing structures that conform to the entity's financial objectives. SICO's advisory services were also tapped by Mumtalakat Holding Company as financial advisor to examine a potential merger between General Poultry Company, a leading supplier of locally produced fresh table eggs in Bahrain, wholly owned by Mumtalakat, and Delmon Poultry Company, a leading provider of fresh and frozen poultry products listed on the Bahrain Bourse.

2021 Outlook

Pending a global economic recovery and commercial normalization, SICO Investment Banking expects an uptick in equity and debt capital market activity during 2021. The division will work to capture any potential growth in M&A and capital market transactions during the year, leveraging a long track record of successful partnerships with market participants.

The division is continuously studying opportunities to profitably expand its operations to new locations across the region and broaden its base of clients for its comprehensive suite of investment banking and advisory services. To this end, SICO has partnered with an Omani financial institution in a bid to provide structuring, advisory, placement, and cross-listing services on a REIT vehicle that is in the works in the Sultanate.

In the Bahraini market, SICO Investment Banking will remain committed to increasing awareness of Bahraini capital markets and encourage dynamic Bahraini firms to pursue public listing in partnership with SICO as a sponsor and financial adviser.

Investors ended the year on an high note as the world looked forward to economic recovery in the wake of vaccine rollout

Pharmaceutical companies worldwide sprinted to create a COVID vaccine with Pfizer, Moderna, Astra Zeneca, and China's Sinopharm announcing breakthroughs and regulatory approvals to begin global vaccine rollout at the end of 2020

Treasury

SICO's Treasury delivered a solid performance in 2020 achieving BD 1.6 million despite the double shock of COVID-19 and sharp cuts in official interest rates to counter the impact of the virus. SICO continued to maintain a sound and liquid balance sheet in 2020, with a capital adequacy ratio exceeding 50%.

Overview

SICO's Treasury division manages the Bank's liquidity while employing a client-focused approach to provide value-added services for clients across the GCC. In an effort to provide attractive sources of funding to pursue market opportunities, the Treasury division offers services including short-term money market, liquidity and hedging solutions, treasury bills, foreign exchange, collateralized lending through margin facilities for equities, and repos for fixed income. 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.

SICO maintained a sound and liquid balance sheet throughout 2020 despite currency and liquidity challenges, with a capital adequacy ratio of more than 50%, remaining substantially above the CBB's minimum requirement. The impressive results were made possible by utilizing a flexible, client-focused approach that directly addresses client needs through tailor-made solutions.

2020 Operational Review

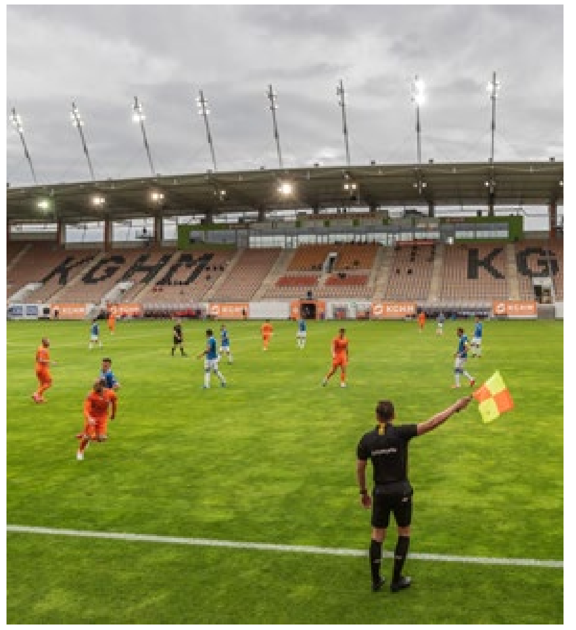
SICO Treasury weathered the storm brought about by COVID-19, which led major central banks across the globe to cut rates down to zero in order to mitigate the negative impact on their economies. Oil prices also declined as a result of reduced global demand creating as slump across the region.

Despite the unforeseen challenges, Treasury managed to deliver a solid performance with total income of BD 1.6 million and net interest income of BD 693,000 and BD 925,000 in FX revenues during the year.

2020 Treasury Highlights

- Proactively provided liquidity solutions for all lines of business within SICO
- Expanded relationships with counterparties throughout the region
- Pursued a more client-centric approach to directly address the needs of clients

2020 was a sad year for all types of sports from the cancellation of major sporting events across the globe to football matches being played in empty stadiums and arenas



Proprietary Investments

Overview

SICO's Proprietary Investments division manages the Bank's proprietary capital in accordance with clearly defined investment objectives and processes. The mandate also includes providing seed capital to support initiatives such as new product launches and investment ideas taken by SICO's various business units. With capital preservation in mind, SICO's prop book aims to generate sustainable returns by utilizing a well-diversified asset allocation strategy while ensuring that a major component of the investment return is driven by income-generating assets providing visibility and stable performance.

2020 Operational Review

Despite an unprecedented year that witnessed global market volatility on the back of the COVID-19 pandemic, SICO's proprietary book still managed to contribute positively to SICO's bottom line due to the conservative approach utilized by the investment team from the onset of 2020. Positive performance during the year was primarily driven by tactical asset allocation amid market volatility and economic uncertainty. In accordance with IFRS 9 standards, SICO's investment portfolio comprises three components: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortized cost (AC).

Under the FVTPL portfolio, SICO invests across asset classes (equity, fixed income, and alternative assets), both directly as well as through third-party managers, following multiple strategies that align the portfolio with its risk-return and diversification objectives.

During 2020, SICO increased the hedging of exposures using derivatives, mainly in global markets to limit the downside risks during volatile periods. Continued use of hedging strategies strategically positioned the team to hold on to their investments across equity and debt markets with tactical movements and reap the rewards of the upside during the recovery.

The FVOCI portfolio, which mainly includes regional and debt securities, was further diversified with the inclusion of REITs, and continued to perform as per the mandate. Given economic uncertainty and challenging operating conditions, visibility on dividend payouts by companies has been reduced, while yields across debt securities have tightened. Nevertheless, the portfolio continued to generate healthy income helping to achieve more stable and sustainable returns.

SICO's high-yielding amortized cost portfolio is mainly composed of exposure to the local sovereign bond market.

The department's conservative investment strategy with active tactical allocation enabled the Bank to generate positive returns during this challenging and unprecedented year. Additionally, this approach allowed the Bank to hold on to its investments and benefit from the upside that came on the back of recovering markets. The proprietary book generated a net investment income of BD 2.3 million in 2020 compared to BD 4.32 million in 2019.

2021 Outlook

Asset classes have continued to perform well, driven by liquidity and low interest rates, however, this environment has led to overvaluation concerns. Accordingly, the department will seek to maintain a balanced investment approach for its portfolio to benefit from the ongoing rally, given the continuing low-rate environment. Nevertheless, the Bank will remain cautious of global and regional market developments and adjust its strategy accordingly to limit downside risks from potential market corrections in order to continue to generate sustainable returns across its diverse portfolios.

"

SICO's conservative investment strategy with **active tactical allocation** enabled the Bank to generate **positive returns**

2020 Highlights

- Resilient performance during unprecedented times
- Strategic asset allocation with tactical moves results in another year of positive performance
- Hedging strategies limited downside risk during sharp correction in March
- Strategic initiatives led to acquisition of a fully operational entity in Saudi Arabia

Market Making

Overview

As the pioneer market maker for multiple large-scale listed entities on the Bahrain Bourse, SICO creates liquidity that lays a path for investor confidence in the market. With over 26 years of successful market making experience, the Bank actively participates in bid and offer sides, adds to market depth, narrows down price spreads and creates a market for selected stocks, post-IPO listings, matured listings and cross listings and has successfully maintained its role as the leading market maker in Bahrain.

SICO established and co-seeded the BD 39.5 million Bahrain Liquidity Fund (BLF) in 2016 to improve liquidity and market depth. The fund also seeks to create absolute returns to investors around the level of market returns. Since establishment, the fund has successfully recorded positive investment response, and continues to incur positive impact on market volumes, valuation, and performance.

2020 Operational Review

Despite multiple challenges and heightened volatility brought forth by COVID-19, SICO maintained its position as the leading market maker on the Bahrain Bourse. While there were no new mandates received in 2020 due to exceptional market conditions, all active market making mandates in Bahrain received regulatory approvals for renewal for another year. SICO also continued to act as a liquidity provider for the cross-listing of the GFH Financial Group on the Dubai Financial Market (DFM), a mandate that it won in 2019, making it the first non-UAE based entity to be licensed to operate as a liquidity provider in the UAE.

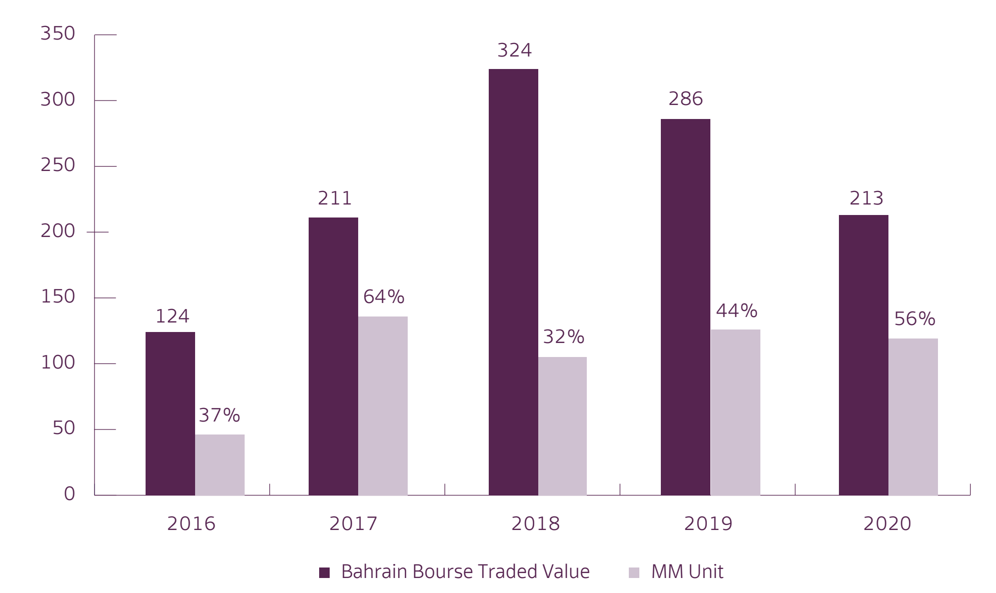
In 2020, a year when overall liquidity dropped significantly in Bahrain Bourse by around 26%, the division continued to be an active participant in the market with the objective of enhancing overall liquidity, which resulting in an increased participation rate amounting to approximately 56% of the total traded value in the Bourse versus 44% in the previous year. This emphasizes our role in enhancing market liquidity as a market maker.

The BLF remained an active participant and liquidity provider and expanded its coverage of the market, with transactions representing 33% of market ADTV on the Bahrain Bourse in 2020, an increase from 31% of market ADTV in 2019. In its bid to enhance market liquidity, the fund has been very active in cross-listed stocks across the Kuwaiti and UAE markets, taking advantage of arbitrage opportunities while enhancing fund performance.

The BLF outperformed the Bahrain All Shares index, declining by just 2.96%, while the index dropped by 7.48% in 2020, marking an outperformance of 4.52%.

> “ Market making remained an **active participant resulting in an increased participation rate of 56% of total traded value**

Total Traded Value on Bahrain Bourse (BD millions)



2021 Outlook

SICO Market Making had set out aggressive targets for 2020 that included capturing new market share in Bahrain and further expansion in the GCC. While plans for such expansion have been deferred, the division still maintains the underlying strengths and market experience that will allow it to grow once markets begin to normalize in 2021 and beyond.

33%

BLF contribution of market ADTV on the Bahrain Bourse in 2020

Research

Overview

SICO Research produces in-depth products that are utilized by a broad spectrum of clients within and beyond the GCC region. The division's team is comprised of eight expert analysts, many of whom are CFA charter holders, all concerned with producing high quality research that covers over 80 companies across 13 key regional sectors. Through its offerings, the department also provides clients with insightful and timely advice that assists in strategic decision-making processes.

2020 Operational Review

SICO Research maintained solid operations in 2020, evident through the publishing of 14 products that include research reports, company analyses, newsletters, and periodicals. Despite challenges caused by increasingly speculative behaviors on account of volatile earnings and shifting business behaviors the division's analysts were able to maintain steady ground through continuous observations, revisions, and careful decision-making throughout the year.

On the research products' front, equity research gained momentum due to equities' favorability as stable investments during turbulent conditions. SICO Research's highly-regarded monthly Top-20 Picks newsletter, which lists the top 20 GCC stocks, achieved returns of 6.9% in 2020 versus the 2.1% return of the S&P GCC total return index. On a cumulative basis the Top-20 product has returned c. 61% compared to 32% return of S&P GCC since the product launch in November 2017.

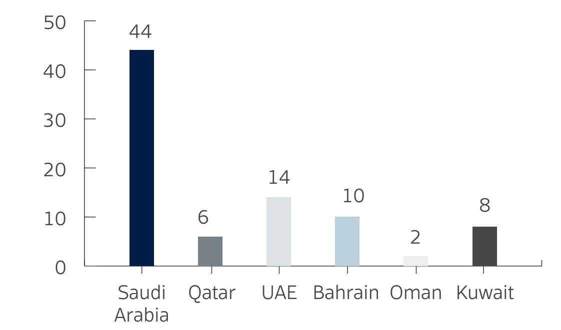
SICO Research also invested in supporting client queries and requests regarding investment fundamentals, value, and market volatility. The division participated in AIM Summit's July 2020 webinar on investment themes and market dynamics in pandemic times, thereby increasing information dissemination through digital platforms. A new distribution platform was also launched as a part of RSRCHX to expand SICO Research's current distribution channels, which include Bloomberg, Reuters, CapitalIQ, and FactSet, and extend the division's reach into new markets.

Further to this, SICO Research launched a well-received Environment, Social, and Governance (ESG) ratings service in 2020, where ESG scores of companies under coverage that have been analyzed for ESG compliance by third-party experts are displayed. This additional parameter presents added value to clients who now seek ESG metrics as a fundamental part of their decision-making process, a strategic approach that is slowly gaining traction across investment communities.

Three new companies were added to the coverage of SICO Research in 2020 under the Consumer and Insurance sectors, where the coverage of the insurance sector was been reintroduced this year. The division successfully hosted analyst and investor conference calls for listed companies across the GCC, adding the Bank of Bahrain and Kuwait (BBK) to this list in 2020.

SICO Research Coverage by Country

Key GCC Countries*



*Total number of companies by country

14

products published by division

3

new companies were added to the coverage of SICO Research

Companies Under Coverage by Sector

16	Industrials and Utilities
9	Telecom
21	Banks and Insurance
6	Real Estate and Construction
9	Consumer
7	Logistics
9	Building Materials
7	Healthcare and Insurance

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 periodically, analyses data from the region's central banks.

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

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

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

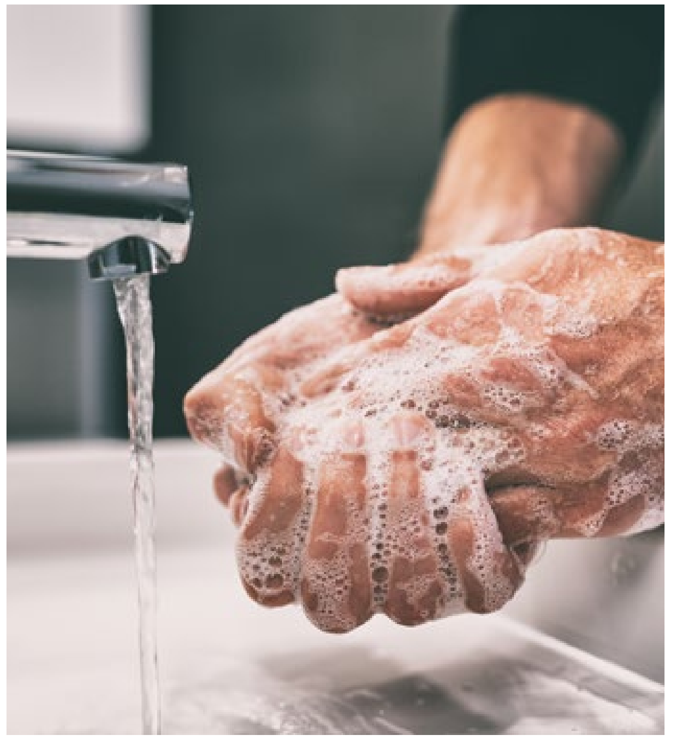
SICO Top 20
Published monthly, provides a list of the top 20 stock picks in the GCC and benchmarks its performance against the broader S&P GCC.

GCC Strategic Outlook Reports
Published periodically, provides SICO's view and outlook on GCC markets.

GCC Equities – Quarterly Results Preview
Published quarterly, provides profit 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.



Living With a New Reality

In 2020, we all learned to cope with new realities like covering our faces in public, social distancing, frequent hand washing, and PCR testing. Keeping our families and communities safe became the priority as we lived through first and second waves of a virus that has thus far affected more than 100 million people worldwide

SICO Funds Services (SFS)

Overview

SICO Funds Services (SFS) is a leading regional fund service provider licensed by the Central Bank of Bahrain, established in 2004 as a wholly owned subsidiary of SICO. SFS provides a fully integrated support service for investment funds, portfolios, sukuk, and various structured financial instruments. With a proven track record spanning nearly two decades, SFS has been supporting its expanding client base with high-quality solutions for administration, custody and registrar services, including settlement of securities transactions, safekeeping of custody assets, corporate actions, valuations, reporting, paying agent and corporate services, among others.

As one of the GCC's most successful and highly regarded fund service providers, the company anchors its success in its client-centric approach and utilization of 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 executive management and Board of Directors, and functions on a strictly arm's-length basis with SICO's Brokerage and Asset Management businesses.

2020 Operational Review

Despite the challenges posed by the COVID-19 pandemic, SFS achieved net profit of BD 372,000 (USD 987,000) in 2020. Total custody, administration and registrar fees recorded BD 708,000 (USD 1.9 million). Assets under custody stood at BD 3 billion (USD 7.9 billion). Income generating assets under custody grew by 33% and non-income generating assets under custody grew by 1%, while assets under administration dropped by 8%.

Performance for the year was impacted by the COVID pandemic leaving growth plans on hold until the market recovers. An important operational achievement for the year however has been the overhaul of SFS' IT system, a move that will streamline post-trade operations, allowing the company to meet its growth objectives and enhance overall services.

SFS has contracted Intellect's Capital Sigma, an asset servicing solution suite, as part of its ongoing efforts to digitize and bolster SFS' custody and fund administration services. The integrated technology platform will be crucial in handling multiple asset classes and meeting evolving market needs.

SFS continued to build its pipeline of clients. Despite challenging market conditions, the company managed to sign two new mandates, including an appointment as the fund administrator for the only listed REIT on the Bahrain Bourse. The company also created new business lines, adding non-regulatory corporate services to its offering.

2021 Outlook

SFS's implementation of the new CORE business system is already underway, with plans to go live during 2021. The system will serve to enhance custody, administration, and registrar services through composite reporting and analytical tools. In addition, SFS will seek to enhance its service offering in the coming year, offering a number of new service lines including acting as an operator for PIUs as well as a range of corporate services, including a dedicated registered office address service.

2020 Highlights

- Launching implementation of new CORE business system
- Assets under custody grew by 7%, with income generating assets under custody growing by 33%
- Signed new mandate to be a service provider for EB REIT, the first listed REIT on the Bahrain Bourse

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SFS provides a **fully integrated support service for investment funds, portfolios, sukuk,** and various structured financial instruments

Support Functions

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SICO introduced **new measures aimed at simultaneously safeguarding the health and safety** of its employees and ensuring business continuity

During 2020, SICO implemented a number of operational changes across the board in order to swiftly adapt to new circumstances brought about by COVID-19 restrictions. Throughout the year, SICO has consistently demonstrated operational resilience, proving to be a dynamic organization as it consistently adapted to new conditions as they arose. In addition, the Bank introduced a number of measures primarily aimed at simultaneously safeguarding the health and safety of its employees and business continuity in order to continue serving its clients.

At the onset of the COVID-19 pandemic, SICO formed an Internal Crisis Management committee, consisting of members from the Audit, IT, Risk, Compliance, and HR teams. The committee was tasked with communicating internally with staff and externally with the SICO Board, clients, and the CBB as well as creating policies in response to health and safety guidelines issued by relevant authorities. The committee was key in facilitating the transition to work from home with clear policies on remote working, allowing up to 95% of staff to work from home at the height of the pandemic. The Bank also commissioned a CBB-approved external Information Security Officer to monitor daily traffic and flag any concerns or unusual activity.

In addition, SICO also introduced a number of digital measures ensuring business continuity and a smooth transition to remote work. The Bank enhanced its VPN capacity and introduced additional security measures to offset any potential risks to remote work. SICO additionally introduced a number of digital tools and applications, including a tool for automating document signatures as well as DocSAFE software for document imaging, storing, and archiving. These tools further supported staff in remotely performing their responsibilities, allowing them to continue to meet client needs smoothly and efficiently.

Operations

SICO’s Operations department helps oversee all transactions processed by the Bank’s business lines from account opening and booking cash for clients through to managing daily transaction reconciliations. The team consists of experts who attend regular training sessions, allowing them to be constantly aware of all financial instruments, CBB regulatory requirements, and customer needs.

Moreover, Operations has been working to improve overall client interface and to help create an active line of communication between the Bank and its clients via applications such as SICO LIVE, which has become an essential means for clients to view their assets on a real-time basis.

Client Relations

SICO’s Client Relations department serves as the direct liaison between the Bank and its clients. A team of dedicated and experienced professionals work together to oversee requests, answer inquiries, and provide guidance to both existing and prospective clients. The objective of the client relations department is to develop a professional relationship with each of the Bank’s clients by promptly addressing their individual needs, queries, and complaints. Another essential role that the department plays is liaising with the Bank’s various business lines to advocate for their clients’ needs and pass along their respective feedback. Client Relations’ scope of activities also includes client onboarding.

During the COVID-19 outbreak, the Client Relations department maintained open lines of communication with the Bank’s clients as well as offering support with the digitalization of a number of processes due to restrictions on physical contact.

SICO also made it easier for new and prospective clients to open an account virtually. Clients also had the option of using SICO LIVE and SICO LIVE Global to manage their accounts and directly execute trades. SICO LIVE and SICO LIVE Global enable both institutional and retail clients to securely access their accounts at their own convenience from their desktop, laptop, or mobile phone.

The biggest challenge faced by the department in 2020 was transitioning clients who were not comfortable or familiar with digital forms of communication. The department helped guide these clients to choose the best possible tool for virtual interaction. In the upcoming period, the Client Relations department is working on facilitating the fully digital on-boarding process, which will allow the clients to self-onboard, while the department will continue work on ensuring compliance.

Information Technology

The year 2020 was crucial for SICO’s IT department as it was tasked with completely transitioning both internal and external clients into a fully virtual work environment.

The IT department’s first key achievement for the year was quickly putting into place an infrastructure that would allow SICO employees to work remotely. The transition to remote working took place in a seamless, accelerated fashion. The sudden shift however required the IT Department to provide additional support to staff to ensure that there were no disruptions that would negatively impact the business in any way.

Simultaneous with the transition to remote work, came the responsibility to enhance SICO’s cyber-security framework and strategy for both SICO and its subsidiaries. IT was able to successfully match server security policies and procedures with the latest marketing practices and CBB’s regulations.

IT also completed the full upgrade of the SICO LIVE platform, which now includes more features in terms of browsing, connecting to markets, and order management with enhanced security. Trading capabilities have also extended to global markets through the launch of SICO LIVE Global.

In addition, the department launched a plan to introduce a fully integrated core system for custody and fund administration subsidiary SFS in October 2020. The new system will allow SFS to streamline its operations and better serve its clients. The department has selected the new system and is in the process of implementing it. The new system is expected to go live in July 2021 and will see SFS almost fully automate its operations as well as improve overall client interface.

The department worked closely with SICO's Asset Management team to implement the Bloomberg Asset and Investment Manager (AIM) system, a move that is in line with SICO's overall cloud strategy that will further the shift to remote operations. The implementation and rollout of AIM took place in record time in the midst of a global pandemic.

IT also spearheaded the document management system initiative, an internal process that helps SICO systematically digitize and archive all documents, files, contracts, and customer data.

In 2021, the IT department will continue to follow up on progress made in 2020. Projects in the pipeline such as the full automation of client self on-boarding including e-KYC integration should be up and running in the first half of the year. The e-KYC system, a collaboration with the Bahraini government, was set to launch in July 2020 but was delayed until the first quarter of 2021. The e-KYC seeks to facilitate the onboarding process as it creates a simplified database where customers are required to submit only their ID number. IT will also fully implement a new management information system (MIS) to provide more visibility for the business with a digitized solution for SICO's key decision-makers to oversee and ensure that all income, profit, and expenses are in line with the Bank's KPIs.

Corporate Communications

In 2020, SICO's Corporate Communications department spearheaded several initiatives in order to increase the Bank's brand equity, improve visibility of SICO's achievements, and initiate new CSR projects.

The Corporate Communications department offered support and further increased visibility for SICO's key transactions throughout the year, including the KFH acquisition of AUB, the NBB acquisition of Bahrain Islamic Bank, and SICO's acquisition of Muscat Capital.

In addition, the department worked to improve SICO's online presence by regularly engaging with the public through a number of social media channels. These channels offer updates on SICO's financial and operational highlights, as well as new milestones and achievements. Corporate Communications also worked on releasing two newsletters during the year, disseminating key updates and highlights on the Bank's performance to its stakeholders. The department was also responsible for managing the Bank's awards program, which saw SICO receive 11 awards in 2020.

The department also successfully initiated a number of CSR initiatives during the year, including donations to charitable organizations across the Kingdom such as the Fina Khair campaign and SCW to provide community relief in the wake of the COVID-19 pandemic. Additionally, the department spearheaded an initiative to plant 1000 trees in Manama's main school district in lieu of annual gift packages offered to clients. This will serve to improve air quality, combat climate action, and contribute to offering a healthy environment for the local community.

PROVIDING SUPPORT

to working mothers was a priority for SICO in 2020

SICO strives to be an employer of choice in Bahrain and works to ensure that all policies and guidelines instated by the Bank are aligned with global best practices. The Bank implemented a policy allowing employees with chronic conditions, pregnant employees, and mothers with young children to work remotely for the duration of the pandemic

Human Resources

SICO's Human Resources (HR) department was primarily charged with implementing measures in the face of the COVID-19 pandemic that would ensure the health and safety of all employees, while mitigating any potential risks and ensuring business continuity.

The department implemented a rotation system at the onset of the pandemic for remote and in-office work, ensuring that employee presence in SICO's offices, remained well below 50% capacity at any given time. In addition, working hours were reduced from eight to six hours daily to afford employees additional time to support their children through homeschooling as well as care for their loved ones. The department also ensured that employees working from SICO's offices abided by all required social distancing guidelines and provided them with sanitizers, gloves, and masks. The HR department also oversaw routine sanitization of the offices to ensure employee health and safety.

SICO's HR department also implemented a policy allowing employees with chronic conditions, pregnant employees, and mothers with young children to work remotely for the duration of the pandemic.

In addition, the department was in charge of routinely communicating guidelines and instructions with all employees, as well as setting up a 24/7 communication line through an array of channels to offer employees guidance and support in cases of emergency.

During 2020, two candidates participated in SICO's executive training program, while three female students joined the Bank for a summer internship. In addition, three of SICO's 2019 executive trainee program participants joined the Bank as permanent employees this year.

SICO strives to be an employer of choice in Bahrain and works to ensure that all policies and guidelines instated by the Bank are aligned with global best practices. The HR department constantly works to update its guidelines in order to afford SICO staff a range of benefits and ensure employee satisfaction. SICO also prides itself on the diversity of its team, which comprises several different nationalities, with a significant number of Bahraini nationals. In addition, 38% of the SICO team is comprised of women, many of whom hold leadership positions within the Bank.

Headcount and Bahrainization

	Headcount	Bahrainization Percentage
SICO	88*	70.5%
SFS	11	91%
SICO Financial Brokerage (UAE)	11	9%

*Figure includes two executive trainees

Employee Gender Breakdown

	Male	Female	Total
SICO	54	34	88
SFS	7	4	11
SICO Financial Brokerage (UAE)	10	1	11

Legal

SICO's in-house legal department, established in 2018, is headed by a specialized and experienced legal counsel with years of expertise in advising financial institutions in both Europe and Asia. The division head additionally acts as Board Secretary.

The department supports SICO and its subsidiaries across their operations by:

- Identifying strategic business opportunities arising from changes to the domestic and international legal framework.
- Assisting business units in the structuring, development, and delivery of products and services by incorporating sound and innovative legal solutions.
- Administering SICO's legal affairs through availing internal professional, timely, and useful legal advice and services as well as arranging and managing the services of outside counsel as needed.
- Creating and implementing necessary policies, practices, and procedures to minimize SICO's liability exposure.
- Administering SICO's legal affairs in the most cost-efficient manner, thereby contributing to the bank-wide team effort to maximize returns for shareholders.

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More than 70% of SICO's employees are Bahraini nationals, **38% of the team are women**, many of whom hold leadership positions in the Bank

Control Functions

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SICO has put in place **comprehensive policies and procedures to ensure full compliance** with all relevant rules and regulations by regulatory authorities

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 by the Central Bank of Bahrain (CBB), the Bahrain Bourse (BHB), 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 2020, SICO remained compliant with the latest regulatory requirements by the CBB and BHB. 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 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. The Bank has established a risk management function that is independent of its risk-taking (business units) functions. During 2020, 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 along with the governance structure 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 2020, 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. As outlined by the approved audit plan, key operational, business, and management processes and divisions, including those of subsidiaries were audited and reviewed.

Internal audit was part of the committee set up for planning for the COVID-19 impact on SICO's work and operations and was also part of the Transaction Monitoring Committee (TMC) that was set up to review various risks and controls and plan for additional monitoring due to work from home arrangements for major departments as a result of COVID-19. As part of the enhanced monitoring plan that was put in place by the TMC, Internal Audit staff was involved in carrying out certain monitoring activities for a period of time. Internal Audit also carried out spot check reviews and other consulting assignments on an ad-hoc basis covering various areas based on management's request, with the results being presented to senior management or the Audit committee.

The department was also focused on implementation of the internal audit management software during the year and also worked on updating the framework it uses for departmental/unit audit rating. Throughout the year, the department also assisted management with inputs and reviews at various stages for a number of the Bank's additional projects including key system software implementation projects.

Financial Control

The Financial Control department, which comprises the Accounting and Reporting Unit (ARU) and the Internal Controls & Value-Added Tax (VAT) Unit (ICU & VAT), is responsible for all aspects of accounting, VAT, and internal controls at SICO. ARU is responsible for ensuring the Bank's financial accounts and regulatory reporting standards are in good order. The ICU & VAT unit is responsible for all aspects of complying with VAT regulations as promulgated by the National Bureau of Revenue in the Kingdom of Bahrain. In addition, the unit performs key internal control functions across the various finance and accounting tasks that are in place.

During 2020, ARU produced MIS and regulatory reports and prepared consolidated financial statements in accordance with international accounting standards. ARU also adapted itself in a seamless and efficient manner to changes in the working styles as warranted by the COVID-19 situation. Paperless processing of payments was introduced, electronic authorization was put in place and uninterrupted working from home was carried out in a highly effective and productive manner. The regulatory requirements of additional reporting and disclosures that were warranted to explain the effects of the COVID-19 pandemic were successfully implemented.

Following the introduction of VAT in Bahrain, the ICU & VAT unit played a key role in ensuring relevant frameworks were set and implemented throughout SICO to comply with VAT. The unit in particular ensured that the Bank was in compliance with regulatory requirements to issue tax invoices, that it filed tax returns in a timely manner, and that VAT was paid on a periodic basis, with amendments to regulations and requirements being handled in a timely fashion.

ENVIRONMENTAL SOCIAL GOVERNANCE (ESG)

SICO takes pride in being an ethical organization that believes “How profits are made” is just as important as “How much profits are made”

Environmental Social Governance (ESG)

> In 2020, SICO **partnered with IdealRatings to begin embedding ESG data** in SICO's research products giving investors insights into ESG progress

As a leading investor and market leader in the Bahraini financial services industry, SICO is committed to promoting responsible investments. SICO takes pride in being an ethical organization, where we value how profit is made just as much as how much profit we make. We are committed to ensuring that our operations are environmentally sustainable and making business decisions with environmental, social, and governance (ESG) factors at their core. Additionally, we have always been an equal opportunity employer, with a diverse workforce, and strive to promote a culture that empowers women.

Accordingly, the Bank has worked to integrate ESG considerations into the fabric of its operations and align its strategy with both the UN Sustainable Development Goals (SDGs) and international best practices. This allows us to create value for all of our stakeholders, including our clients, partners, employees, and the community at large.

2020 Highlights

Sustainable Investing

SICO is committed to integrating sustainable business practices into the fabric of its operations as well as promoting them among its surrounding community.

During the year, SICO was ranked fourth in Bahrain overall and first in the diversified financial services sector by ESG Invest in their annual ranking, rising from 13th spot last year. This has come on the back of concerted efforts to streamline our operations and ensure that we are increasingly accounting for ESG considerations in each of our business decisions.

As sustainability becomes an increasingly important consideration for investors, SICO has partnered with IdealRatings to begin embedding their ESG data in SICO's research products to provide comprehensive reports featuring insights into companies' ESG progress. This will offer investors a full picture of companies' performance through research and data collections across the ESG pillars. This will serve not only to raise awareness about sustainable investing but will also encourage investors to take ESG factors into consideration while making financial decisions.

Quality Education

At SICO, we believe that quality education is the foundation for driving economic growth and prosperity. Since our establishment, we have sponsored multiple education and career development initiatives with a number of local sponsors including the Bahrain Bourse, CFA Society, and the Bahrain Institute of Banking and Finance (BIBF).

Owing to the onset of the COVID-19 pandemic, SICO was unable to sponsor its regular workshops and trainings, in order to abide by government-directed health and safety protocols and social distancing guidelines. During the year, the Bank participated in a seminar for the Bahrain Chapter of the Institute of Chartered Accountants of India (BCICAI) titled 'Investment Approaches During a Global Pandemic'. The seminar examined an array of investment techniques to be employed during volatile times, in order to provide investment tips during times of uncertainty such as the ongoing pandemic by citing practical examples. SICO continued to sponsor the Bahrain CFA society, enabling it to operate a number of programs during the year, including the Mutamahin initiative, the Qodwa mentorship program, along with a number of additional professional development workshops. The Bank further conducted a webinar held by CEO Najla Al-Shirawi and Head of Research Nishit Lakhotia on investments in GCC markets throughout the pandemic. In addition, SICO sponsored E-Pay Summit, an annual event where key experts meet to discuss the ever-evolving digital banking landscape.

During the year, SICO also provided support to the University of Bahrain in establishing a currency and securities trading room at its department of Economics and Finance in order to provide students with basic financial skills and training that will enable approximately 2000 students to receive trading certificates at the end of each academic year.

In addition, SICO sponsors some of Bahrain's flagship educational programs including the Al Mabarrah Al Khalifia Foundation and the Crown Prince's

International Scholarship Program (CPISP). The CPISP is a program established by Bahrain's Prime Minister and Crown Prince, HRH Prince Salman bin Hamad Al Khalifa, operated through funding by the Crown Prince as well as a number of local and international sponsors and seeks to support talented individuals in their academic journey. SICO has worked with CPISP since 2006 and has supported more than 140 scholars in pursuing higher education degrees at some of the world's leading educational institutions.

In 2020, the Bank through Al Mabarah Al Khalifia's Rayaat Scholarship Program fully financed an Accounting and Finance scholarship for a young student, Mariam Al Daghen, to attend Bangor University at Bahrain Institute of Banking and Finance (BIBF). Mariam was selected out of 12 final candidates owing to her strong academic background and extensive extracurricular activities and community work. The scholarship marks the Rayaat program's first scholarship in the undergraduate Accounting and Finance program at BIBF. SICO also runs ongoing internship and executive training programs allowing young university graduates and students to explore potential careers in the financial services sector.

Healthcare and Social Services

SICO has been involved in a number of initiatives over the years aimed at improving healthcare and social services in Bahrain, attesting to the value it places on improving the wellbeing of our community. The Bank regularly extends support to a number of organizations and initiatives. Among the organizations it has previously supported are:

- Bahrain Breast Cancer Awareness
- Bahrain Down Syndrome Society
- Al Noor Charity Welfare
- UCO Parents Care Center Children and Mothers Welfare Society
- Child Care Home

In addition, SICO sponsors a number of initiatives with the aim of promoting good health and wellbeing among the local community. The Bank has spearheaded multiple initiatives including blood drives, sponsorships of Movember activities, and breast cancer awareness, as well as offering support to local football teams in order to promote the revitalization of Bahrain's sports sector and youth athletics.

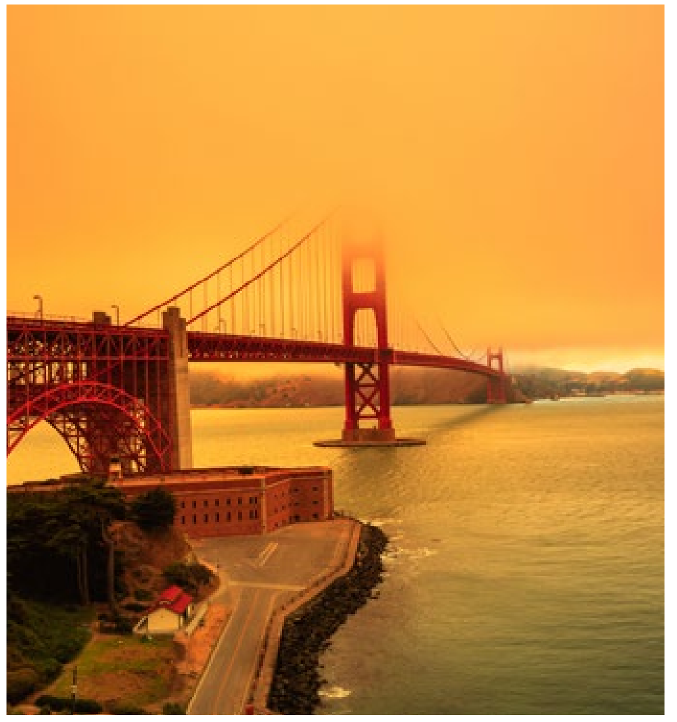
Following the onset of the COVID-19 pandemic this year, SICO has made a number of donations to charitable organizations across the kingdom in order to alleviate the worst of this impact. Among the initiatives supported are the Fina Khair campaign, an initiative launched by the Royal Humanitarian Foundation in response to a growing desire among the private sector to contribute to combatting the spread of the virus. SICO made a number of contributions to the campaign, including a BD 300,000 monetary contribution as well as sponsoring an 11-year-old boy who walked 140 kilometers to raise funds for the campaign. SICO additionally sponsored a local wellbeing initiative, the TeamBahrain30for30 challenge, which encouraged people to exercise for 30 minutes each day, with total donations going to support the Fina Khair campaign.

In addition, SICO also offered support to the Supreme Council for Women (SCW) in the form of monetary contributions instead of the annual Ramadan gifts with the aim of supporting them in their Together for the Safety of Bahrain initiative, which seeks to distribute basic commodities, health supplies, family guidance, legal counsel, and educational support to households in need supported by Bahraini women across the country.

Code of Conduct

SICO is committed to upholding the strictest ethical and sustainable standards in its operations. In 2020, the Bank updated its code of conduct to reflect changes in global best practices and integrate them into the fabric of its operations. SICO updated its policies on environmental preservation, sexual and employee harassment, and social media usage in order to introduce more stringent measures. The

Millions of acres in the western US and Australia burned in 2020 creating post apocalyptic orange skies, choking communities with smoke, and destroying wildlife



Bank also enhanced its existing policies on conflict of interest, including receiving gifts, insider trading and usage of material non-public information, all aimed at ensuring that employees uphold sound and clearly defined ethical practices as they conduct their duties in the workplace.

Environmental Preservation

Promoting environmental preservation is a key priority for SICO. Accordingly, the Bank has implemented a number of policies with the aim of fostering a healthy, clean, and safe environment for the community at large. SICO is constantly working to implement initiatives that will minimize its carbon footprint and integrate environmental awareness into the fabric of its operations.

The Bank has taken a number of measures throughout the years in order to raise awareness both among its employees as well as the surrounding community. Among these measures have been the reduction of single-use plastics on premises by providing employees with personalized reusable glass water bottles; streamlining our printing usage in order to eliminate waste and reduce paper consumption; and improving our energy efficiency across our offices.

SICO has successfully managed its energy consumption, reducing electricity and water consumption in 2020 by 11%, in spite of a 7% increase in the area of the Bank's premises. This continues to build on the achievements SICO made in 2019, successfully reducing its consumption by 29% from the preceding year. In addition, the Bank was able to successfully reduce its paper consumption by 55% in 2020. This comes following efforts to increase digitalization across the Bank, including automating and digitalizing a range of services which has resulted in a considerable decrease in paper usage across the Bank. These positive strides attest to SICO's steady efforts towards becoming a more sustainable organization.

In 2020, rather than offering clients traditional annual gift packages, SICO instead planted 1000 trees on the 16th December Avenue in Bahrain. The street's proximity to Manama's main school district means that the growth of these trees will improve air quality in the area, contribute to combatting climate action, and promote a healthy environment for children as well as the local community at large.

Data Privacy

SICO is committed to maintaining the confidentiality, integrity, and security of information collected from customers, in accordance with all applicable privacy laws. For the purposes of applicable privacy law in Bahrain, SICO acts as a data manager with respect to any personal information obtained from clients.

The Bank has a privacy policy which governs how it collects, shares, and processes personal information through all means including corporate offices, subsidiaries, affiliates, and the SICO website. In addition, the notice also covers any additional personal information that SICO may collect from clients. This policy aims to ensure that there is transparency between SICO and its clients and maintains the integrity of all interactions in order to ensure ethical and consensual conduct in the handling of all client data.

Equal Opportunity

SICO takes pride in being an equal opportunity employer and strives to create a culture that fosters diversity, teamwork, and open communication. In addition, the Bank is committed to female empowerment and promoting gender equality in the workplace. Since 2014, the Bank has been led by its first female CEO, Najla Al-Shirawi, and is joined by a number of other women assuming leadership roles within the Bank. In addition, SICO's Board of Directors saw its new appointments include three female board members, amounting to more than 30% representation on the Board. The Bank's initiatives are spearheaded by an Equal Opportunity committee, created in 2017 to ensure equal employment opportunities and consistently improving policies, procedures, and practices to promote gender inclusion and diversity.

SICO has also implemented policies in line with the Kingdom of Bahrain's efforts to provide support to women through the COVID-19 crisis. The Bank extended a flexible remote working policy during the majority of the pandemic, with special priority given to pregnant women and women with school-aged children. This will seek to close the gender gap in the workplace and cushion women, who are disproportionately affected and face greater social risks from the onset of the pandemic.

Headcount and Bahrainization

	Headcount	Bahrainization Percentage
SICO	88*	70.5%
SFS	11	91%
SICO Financial Brokerage (UAE)	11	9%

*Figure includes two executive trainees

Employee Gender Breakdown

	Male	Female	Total
SICO	54	34	88
SFS	7	4	11
SICO Financial Brokerage (UAE)	10	1	11

Governance

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 organizational efficiency. The Bank has Board-approved policies for risk management, compliance and internal controls, in accordance with the rules and guidelines from the Central Bank of Bahrain (CBB). SICO's Board of Directors consists of nine directors, three of whom are independent directors, and six are executive directors, including the Chairman and Vice-Chairman.

SICO takes pride in the integrity and ethics of its employees in all of their dealings. The Bank's ethical conduct policy requires honesty and integrity in all interactions with clients, including the full disclosure of all relevant information, in line with global best business practices and CBB regulations and directives. In addition, all SICO employees are required to observe all confidentiality and data protection requirements, in accordance with all relevant laws, regulations, directives, and the Bank's data privacy policy. Any disclosures required by relevant legal entities may only take place following approval from the Bank's Compliance Officer and authorization by senior management for disclosure.

SICO has adopted a whistle blowing policy and operates under the supervision of the CBB in compliance with Decree Law No. (4) of 2001 and its amendments (collectively, the AML Law) with respect to the Prevention and Prohibition of money laundering. The CBB has adopted and is compliant with the recommendations issued by the Financial Action Task Force (FATF), which are the international standard for effective anti-money laundering regimes and the requirements of the Basel committee (Customer Due Diligence for Bank's paper, that are relevant to conventional bank licensees. The Kingdom of Bahrain is a member of the Gulf Cooperation Council (GCC), which is a member of FATF, and also a member of MENAFATF, which is an associate member of FATF.

The climate crisis reaches new levels of urgency

SICO is working to implement initiatives that will minimize our carbon footprint and raise climate change awareness among employees and the surrounding community. Initiatives include the reduction of single-use plastics, reducing waste and consumption, and improving energy efficiency across our offices.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

SICO BSC (c)
PO Box 1331
Manama
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of SICO BSC (c) (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain.

Basis for opinion

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

Key audit matters

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

Valuation and existence of quoted equity, debt and fund investments

(refer to the accounting policies in note 4(d) and (e) of the consolidated financial statements)

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 18% of the Group's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatements, or to be subject to significant risk of judgement because they comprise liquid, quoted investments. However, due to the materiality in the context of the consolidated financial statements as a whole and the impact on the Group's performance, they are considered to be one of the areas which has the greatest impact on our overall audit strategy and allocation of resources in the planning and completing our audit.	**Our procedures included:** • Agreeing the valuation of investments in the portfolio to the externally quoted prices; • Agreeing investments holding in the portfolio to independently received third party confirmations; and • Evaluating the adequacy of the Group's disclosure by reference to the requirements of the relevant accounting standards.

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 chairman's report set out on pages 10-12 of this annual report.

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 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

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

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

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

KPMG

KPMG Fakhro
Partner registration number 213
25 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	Bahraini Dinars '000 2020	2019
Assets			
Cash and bank balances	8a	54,393	56,555
Treasury bills	8a	1,127	4,261
Securities bought under repurchase agreements	8b	73,816	51,106
Investments at fair value through profit or loss	9	22,443	20,076
Investments at fair value through other comprehensive income	10	9,723	9,128
Investments at amortized cost		9,953	9,971
Investment property	11b	427	1,915
Fees receivable	12	1,153	3,523
Other assets	13	7,323	8,576
Property, equipment and intangibles	14	1,422	1,671
Total assets		**181,780**	**166,782**
Liabilities and equity			
Liabilities			
Short-term bank borrowings	15a	7,400	3,770
Securities sold under repurchase agreements	15b	74,406	55,548
Customer accounts	16	34,885	41,340
Other liabilities	17	5,426	6,138
Payable to other unit holders in consolidated funds	7	1,340	622
Total liabilities		**123,457**	**107,418**
Equity			
Share capital	18	42,849	42,849
Treasury shares	18	(5,322)	(5,322)
Shares under employee share incentive scheme		(2,263)	(2,263)
Statutory reserve	19	8,330	8,034
General reserve	20	3,217	3,217
Investments fair value reserve		992	891
Retained earnings		10,520	11,958
Total equity		**58,323**	**59,364**
Total liabilities and equity		**181,780**	**166,782**

The consolidated financial statements were approved by the Board of Directors on 25 February 2021 and signed on its behalf by:

Abdulla Bin Khalifa Al Khalifa
Chairman

Hisham Al Kurdi
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	Bahraini Dinars '000 2020	2019
Net investment income	21	2,238	4,315
Net fee income	22	3,619	6,271
Brokerage and other income	23	3,229	2,392
Net interest income	24	1,447	1,405
Income from investment property	11a	(101)	233
Total income		**10,432**	**14,616**
Staff cost	25	(5,146)	(5,651)
Other operating expenses	26	(2,789)	(2,820)
Share of profit of non-controlling unit holders in consolidated funds	7	464	(61)
Allowance for expected credit loss		(2)	(50)
Profit for the year		**2,959**	**6,034**
Basic and diluted earnings per share (fils)	32	**8.00**	**16.32**

Abdulla Bin Khalifa Al Khalifa
Chairman

Hisham Al Kurdi
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Bahraini Dinars '000	
	2020	2019
Profit for the year	**2,959**	**6,034**
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
- Net changes in fair value of FVOCI debt instruments	99	358
- Net amount transferred to profit or loss on sale of FVOCI debt instruments	-	20
- Net amount transferred to profit or loss on impairment	-	14
Items that will not be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVOCI equity instruments	(140)	402
Total other comprehensive income for the year	**(41)**	**794**
Total comprehensive income for the year	**2,918**	**6,828**

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

2020	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
							Bahraini Dinars '000	
Balance at 1 January 2020	**42,849**	**(5,322)**	**(2,263)**	**8,034**	**3,217**	**891**	**11,958**	**59,364**
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	**2,959**	**2,959**
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	(41)	-	(41)
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	142	(142)	-
Total other comprehensive income	-	-	-	-	-	**101**	**(142)**	**(41)**
Total comprehensive income for the year	-	-	-	-	-	**101**	**2,817**	**2,918**
- Transfer to charitable donation reserve	-	-	-	-	-	-	**(60)**	**(60)**
Transaction with owners recognised directly in equity:								
- Transfer to statutory reserve	-	-	-	296	-	-	(296)	-
- Dividends paid	-	-	-	-	-	-	(3,899)	(3,899)
Balance at 31 December 2020	**42,849**	**(5,322)**	**(2,263)**	**8,330**	**3,217**	**992**	**10,520**	**58,323**

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (continued)

								Bahraini Dinars '000
2019	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2019	**42,849**	**(5,913)**	**(1,599)**	**7,362**	**3,217**	**133**	**9,616**	**55,665**
Comprehensive income:								
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**6,034**	**6,034**
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	760	-	760
Net amount transferred to profit or loss on sale of FVOCI debt instruments	-	-	-	-	-	20	-	20
Net amount transferred to profit or loss on impairment	-	-	-	-	-	14	-	14
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	(36)	36	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**758**	**36**	**794**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**758**	**6,070**	**6,828**
- Transfer to charitable donation reserve	-	-	-	-	-	-	(40)	(40)
Transaction with owners recognised directly in equity:								
- Transfer to statutory reserve	-	-	-	603	-	-	(603)	-
- Dividends paid	-	-	-	-	-	-	(3,085)	(3,085)
- Treasury shares transferred to employee share incentive scheme	-	591	(664)	69	-	-	-	(4)
Balance at 31 December 2019	**42,849**	**(5,322)**	**(2,263)**	**8,034**	**3,217**	**891**	**11,958**	**59,364**

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

			Bahraini Dinars '000
	Note	2020	2019
Operating activities			
Net interest received		2,870	2,723
Net (purchase)/ sale of investments at fair value through profit or loss		(2,094)	6,138
Net purchase of investments at fair value through other comprehensive income		(595)	(2,934)
Net sale of investments at amortized cost		18	19
Net decrease in investment property		1,401	40
Net (decrease)/ increase in customer accounts		(6,455)	18,205
Securities bought under repurchase agreements		(22,710)	(9,179)
Securities sold under repurchase agreements		18,858	12,975
Dividends received		524	425
Net income from investment property		(101)	233
Movement in brokerage accounts and other receivables		10,690	999
Movement in other liabilities		(349)	1,596
Payments for staff and related expenses		(5,509)	(4,918)
Payments for other operating expenses		(2,487)	(1,615)
Net cash (used in) / generated from operating activities		**(5,939)**	**24,707**
Investing activities			
Net capital expenditure on furniture and equipment		(285)	(929)
Net cash used in investing activities		**(285)**	**(929)**
Financing activities			
Net increase in short-term bank borrowings		**3,630**	**385**
Dividend paid		**(3,899)**	**(3,085)**
Contribution/ (redemption) by other unit holders in consolidated funds		1,190	(6,131)
Distribution to other unit holders in consolidated funds		(8)	(9)
Net cash generated from / (used in) financing activities		**913**	**(8,840)**
Net (decrease) / increase in cash and cash equivalents		**(5,311)**	**14,938**
Cash and cash equivalents at the beginning of the year		**60,841**	**45,903**
Cash and cash equivalents at the end of the year*	8	**55,530**	**60,841**

* Excludes expected credit loss of BD 10 (2019: BD 25)

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

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

The primary objectives of the Bank are:

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

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (the "CBB") including the CBB circulars issued during the year on regulatory concessionary measures in response to COVID-19. These rules and regulations require the adoption of all International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), except for:

i. recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by IFRS issued by IASB. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable IFRS. Please refer to note 3 for further details; and
ii. recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the IAS 20. This will only be to the extent of any modification loss recorded in equity as a result of (i) above, and the balance amount to be recognised in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Please refer to note 3 for further details.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'IFRS as modified by the CBB'.

However, the adoption of the above framework did not have any impact on the Group's reported amounts in the current and comparative periods as the Group's financial assets were not subject to modification.

(b) Basis of measurement

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

(c) Use of estimates and judgments

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

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

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

(d) New accounting policy, standards, amendments and interpretations effective from 1 January 2020

Government grants

Government grants are recognised when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received. Grants are recognised as other income in profit or loss on a systematic basis as the Group recognises as expenses the costs that the grants are intended to compensate. Grants that relate to the acquisition of an assets are recognised in profit or loss as the assets is depreciated or amortised.

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

Description	Effective from
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
Definition of a Business – Amendment to IFRS 3	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Amendment to IFRS 16 regarding COVID-19 related concession	1 June 2020

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The new standards and amendments to standards are not expected to have a significant impact on the Group's consolidated financial statements.

3. COVID-19 impact

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organisation (WHO). It has rapidly evolved and continues to affect worldwide. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including gross domestic product ("GDP"), employment, oil prices, etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns.

Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The Government of Kingdom of Bahrain and other governments across the world have announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group and its clients have received some benefits from these Packages to help sustain the impact of the crisis.

The pandemic as well as the resulting measures and policies are expected to have direct and/ or knock-on impact on the Group. Management and the Board of Directors have been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements, etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements. Based on their assessment, management is of the view that the Group will continue as a going concern entity at least for the next 12 months from the date of these consolidated financial statements.

Government assistance and subsidies

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilise economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes to support businesses in these challenging times. Financial assistance amounting to BD 312 (representing specified reimbursement of a portion of staff costs) received from the government, in response to its COVID-19 support measures, has been recognised as income and captured in the brokerage and other income account line.

Fair valuation

The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

4. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements except for the new accounting policy adopted during the year as stated in note 2(d).

(a) Consolidation

(i) Subsidiaries

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

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

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Functional and presentation currency

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

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

(c) Foreign currencies

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

4. Significant accounting policies (continued)

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

(i) Estimates

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

Valuation of financial instruments

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

(ii) Judgments

Classification of investments

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

Determination of control over investees – Investment funds

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

(e) Investment securities

(i) Classification

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

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

(iv) Fair value measurement

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

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

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

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

For investments in the debt instruments that are not quoted in an active market, the Group uses information from the pricing services such as Bloomberg for use as inputs in their fair value measurement that maximise the use of relevant observable inputs. For investments in funds not quoted in an active market the Group uses net asset values as provided by the fund managers/ administrator as their fair value.

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

(f) Impairment of financial assets

The Group applies the three-stage approach to measuring expected credit losses ("ECL") on bank balances, securities bought under repurchased agreements, investments in debts securities (except for debt securities which are fair valued through profit or loss and other assets). ECL on investment in debts securities classified as FVOCI is adjusted through the other comprehensive income statement. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

4. Significant accounting policies (continued)

Stage 1: 12 months ECL

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. A 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss event will occur in the next 12 months.

Stage 2: Lifetime ECL – not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. ECL are the weighted average credit losses with the life-time probability of default ("PD").

Stage 3: Lifetime ECL – credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognised based on discounted cash flow methods based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset. For these assets, lifetime ECL is recognised based on discounted cash flow methods.

The estimation of credit exposure for risk management purposes is complex and requires the use of models. The exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios, and of default correlations between counterparties. The Group measures ECL using PD, Exposure at Default ("EAD") and Loss Given Default ("LGD").

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across the various geographies in which the Group has exposures.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the associated recovery cost.

(g) Recognition and de-recognition of financial liabilities

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

(h) Cash and cash equivalents

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

(i) Amortised cost measurement

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

(j) Impairment of non-financial assets

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

(k) Property, equipment and intangibles

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

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

Software	10 years
Furniture and equipment	3-5 years

4. Significant accounting policies (continued)

(l) Leases

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

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

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

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

(i) Measurement

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

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

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

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

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

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

(ii) Short-term leases and leases of low-value assets

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

(m) Bank borrowings

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

(n) Repurchase agreements

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

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

(o) Customer accounts

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

(p) Investment property

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

4. Significant accounting policies (continued)

(p) Investment property (continued)

(i) Recognition and Measurement

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

(ii) Depreciation

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

(iii) Derecognition

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

(q) Employee benefits

(i) Bahraini employees

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

(ii) Expatriate employees

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

(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.

(r) Provisions

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

(s) Fiduciary activities

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

(t) Settlement date accounting

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

(u) Offsetting

Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) 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.

(w) Interest income and expense

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

(x) Fee and commission

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

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

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

4. Significant accounting policies (continued)

(y) Net investment income

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

(z) Dividend income

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

(aa) Brokerage and other income

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

(ab) Segment reporting

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

(ac) Statutory reserve

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

(ad) General reserve

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

(ae) Treasury shares

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

5. Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is assisted in this function by the 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 maximising returns and shareholder value.

The Audit and Risk 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 and Risk 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 and Risk Committee.

(b) Credit risk

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

(i) Investments in debt securities

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Investments in debt securities (continued)

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.

(ii) Management of credit risk

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

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

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

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

Exposure to credit risk

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

	2020	2019
Bank balances	54,393	56,555
Treasury bills	1,127	4,261
Securities bought under repurchase agreements	73,816	51,106
FVTPL debt securities	8,685	9,564
FVOCI debt securities	4,970	4,169
Fee receivable	1,153	3,523
Other assets	6,947	8,340
	151,091	**137,518**

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 CBB. Further, the margin lending on the UAE Stock Exchanges are undertaken in accordance with the regulations issued by the Emirates Securities and Commodities Authority. The 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 honour 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, counterparty or group of closely related counterparties as of 31 December 2020 was BD 34,972 (2019: BD 15,576), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income".

5. Financial risk management (continued)
(b) Credit risk (continued)
(ii) Management of credit risk (continued)
Geographical exposure distribution

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

2020	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	51,470	442	2,481	54,393
Treasury bills	1,127	-	-	1,127
Securities bought under repurchase agreements	67,475	-	6,341	73,816
Investments at fair value through profit or loss	14,323	5,247	2,873	22,443
Investments at fair value through other compre-hensive income	9,723	-	-	9,723
Investments at amortized cost	9,953	-	-	9,953
Investments property	-	427	-	427
Fees receivable	1,107	-	46	1,153
Other assets	7,291	19	13	7,323
Property, equipment and intangibles	1,422	-	-	1,422
Total assets	**163,891**	**6,135**	**11,754**	**181,780**
Liabilities				
Short-term bank borrowings	7,400	-	-	7,400
Securities sold under repurchase agreements	68,277	-	6,129	74,406
Customer accounts	33,182	134	1,569	34,885
Other liabilities	5,416	-	10	5,426
Payable to other unit holders in consolidated funds	1,340	-	-	1,340
Total liabilities	**115,615**	**134**	**7,708**	**123,457**

2019	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	46,349	957	9,249	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	48,185	-	2,921	51,106
Investments at fair value through profit or loss	15,768	2,143	2,165	20,076
Investments at fair value through other comprehensive income	9,128	-	-	9,128
Investments at amortised cost	9,971	-	-	9,971
Investments property	-	1,915	-	1,915
Fees receivable	3,511	2	10	3,523
Other assets	1,671	-	-	1,671
Property, equipment and intangibles	8,563	10	3	8,576
Total assets	**147,407**	**5,027**	**14,348**	**166,782**
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	40,589	50	701	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	**106,667**	**50**	**701**	**107,418**

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

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

2019	Financial services	Others	Total
Total assets	105,338	61,444	166,782
Total liabilities	**78,017**	**29,401**	**107,418**

5. Financial risk management (continued)
(b) Credit risk (continued)
(ii) Management of credit risk (continued)
Risk exposure concentration (continued)

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

	2020			2019		
Particulars	Gross exposure	ECL	Net exposure	Gross exposure	ECL	Net exposure
Bank balances	54,403	10	54,393	56,580	25	56,555
Securities bought under repurchase agreements	73,855	39	73,816	51,118	12	51,106
Investment securities	9,729	6	9,723	9,142	14	9,128
Other assets (margin lending)	7,086	17	7,069	9,518	19	9,499
Total	**145,073**	**72**	**145,001**	**126,358**	**70**	**126,288**

Investments in debt securities classified as FVOCI are entirely in investment grade debt instruments i.e. credit grade A to BB and the ECL on the same has been adjusted through the other comprehensive income statement.

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

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

(c) Liquidity risk

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

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

The Group faces three types of liquidity risks as follows:

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

Management of liquidity risk

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

The residual contractual maturity of financial liabilities is as follows:

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

2019	Less than 1 year	Gross outflow	Carrying value
Short-term bank borrowings	3,778	3,778	3,770
Securities sold under repurchase agreements	55,701	55,701	55,548
Customer accounts	41,340	41,340	41,340
Other liabilities	6,138	6,138	6,138
Payable to other unit holders in consolidated funds	622	622	622
	107,579	**107,579**	**107,418**

Liquidity risk is also managed through ensuring compliance with regulatory liquidity requirements. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are the ratios which the Bank computes as per the CBB requirements. The ratios as of 31 December 2020 are as follows:

	As of 31 December 2020	As of 31 December 2019
Liquidity Coverage Ratio	263%	131%
Net Stable Funding Ratio	170%	148%

The average LCR for the year ended 31 December 2020 was 158% (31 December 2019: 137%).

During the year, as a regulatory concessionary measure to contain the financial repercussion of the COVID-19 impact, the CBB reduced the LCR and NSFR limits from 100% to 80%.

5. Financial risk management (continued)

(d) Market risk

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

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

(i) Equity price risk

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

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

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

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

Equity price risk – sensitivity

All of the Group's listed equity investments are listed on recognized regional and global stock exchanges. For such investments classified at FVOCI, a 1% increase in the fair value at the reporting date would have increased equity by BD 48 (2019: BD 50); an equal change in the opposite direction would have decreased equity by BD 48 (2019: a decrease of BD 50). For such investments classified as at FVTPL, the impact of a 1% increase in the index at the reporting date on profit or loss would have been an increase of BD 71 (2019: BD 22). An equal change in the opposite direction would have decreased profit or loss by BD 71 (2019: BD 22).

(ii) Interest rate risk

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

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

Interest rate re-pricing profile

2020	Effective interestrate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Bank balances		-	-	39,951	39,951
Call deposits*		1,988	-	-	1,988
Treasury bills		1,127	-	-	1,127
Short-term placements with banks	2.46%	12,454	-	-	12,454
Securities bought under repurchase agreements	2.00%	73,816			73,816
Investments at fair value through profit or loss	5.70%	1,323	7,362	13,758	22,443
Investments at fair value through other comprehensive income	6.79%	-	4,970	4,753	9,723
Investments at amortised cost**	6.90%	-	9,953	-	9,953
Investment property		-	-	427	427
Fees receivable		-	-	1,153	1,153
Other assets		-	-	7,323	7,323
Property, equipment and intangibles		-	-	1,422	1,422
Total assets		**90,708**	**22,285**	**68,787**	**181,780**
Short-term bank borrowings	1.18%	7,400	-	-	7,400
Securities sold under repurchase agreements	1.52%	74,406	-	-	74,406
Customer accounts		-	-	34,885	34,885
Other liabilities		-	-	5,426	5,426
Payable to other unit holders in consolidated funds		-	-	1,340	1,340
Total liabilities		**81,806**	**-**	**41,651**	**123,457**
Equity		**-**	**-**	**58,323**	**58,323**
Total liabilities and equity		**81,806**	**-**	**99,974**	**181,780**
Interest rate sensitivity gap		**8,902**	**22,285**	**(31,187)**	**-**
Cumulative interest rate sensitivity gap		**8,902**	**31,187**	**-**	**-**

5. Financial risk management (continued)

(d) Market risk(continued)

(ii) Interest rate risk(continued)

Interest rate re-pricing profile (continued)

2019	Effective interestrate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Bank balances	-	-	-	32,963	32,963
Call deposits*	-	2,112	-	-	2,112
Treasury bills	-	4,261	-	-	4,261
Short-term placements with banks	1.65%	21,480	-	-	21,480
Securities bought under repurchase agreements	2.66%	51,106	-	-	51,106
Investments at fair value through profit or loss	5.82%	1,620	7,943	10,513	20,076
Investments at fair value through other comprehensive income	6.65%	-	4,169	4,959	9,128
Investments at amortised cost**	-	-	9,971	-	9,971
Investment property	-	-	-	1,915	1,915
Fees receivable	-	-	-	3,523	3,523
Other assets	-	-	-	8,576	8,576
Property, equipment and intangibles	-	-	-	1,671	1,671
Total assets		**80,579**	**22,083**	**64,120**	**166,782**
Short-term bank borrowings	2.60%	3,770	-	-	3,770
Securities sold under repurchase agreements	2.40%	55,548	-	-	55,548
Customer accounts	-	-	-	41,340	41,340
Other liabilities	-	-	-	6,138	6,138
Payable to other unit holders in consolidated funds	**-**	**-**	**-**	**622**	**622**
Total liabilities		**59,318**	**-**	**48,100**	**107,418**
Equity		**-**	**-**	**59,364**	**59,364**
Total liabilities and equity		**59,318**	**-**	**107,464**	**166,782**
Interest rate sensitivity gap		**21,261**	**22,083**	**(43,344)**	**-**
Cumulative interest rate sensitivity gap		**21,261**	**43,344**	**-**	**-**

**At 31 December 2020 the effective interest rate on Bahraini Dinar call deposits is 1% (2019: 1%) and on USD call deposits is 1% (2019: 0.75%).*

***At 31 December 2020 the effective interest rate of investments at amortized cost is 6.65% (2019: 6.65%).*

(iii) Foreign exchange risk

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

(e) Operational risk

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

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

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

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

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

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

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

(f) Capital management

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

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

5. Financial risk management (continued)

(f) Capital management(continued)

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

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

Based on year end balances

	2020	2019
Risk weighted exposure		
Credit risk	40,885	56,530
Market risk	27,150	18,388
Operational risk	23,803	18,559
Total risk weighted assets	**91,838**	**93,477**
Common Equity (CET 1)	58,317	59,349
Additional Tier 1	72	70
Total regulatory capital	**58,389**	**59,419**
Capital adequacy ratio	**63.58%**	**63.57%**

The capital adequacy ratio as at 31 December 2020 has been calculated in accordance with Basel III and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardised approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market risk is computed using the Standardised method.

Capital allocation

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

6. Group subsidiaries and consolidated funds

Set out below are the Group's principal subsidiaries at 31 December 2020. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the Group to the total units issued by the fund.

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

Subsidiary	Percentage ownership	Year of incorporation	Country of incorporation	Principal activity
1.SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2.SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3.SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4.SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5.SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6.SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
7.SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO
8.SICO Financial Brokerage LLC	100%	2011	UAE	Brokerage services
9.SICO Khaleej Equity Fund	80%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi
10.SICO Fixed Income Fund	84%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks
11.SICO US Real Estate Corp	100%	2017	Cayman Island	Investment in income generating properties in various geographies in the United States

Percentage ownership of all the subsidiaries remained substantially the same in 2020 and 2019 except for SICO Kingdom Equity Fund which became a consolidated subsidiary during the year.

7. Payable to other unit holders in consolidated funds

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

	2020	2019
Payables to other unit holders in the consolidated funds:		
SICO Fixed Income Fund	640	622
SICO Kingdom Equity Fund	700	-
	1,340	**622**
Share of profit/ (loss) on non-controlling unit holders in consolidated funds		
SICO Fixed Equity Fund	25	61
SICO Kingdom Equity Fund	(489)	-
	(464)	**61**

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

SICO Fixed Income Fund

	2020	2019
Other unit holders' share	15.8%	15.5%
Cash and cash equivalents	522	593
Investment at fair value through profit or loss	4,023	4,101
Other assets	58	67
Short-term bank borrowings	(540)	(737)
Other liabilities	(12)	(13)
Net assets	**4,051**	**4,011**
Carrying amount of payable to other unit holders	640	622
Investment income	221	440
Net interest income	(8)	5
Profit	160	391
Total comprehensive income	**160**	**391**
Profit allocated to other unit holders	**25**	**61**
Cash flows from operating activities	49	134
Cash flows used in financing activities	(120)	(129)
Net (decrease) / increase in cash and cash equivalents	**(71)**	**5**

SICO Kingdom Equity Fund

	2020	2019
Other unit holders' share	20%	-
Cash and cash equivalents	6	
Investment at fair value through profit or loss	3,425	-
Other assets	5	-
Short-term bank borrowings	-	-
Other liabilities	(19)	-
Net assets	**3,417**	**-**
Carrying amount of payable to other unit holders	**700**	**-**
Investment income	(85)	-
Interest income	-	-
Loss	(204)	-
Total comprehensive income	**(204)**	**-**
Profit/ (loss) allocated to other unit holders	**(489)**	**-**
Cash flows from operating activities	(206)	-
Cash flows used in financing activities	4,312	-
Net increase/ (decrease) in cash and cash equivalents	**4,106**	**-**

8. (a) Cash and bank balances

(a) Cash and bank balances

	2020	2019
Cash and bank balances	39,951	32,966
Call deposits	1,988	2,112
Short-term placements with banks	12,464	21,502
Less:		
Expected credit loss	(10)	(25)
Total	**54,393**	**56,555**
Treasury bills	1,127	4,261
Total cash and cash equivalents for cash flow purposes	**55,520**	**60,816**

Cash and bank balances include bank balances amounting to BD 14,968 (2019: BD 10,738) held on behalf of discretionary customer accounts.

(b) Securities bought under repurchased agreements

Reverse repurchase agreements have been entered with clients amounting to BD 73,816 (2019: BD 51,106) for which client owned securities of BD 95,587 (2019: BD 63,025) are pledged as collateral.

9. Investments at fair value through profit or loss

	2020	2019
Quoted equity securities		
- Consolidated funds	3,425	-
- Parent	3,667	2,230
Funds		
- Quoted	4,138	5,898
- Unquoted	2,528	2,384
Quoted debt securities		
- Parent	4,662	5,463
- Consolidated funds	4,023	4,101
	22,443	**20,076**

10. Investments at fair value through other comprehensive income

	2020	2019
Equity securities		
- Quoted	4,753	4,959
	4,753	**4,959**
Debt securities		
- Quoted	4,970	4,169
	4,970	**4,169**
	9,723	**9,128**

11. Investment property

Investment property represent properties in the USA acquired in 2018 through a fund structure. In 2019 the fund structure was dissolved and the properties were transferred to SICO US Real Estate Corp., a wholly owned subsidiary of the Bank.

(a) Income from Investment property

	2020	2019
Rental Income	156	233
Loss on sale	(170)	-
Impairment charge	(87)	-
	(101)	**233**

(b) The details of the investment in properties is as follows:

	2020	2019
Cost		
At 1 January	1,915	1,985
Disposal	(1,459)	-
At 31 December	**456**	**1,985**
Accumulated depreciation		
At 1 January	(70)	(30)
Disposal	72	-
Depreciation for the year	(31)	(40)
At 31 December	**(29)**	**(70)**
Carrying amount	**427**	**1,915**

During 2020, the Group sold three of the five investment properties. The fair value of investment property as at 31 December 2020 is based on expected exit price and equates to the carrying value. The fair value of investment property as at 31 December 2019 was BD 2,362.

12. Fees receivable

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

	2020	2019
Management fees	992	1,233
Performance fees	75	2,225
Custody fees	86	65
	1,153	**3,523**

13. Other assets

	2020	2019
Receivables from clients	5,355	6,843
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	376	236
Interest receivable	713	634
Other receivables	379	363
	7,323	**8,576**

14. Property, equipment and intangibles

	Right-of-use of leased assets	Software	Furniture and equipment	Capital work in progress	2020 Total	2019 Total
Cost						
At 1 January	493	2,552	1,394	39	4,478	3,610
Additions	26	205	23	-	254	888
Disposals	-	-	-	-	-	(20)
At 31 December	**519**	**2,757**	**1,417**	**39**	**4,732**	**4,478**
Depreciation						
At 1 January	149	1,701	957	-	2,807	2,370
Charge for the year	168	261	74	-	503	457
Disposals	-	-	-	-	-	(20)
At 31 December	**317**	**1,962**	**1,031**	**-**	**3,310**	**2,807**
Net book value at 31 December 2020	**202**	**795**	**386**	**39**	**1,422**	**-**
Net book value at 31 December 2019	**344**	**851**	**437**	**39**	**-**	**1,671**

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

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

At 1 January 2020	3,770
Borrowings made during the year	3,630
Borrowings settled during the year	-
At 31 December 2020	**7,400**

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

At 1 January 2020	55,548
Borrowings made during the year	44,670
Borrowings settled during the year	(25,812)
At 31 December 2020	**74,406**

The carrying value of the investments at amortised cost pledged as collateral amounts to Nil (2019: BD 3,770)

Repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 92,202 (2019: BD 61,648) are pledged as collateral.

16. Customer accounts

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

17. Other liabilities

	2020	2019
Accrued expenses	1,295	1,808
Provision for employee leaving indemnities	926	801
Employee share incentive scheme liability	2,318	2,171
Other payables	887	1,358
	5,426	**6,138**

18. Share capital

	2020	2019
Authorised share capital		
1,000,000,000 (2019: 1,000,000,000) shares of 100 fils each	100,000	100,000

	2020	2019
Issued and fully paid		
428,487,741 ordinary shares of 100 fils each	42,849	42,849

Proposed appropriations

The Board of Directors proposed the following appropriations subject to shareholders and regulatory approvals.

	2020	2019
Cash dividend 5% (2019: 10%)	2,142	3,899

The shareholders are:	Nationality	2020		2019	
		Capital	% holding	Capital	% holding
Social Insurance Organisation	Bahrain	21,588.5	50.38	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank BSC	Bahrain	3,667	8.56	3,667	8.56
BBK BSC	Bahrain	3,390	7.91	3,390	7.91
Investcorp Holdings BSC	Bahrain	-	-	2,366	5.52
Arab Banking Corporation BSC	Bahrain	2,366	5.52	2,366	5.52
Gulf Investment Corporation GSC	Kuwait	-	-	3,300	7.70
Employee Stock Ownership Plan	Bahrain	2,027	4.73	2,027	4.73
Al Salam Bank - Bahrain BSC	Bahrain	591	1.39	591	1.39
SICO BSC (c) (Treasury shares)	Bahrain	3,857	9.00	3,857	9.00
		42,849	**100**	**42,849**	**100**

Treasury shares and shares under employee share incentive scheme

	2020		2019	
	Number of shares	Amount	Number of shares	Amount
Treasury shares	38,563,893	5,322	38,563,893	5,322
Employee share incentive scheme (refer to note 28)	20,272,618	2,263	20,272,618	2,263
	58,836,511	**7,585**	**58,836,511**	**7,585**

19. Statutory reserve

In accordance with the Commercial Companies Law, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 296 (2019: BD 603).

20. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2020, no appropriations to general reserve are recommended.

21. Net investment income

	2020	2019
Net gain on investments at fair value through profit or loss*	212	2,508
Loss on sale of Investments at fair value through other comprehensive income	-	(20)
Interest income from debt instruments	1,502	1,382
Dividend income	524	425
Other investment income	-	20
	2,238	**4,315**

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

	2020	2019
Realised (loss) / gain on sale	(379)	1,280
Unrealised fair value gain	591	1,228
	212	**2,508**

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

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

22. Net fee income

	2020	2019
Fee income from trust or other fiduciary activities		
- Management fee	2,971	3,551
- Performance fee	69	2,241
- Custody fee	462	406
- Advisory & Underwriting fee	163	114
	3,665	**6,312**
Fee expense		
- Custody fee	(46)	(41)
Net fee income	**3,619**	**6,271**

23. Brokerage and other income

	2020	2019
Brokerage income	1,704	1,394
Foreign exchange gain	926	709
Government grant	312	-
Other income	287	289
	3,229	**2,392**

24. Net interest income

	2020	2019
Interest income from:		
Placements, call deposits and reverse repos	2,189	2,680
Margin lending	417	152
	2,606	**2,832**
Interest expense on:		
Bank borrowings and repos	(1,159)	(1,427)
Net interest income	**1,447**	**1,405**

25. Staff cost

	2020	2019
Salaries, allowances and bonus	4,205	4,447
Post-employment benefit	215	208
Share based payments	128	447
Social security costs	213	204
Other costs	385	345
	5,146	**5,651**

As at 31 December 2020, the Group employed 73 (2019: 72) Bahrainis and 37 (2019: 38) expatriates.

The Group's contributions for the year to the Social Insurance Organisation in respect of its employees amounted to BD 213 (2019: BD 204).

26. Other operating expenses

	2020	2019
Occupancy expenses	138	141
Communication expenses	59	81
Marketing expenses	109	189
Professional fees	193	208
Technology related expenses	768	791
Depreciation	534	498
Other operating expenses	988	912
	2,789	**2,820**

27. 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 (c), SICO Funds Company VI BSC (c), SICO Funds Company VIII BSC (c) and SICO Ventures Company WLL. In the ordinary course of business and has investments in certain funds.

	2020	2019
Fee and commission income	478	1,035
Fee receivable	197	321
Investments at fair value through profit or loss:		
- SICO Khaleej Equity Fund	1,264	1,195
- SICO Kingdom Equity Fund	-	2,539
- Bahrain Liquidity Fund Company	1,082	1,150

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

Transactions with shareholders

The Group obtained short-term borrowings from its bank shareholders for a total of BD 7,400 (2019: BD 3,770). During the year ended December 31, 2020 the Group entered into Repos with its bank shareholders and as of 31 December 2020, had BD 41,261 (2019: BD 31,827) of repurchase agreements with these related parties. The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilized credit facilities with certain of its shareholders that are local banks. All such transactions are in the ordinary course of business and on normal commercial terms.

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

	2020	2019
Fee and commission income	409	988
Fee receivable	103	293
Funds under management	46,525	53,847
Placements	11,154	12,111
Borrowings	7,400	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 members of the Board of Directors, Chief Executive Officer, Chief Capital Markets Officer, Chief Operating Officer, Chief Financial Officer and head of departments.

Compensation to key management personnel is as follows:

	2020	2019
Salaries and short term benefits	1,524	1,434
Post-employment benefits	66	62
Equity compensation benefits	181	255
	1,771	**1,751**

Attendance fees and remuneration to Board members and other related expenses amount to BD 151 (2019: BD 251).

28. Employee Share Ownership Plan

The Group has established an employee share incentive scheme (the "Scheme") which is operated through a Trustee. The Trust has been set up by the transfer of shares of the Bank allotted to the employees under the Scheme.

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

28. Employee Share Ownership Plan (continued)

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

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

The Group has recognised an employee liability of BD 2,318 (2019: BD 2,171) on the shares granted until date. This liability has been determined on the value of the Group's net assets as at 31 December 2019 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 under the Scheme is as follows:

	2020 No. of shares issued	2019 No. of shares issued
As at 1 January	20,272,618	15,987,741
Shares added during the year	-	4,284,877
At 31 December	**20,272,618**	**20,272,618**

29. Involvement in unconsolidated structured entities

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

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

	2020	2019
Investments in funds		
Khaleej Equity Fund	1,264	1,195
SICO Kingdom Equity Fund	-	2,539
Bahrain Liquidity Fund Company	1,082	1,150
	2,346	**4,884**

30. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in SICO Khaleej Equity Fund a minimum of 10% of the net assets value at any time throughout its life. The Group has other investment commitments of BD 1,056 (2019: BD Nil) and margin lending drawdown commitments of BD 1,785 (2019: BD 3,279).

Funds under management (net asset value)	2020	2019
SICO Khaleej Equity Fund	19,002	17,615
SICO Gulf Equity Fund	2,512	2,378
Bahrain Liquidity Fund Company	37,172	39,513
SICO Kingdom Equity Fund	3,417	8,221
SICO Fixed Income Fund	4,051	4,011
Discretionary portfolio management accounts	811,777	736,994

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.

	2020	2019
Assets under custody	**3,010,365**	**2,800,744**

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2020, assets amounting to BD 3,010,365 (2019: BD 2,800,744) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 568,926 (2019: BD 490,695) were registered in the name of the Bank.

Legal claims

In 2013, the Group's subsidiary "Securities and Investment Company (UAE) LLC" (the "Subsidiary") now renamed as SICO Financial Brokerage, 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.

On 30 April 2019, the first instance court issued its judgment and all demands against SICO and its employees have been rejected in the first instance judgement. The first defendant, who is un-related to SICO, is obliged to pay damages to the plaintiff and which has been appealed by the first defendant. The first instance judgement was subsequently confirmed by the court of appeal and the court of cassation so that the case is no longer subject to further ordinary instruments of appeal.

30. Contingencies, commitments and memorandum accounts (continued)

Contingencies

The Group has letters of guarantee in the amount of BD 3,593 (31 December 2019: BD 5,646) in favor of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

31. Net open foreign currency positions

	2020	2019
QAR	(13)	16
US Dollar	43,520	37,250
JOD	52	51
KWD	923	318
SAR	6,132	6,660
GBP	1	1
AED	7,048	8,560
OMR	645	557
EUR	3	4
EGP	(23)	(4)

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

32. Earnings per share

	2020	2019
Profit for the year	**2,959**	**6,034**
Weighted average number of equity shares (in 000's)	428,487	428,487
Less: Employee share incentive scheme shares	(20,272)	(20,272)
Less: Treasury shares	(38,564)	(38,564)
Weighted average number of shares as at 31 December	369,651	369,651
Earnings per share (in fils)	**8.00**	**16.32**

The Bank does not have any dilutive instruments.

33. Maturity profile of assets and liabilities

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

31 December 2020	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	54,393	-	-	54,393
Treasury bills	1,127	-	-	1,127
Securities bought under repurchase agreements	73,816	-	-	73,816
Investments at fair value through profit or loss	8,441	6,084	7,918	22,443
Investments at fair value through other comprehensive income	-	4,538	5,185	9,723
Investments at amortised cost	-	1,169	8,784	9,953
Investment property	-	-	427	427
Fees receivable	1,153	-	-	1,153
Other assets	169	758	495	1,422
Property, equipment and intangibles	7,323	-	-	7,323
Total assets	**146,422**	**12,549**	**22,809**	**181,780**
Liabilities				
Short-term bank borrowings	7,400	-	-	7,400
Securities sold under repurchase agreements	74,406	-	-	74,406
Customer accounts	34,885	-	-	34,885
Other liabilities	5,426	-	-	5,426
Payable to other unit holders in consolidated funds	1,340	-	-	1,340
Total liabilities	**123,457**	**-**	**-**	**123,457**
Liquidity gap	**22,965**	**12,549**	**22,809**	**58,323**
Cumulative liquidity gap	**22,965**	**35,514**	**58,323**	**58,323**

33. Maturity profile of assets and liabilities (continued)

31 December 2019	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	56,555	-	-	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	51,106	-	-	51,106
Investments at fair value through profit or loss	3,851	6,033	10,192	20,076
Investments at fair value through other comprehensive income	-	4,169	4,959	9,128
Investments at amortised cost	-	1,169	8,802	9,971
Investment property	-	-	1,915	1,915
Fees receivable	3,523	-	-	3,523
Other assets	8,576	-	-	8,576
Property, equipment and intangibles	280	1,029	362	1,671
Total assets	**128,152**	**12,400**	**26,230**	**166,782**
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	41,340	-	-	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	**107,418**	**-**	**-**	**107,418**
Liquidity gap	**20,734**	**12,400**	**26,230**	**59,364**
Cumulative liquidity gap	**20,734**	**33,134**	**59,364**	**59,364**

34. Accounting classification and fair values

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

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

31 December 2019	Fair value through profit or loss	Fair value through other comprehensive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	56,555	56,555
Treasury bills	-	-	-	4,261	4,261
Securities bought under repurchase agreements	-	-	-	51,106	51,106
Investments at fair value through profit or loss	20,076	-	-	-	20,076
Investments at fair value through other comprehensive income	-	9,128	-	-	9,128
Investments at amortised cost	-	-	-	9,971	9,971
Investment property	-	-	-	1,915	1,915
Fees receivable	-	-	-	3,523	3,523
Other assets	-	-	-	8,340	8,340
	20,076	**9,128**	**-**	**135,671**	**164,875**
Short-term bank borrowings	-	-	-	3,770	3,770
Securities sold under repurchase agreements	-	-	-	55,548	55,548
Customer accounts	-	-	-	41,340	41,340
Other liabilities	-	-	-	6,138	6,138
Payable to other unit holders in consolidated funds	-	-	622	-	622
	-	**-**	**622**	**106,796**	**107,418**

34. Accounting classification and fair values (continued)

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

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

(ii) Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

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

As at 31 December 2020	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	4,753	-	-	4,753
- Debt securities	4,970	-	-	4,970
Fair value through profit or loss:				
- Equities	7,092	-	-	7,092
- Debt securities	8,685	-	-	8,685
- Funds	5,523	-	1,143	6,666
	31,023	**-**	**1,143**	**32,166**
As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Fair value through other comprehensive income investments:				
- Equities	4,959	-	-	4,959
- Debt securities	4,169	-	-	4,169
Fair value through profit or loss:				
- Equities	2,230	-	-	2,230
- Debt securities	9,564	-	-	9,564
- Funds	7,450	-	832	8,282
	28,372	**-**	**832**	**29,204**

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

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

	2020	2019
At 1 January	832	974
Total gain :		
- in income statement	(101)	(69)
- in other comprehensive income	-	-
Purchases	-	-
Settlements	-	(73)
Transfers into/ (out) of level 3	412	-
At 31 December	**1,143**	**832**

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.

35. Comparatives

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

36. Subsequent event

On 17 December 2020, SICO signed an agreement with Bank Muscat SAOG ("Bank Muscat") to acquire 72.71% of Muscat Capital Company ("Muscat Capital"), a wholly owned subsidiary of Bank Muscat. Muscat Capital is a closed joint stock company incorporated under the laws of Saudi Arabia and licensed by the Capital Market Authority of Saudi Arabia ("CMA") to conduct securities business of dealing, managing, advising, arranging, underwriting and custody. The acquisition will broaden SICO's regional presence and service offerings in the region's largest market, Saudi Arabia. The completion of the transaction is subject to receiving all necessary approvals from the relevant regulatory authorities in Saudi Arabia and other relevant jurisdictions, and satisfactory completion of closure conditions by both the parties.

The acquisition is expected to be complete in Q1 2021 and as such, Muscat Capital will be consolidated as a subsidiary of SICO from such date.

SICO will settle the acquisition in-kind by transferring 38.6 million shares of SICO to Bank Muscat, which is currently held as treasury shares. This will result in Bank Muscat owing 9% shareholding in SICO on completion of the transaction.

The determination of the fair values of assets acquired and liabilities assumed and the related accounting for the acquisition of Muscat Capital will be determined and reflected in the first interim financial statements post transaction closure. As allowed by accounting standards, the Bank will be able to adjust these amounts within one year of the date of acquisition if new information becomes available about facts and circumstances that existed at the date of acquisition. SICO expects that a valuation for the intangible assets acquired and the quantification of goodwill will be derived through the fair value assessment process during the year ending 31 December 2021.

Supplementary Disclosures – Financial Impact of COVID-19 (unaudited) for the year ended 31 December 2020

INTRODUCTION

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

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

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

CURRENT SITUATION

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

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

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

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

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

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

The Bank achieved a net profit of BD 3.0 million for the year ended 31 December 2020 as compared to the BD 6.0 million that was achieved for the year ended 2019.

Fee based income experienced a decline of about 58% when compared to 2019, mainly due to the following reasons:

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

Brokerage and other income recorded an increase of about 28% in 2020 as compared to 2019. The volatile market situation resulted in increased trading activities which helped boost the brokerage income. In the short term, this volatility has created good trading opportunity for the clients in both the equities and fixed income space.

Interest income reflected a growth of 3% from previous year levels. This has been achieved due to the efficient management of the liquidity position as well stable Reverse repo based business activities.

The Proprietary book investment portfolio took a significant hit due to the market conditions that prevailed during the first three to four months of 2020. The drop in market valuations were due to both the COVID-19 pandemic as well as the significant drop in the oil prices. A number of measures that includes revising asset allocations, implementing hedging strategies, have been put in place. The later part of 2020 witnessed some good recovery. As of 31 December 2020, there is a net investment gain amounting to BD 2.2 million in comparison to net income of BD 4.3 million booked in 2019, representing a decrease of about 52%.

The impact of covid -19 is summarised below :

Income component	2020 BD '000	2019 BD '000
Net investment income	2,238	4,315
Net fee income	3,619	6,271

Others:

- The Bank continues to meet the regulatory requirement of CAR, LCR and NSFR.
- A detailed analysis of the ECL provisioning requirements has been carried out and considering the nature of the exposures, the stressed economic situation has not resulted in the need for any increase to the existing ECL provisions.
- The Bank decided to postpone certain internal technology projects mainly to avoid / restrict the movement of external vendors and consultants. This has resulted in the reduction of certain amounts of capital expenditure and the related depreciation.
- Strict cost control measures are in place; however due attention is given and necessary expenditure is incurred to ensure safety and well-being of staff personnel
- The overall Assets Under Management (AUM) as of December 2020 stood at USD 2.3 billion which is about 9% higher than the USD 2.1 billion as of December 2019. In the first half of 2020, there was a decrease of about 20% in the AUM due to reductions experienced in the overall portfolio valuations as well as certain outflows that were effected by the clients to meet their liquidity needs. However, with substantial and successful fund raising efforts, the AUM has increased year on year

CLOSING NOTE

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

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 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, Commerce, and Tourism.

Shareholder Information

The Bank's shares are listed on the Bahrain Bourse as a closed company. As of 31 December 2020, the Bank had issued 428,487,741 ordinary shares of Bahraini fils 100 each. The last Annual General Meeting was held on 24 March 2020.

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 as a team to provide strategic leadership to staff, maintain 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 organizes a formal schedule of matters for its decision-making process to ensure that the direction and control of the Bank rests with the Board. This process 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.

Without abdicating its overall responsibility, the Board delegates certain responsibilities to Board Committees. 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. When a Committee is formed, a specific Charter of the Committee is 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 and Risk Committee and the Nominations, Remuneration and Corporate Governance Committee. The Internal Audit, Compliance and Risk functions reports directly to the Board through the Audit and Risk Committee. From time to time, the Board receives reports and recommendations from Board Committees and Management 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 Articles of Association. As of 31 December 2020, the Board consisted of nine Directors, two of which are Independent Directors, one Non-Executive Director 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 Simone Del Nivo. 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 prior approval by 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 2020, the Board of Directors resolved that one of the Non-executive Directors of SICO met the relevant requirements of the 'Test of Independence', and accordingly, the Director was classified as 'Independent' Director.

Board and Committee Evaluation

The Board performs a self-evaluation on an annual basis. The Board periodically reviews its Charter and its own effectiveness, while initiating 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 and 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 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 2020, four Board meetings were held in Bahrain.

Directors' attendance: January to December 2020

Board Meetings

Board members	2nd Mar 2020 #139 - SICO	08-APR-2020 #140 - Video Conference	12-MAY-2020 #141 - Video Conference	11-AUG-2020 #142 - Video Conference	11-NOV-2020 #143 - Video Conference
Shaikh Abdulla bin khalifa Al Khalifa (Chairman)	✓	✓	✓	✓	✓
Hisham Al Kurdi (Vice Chairman)		✓	✓	✓	✓
Mohammed Abdulla	✓	✓	✓	✓	✓
Tala Fakhro		✓	✓	✓	✓
Khurram Mirza	✓	✓	✓	✓	✓
Dana Raees		✓	✓	✓	✓
Abdulla Kamal		✓	✓	✓	✓
Naseema Haider		✓	✓	✓	✓
Khalid Al Jassim		✓	✓	✓	✓
Anwar Ghuloom*	✓				
Emad Al Saudi*	✓				
Fahad Murad*	✓				
Hussain Al Hussaini*	✓				
Prakash Mohan*	✓				
Waleed Al Braikan*	✓				

**Board members completed their term in March 2020*

Investment Committee Meetings

Board members	#34,15th Jan 2020 - SICO	#35, 28-APR-2020 - SICO	#36, 26-JUL-2020 - Video Conference	#37, 03-NOV-2020 - SICO
Shaikh Abdulla bin khalifa Al Khalifa (Chairman of Investment Committee)	✓	✓	✓	✓
Hussain Al Hussaini*	✓			
Prakash Mohan*	✓			
Hisham Al Kurdi		✓	✓	✓
Khalid Al Jassim		✓	✓	✓

**Board members completed their term in March 2020*

Audit & Risk Committee Meetings

Board members	#65, 20th Feb 2020 - SICO	#66, 11-MAY-2020 - Video Conference	#67, 10-AUG-2020 - Video Conference	#68, 10-NOV-2020 - Video Conference
Waleed Al Braikan*	✓			
Anwar Ghuloom*	✓			
Emad Al Saudi*	✓			
Tala Fakhro (Chairperson of Audit & Risk Committee)		✓	✓	✓
Abdulla Kamal		✓	✓	✓
Naseema Haider		✓	✓	✓

**Board members completed their term in March 2020*

Nomination, Remuneration and Corporate Governance Committee Meetings

Board members	#31, 30th Jan 2020 - SICO	#32,16th Feb 2020 - SICO	#33, 27-OCT-2020 - Video Conference
Fahad Murad*	✓	✓	
Mohammed Abdulla (Chairman of Nomination, Remuneration and Corporate Governance Committee)	✓	✓	✓
Khurram Mirza	✓	✓	✓
Dana Raees			✓

**Board members completed their term in March 2020*

Board Committees

Investment Committee

Objective

- Review investment policies and procedures to monitor the application of, and compliance with, 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.
- Monitor the financial performance.
- Oversee the financial and investment affairs of the Bank.
- Review major organisational changes.

Audit and Risk 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.
- Provide active oversight on the risk management framework, approve risk policies and limits, and ensure adequacy of risk controls.

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. If and when such positions become vacant, with the exception of the appointment of the heads of Internal Auditor, Compliance and Risk Management which shall be the responsibility of the Audit and Risk 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 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.

Management

The Board delegates the authority for the day-to-day management of the business to the Chief Executive Officer, who is supported by a qualified senior management team and three management committees: Asset Management Committee, Assets, Liabilities and Investments Committee (ALIC) and Internal Control Committee.

Management committees

Managers	Asset Management Committee	Assets, Liabilities and Investment Committee	Internal Control Committee
Chief Executive Officer	Chairperson	Chairperson	Chairperson
Chief Capital Markets Officer			
Chief Operating Officer			
Chief Financial Officer			
Head of Equities Asset Management			
Head of Fixed Income Asset Management			
Head of Treasury		x	
Head of Proprietary Investments		x	
Head of Internal Audit	x	x	x
Head of Risk Management	x	x	
Head of Internal Control			x
Head of Compliance		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 Department 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 portfolio performance and reviews subscription, 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, 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 23 years of investment banking experience. Having been part of SICO since 1997, she was appointed CEO in 2014 following her appointment as deputy CEO in 2013. Najla served with Geneva-based Dar Al-Maal Al-Islami Trust, where she established private banking operations for the Group in the Gulf region. 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 and a Board Member of the Deposit Protection Scheme, Bahrain, the Bahrain Associations of Banks, and the Bahrain Institute of Banking and Finance. She holds an MBA in Business Administration and Finance from the American College in London and a BA in Civil Engineering from the University of Bahrain.

Fadhel Makhlooq

Chief Capital Markets Officer

With over 38 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). He currently also serves as Board Member of SICO Financial Brokerage. Fadhel holds an MBA from Glamorgan University, UK.

Anantha Narayanan

Chief Operating Officer

With over 30 years of diversified experience in the areas of operations, audit, and risk in the banking industry, Anantha joined SICO in 2008. Prior to joining SICO, he worked for Credit Agricole, BBK, Commercial Bank of Oman/Bank Muscat, and PricewaterhouseCoopers. Anantha is a Chartered Accountant and Cost Accountant (India), a Certified Information Systems Auditor (USA), 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 30 years of experience in finance, accounting, audit, investments and risk management, with the majority of his career spent in conventional and Sharia-compliant banking. Shyam currently also serves as a Board Member of SICO Financial Brokerage. 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.

Shakeel Sarwar

Head of Equities Asset Management

Shakeel Sarwar joined SICO in 2004 and, over the length of his career, has accumulated over 26 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with Riyad Bank's Asset Management Division and was part of a 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

Head of Fixed Income Asset Management

Ali Marshad has over 15 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 Haddad has 19 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.

Jithesh K. Gopi

Head of Proprietary Investments

Jithesh Gopi has over 26 years of experience in investment management, research and analytics. Since 2013, he worked with Al Rajhi Capital in Riyadh as Head of Research, Head of Asset Management, Director of Research and Financial Institutions, and Director of Corporate Development and Proprietary Investments. In 2006, he joined SICO as Senior Analyst and as Head of Research covering over 50 companies in major sectors. Jithesh holds B.Sc. in Mechanical Engineering from the College of Engineering, Trivandrum, India and an MBA from the Asian Institute of Management in Manila, Philippines. He is also a CFA charterholder and has completed the Asian International Executive Program at INSEAD Singapore.

Mariam Isa

Head of Brokerage

Mariam Isa has 16 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 a n 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.

Salman Al Sairafi

Head of Global Markets

With more than 18 years of experience in financial services and technology, Salman Al Sairafi joined SICO in 2020 as head of the newly established Global Markets division. Prior to joining SICO, he held the role of Chief Investment Officer and Board Member at Capital Growth Management in Bahrain and was Senior Investment Advisor at United Consulting Group in Saudi Arabia. Prior to that, he headed the Fixed Income and Money Markets desk at NCB Capital in Saudi Arabia. Salman has also held various other positions in Bahrain and the UK in the fields of consulting and R&D. Salman is Chairman of the Board at Dar Al Ma'rifa in Bahrain and is both a Chartered Financial Analyst and Chartered Alternative Investment Analyst. He holds a B.Eng in Information Systems Engineering and an M.Sc in Advanced Computing from Imperial College London and is a former Chevening Scholar.

Shaikha Mohammed Kamal

Head of Market Making

Shaikha Kamal has over 16 years of professional experience in Treasury at SICO, which she leverages in her current role as Head of Market Making. Shaikha joined SICO in 2004 as a Senior Dealer with the Treasury Department before being appointed Portfolio Manager in 2011. Her responsibilities include proprietary investment, where she specialized in various asset classes such as equities and fixed income in addition to the Market Making function, managing various mandates and proposed services to several clients across the GCC region. She holds an MSc. in Finance from DePaul University in Chicago in addition to a BSc. in Business Information System from the University of Bahrain.

Nishit Lakhotia

Head of Research

Nishit Lakhotia has nearly 17 years of 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 2009 actively covering sectors such as telecommunications, consumers, aviation, and construction across the GCC. Previously, Nishit worked for an Iceland-based private equity firm focusing on India's 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 in Finance from the Narsee Monjee Institute of Management Studies, Mumbai, India.

Husain Najati

Head of Treasury

Husain Najati has over 16 years of experience in financial control, fixed income and foreign exchange trading. Husain joined SICO in 2006 as a Financial Controller where he was responsible for accounting support for operational management. In 2008, Husain became a Senior Dealer in the Investment and Treasury Department, responsible for money market, FX, and fixed income management and monitoring investments across primary and secondary markets. Husain holds a Dealing Certificate from the ACI Financial Markets Association in addition to a Treasury and Capital Markets Diploma from the Bahrain Institute for Banking & Finance. He also holds a B.Sc. in Banking and Finance form the University of Bahrain.

Nadeen Oweis

Head of Corporate Communications

Nadeen Oweis joined SICO in 2008 and has accumulated over 20 years of professional experience. Prior to joining SICO, Nadeen oversaw corporate communications and public relations for Microsoft in Bahrain. Before this, she handled regional accounts for Lowe Contexture. 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.

Khaled Abdulrazak Zainalabedin

Acting Head of Distribution and Business Development

Khaled has over 18 years of experience across the fields of private equity, venture capital, investment banking , real estate and distribution. Prior to joining SICO, Khaled was CEO at Itqan Financial Services in Bahrain. His previous roles include Assistant General Manager and Head of Investment Banking at BMI Bank in Bahrain, Head of Real Estate and Venture Capital at Arbah Capital in Saudi Arabia, Director of Private Equity and Real Estate at First Investment Bank in Bahrain and member of the investment team at Kuwait Finance House - Bahrain. Khaled also currently serves on the boards of Itqan Financial Services, Eazy Financial Services, American International School of Bahrain, Alkeri Partners, Venture Partner and Advisor Brinc.io Global IoT Accelerator and President and Founder, OQAL Angels Network – Bahrain Chapter. Khaled holds a B.SC in Banking and Finance from the University of Bahrain.

Fatima Mansoor

Head of Client Relations

With more than 15 years of experience in regional equity trading and client relations, Fatima Mansoor joined SICO in 2006 as a broker, assuming the role of senior broker in 2008. She moved to the Client Relations Department in 2017 and was appointed head of the department in 2019. Fatima holds a B.SC in Banking and Finance from the University of Bahrain and an MBA in Finance from the New York Institute of Technology.

Nadia Albinkhalil

Head of HR & Administration

Nadia Albinkhalil more than 26 years of experience and 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.

Husain Ahmed

Head of Operations

Husain has 15 years of banking experience, having joined SICO in 2006. Before becoming Acting Head of Operations in 2019, he held the position of Vice President of Operations at SICO. Husain holds an MBA from Arabian Gulf University and a BSc in Business Informatics from AMA University. Husain has also received numerous anti-money laundering and backoffice operation training certifications.

Mohammed Ibrahim

Head of Information Technology

Mohammed Ibrahim has over 20 years of experience in the field of information technology (IT) including IT project management, business analysis, complex system builds and interfaces, business continuity planning, and information security. Prior to joining SICO in 2007 he was Training Head and Technical Consultants Team Lead at the Bahrain Institute of Technology and Technical and 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 and Education degree and a Post-graduate Diploma in Science and Education from Alexandria University, Egypt.

Simone Del Nevo

Head of Legal and Board Secretary

Simone Del Nevo joined SICO as Head of Legal in 2018 and has 13 years of experience in law. Before joining SICO, Simone was an Associate with international law firm Baker & McKenzie in Europe and Japan where he specialized in banking, finance and securities law. In 2012, he practiced as in-house finance counsel to a major European gas infrastructure company in an award-winning multi-billion-Euro refinancing. Simone relocated to Bahrain in 2014 working as Senior Associate in the leading regional firm ASAR - Al Ruwayeh & Partners. He received his Law Degree from Bocconi University of Milan in 2004 and was admitted to the Milan Bar Association as a qualified lawyer in 2007.

Mohammed Juma

Head of Compliance and MLRO

Mohammed Juma holds over 17 years of experience in compliance, investment and operations management. Mohammed joined SICO in 2016 as Head of Compliance and MLRO where he is responsible for monitoring SICO Group's operational adherence with the guidelines of regulatory authorities. Previously, Mohammed was Head of Compliance and MLRO with the International Investment Bank and JS Bank Limited in Bahrain. Mohammed holds a BA in Banking and Finance from the University of Bahrain and has completed the Leadership Grooming Executive Program with the Ivy Business School in Canada and Hong Kong. He is a Certified Compliance Professional and a Certified Anti-Money Laundering Specialist.

Joseph Thomas

Head of Internal Audit

Joseph Thomas has over 18 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. He began his career with Bharat Overseas Bank in India, followed by an internal audit role at the South Indian Bank. He later served as Audit Manager and Partner at a Dubai-based auditing firm. Joseph is a Chartered Accountant and a Certified Internal Auditor. He holds a Bachelor of Commerce degree from Mahatma Gandhi University in India.

Srikanth Sethuraman

Acting Head of Risk

Srikanth Sethuraman has over 26 years of experience in Risk Management, Finance, accounting and audit, with the majority of his career spent in credit, operational and market risk management. Prior to joining SICO in September 2019, he was Head of Finance and Credit Operations at Standard Chartered Global Finance Services, India. Prior to that, he was Head of Alternative Investments' Risk Information 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 and also a Certified Information Systems Auditor. He holds a Bachelor of Commerce from Madras University, India.

Naser Obaid

Chief Executive Officer

SICO Funds Services Company (SFS)

Naser Obaid has over 25 years of experience in the financial services industry across the region. Prior to joining SFS in 2019, he was a Financial Advisor to the Chairman at NBB Capital and BBIH Group. Naser previously held positions at a number of leading trust and fund service providers including Chief Executive Officer at Crestbridge Bahrain, Executive Director and Member of Senior Management at Ohad Trust, and Assistant Vice President at TAIB Bank. He has also held positions in Deloitte & Touché and KPMG in Bahrain and Yemen respectively. Naser holds a BA in Commerce from Osmania University as well as an MA in Accountancy and Management Audit from Bangalore University.

Bassam A. Khoury

General Manager SICO Financial Brokerage LLC

Bassam has over 36 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 Head of 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 of Board and Committee Charters, Code of Business Conduct, operational policies and procedures, internal controls and risk management systems, compliance procedures, delegated authority limits (DAL), 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 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 CBB and the Bahrain Bourse. The Bank has an independent Compliance Department in keeping with Basel and CBB guidelines. The Compliance Department acts as the central coordinator for all matters relating to regulatory reporting and other requirements.

Anti-money laundering measures are also an important area for the Compliance Department, 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 with the Bank. The Directors disclose their interests in other entities or activities to the NRCG committee on an annual basis, 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 2020 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 26 of the Consolidated Financial Statements.

Recruitment of Relatives:

The Bank has a Board approved policy in place on employment of relatives to prevent the potential favouritism and conflict of interest in decision-making due to certain relationships amongst employees including for Approved Persons

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 26 of 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 the CBB's High-Level Controls Module

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

SICO is in compliance with the module except for the following –
HC-1.4.6 and 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, HC-3.2.1 and HC-5.3.2 state that the Corporate Governance Committee, Audit Committee, Nomination Committee and Remuneration Committee must include only 3 independent or majority independent Directors. The Chairman of the Audit and Risk Committee is an independent Director, however, the remainings are either executive or non-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.

HC-6.5.49 stipulates that every 5 years, the audit committee must commission an independent external quality assurance review of the internal audit function. A review of the same was planned for 2020, however this could not be carried out due to the Covid 19 pandemic as external consultants/parties visits were discouraged. An external quality review is planned to be carried out during 2021.

HC-6.5.51 and HC-6.4.12 requires management or Board to ensure that all internal audit and Compliance findings and recommendations are resolved within six months for high risk issues and twelve months for others (9 months for compliance findings) from the issue date of the subject report. Some of the findings have not been resolved within the stipulated time frame, however, relevant departments are working on addressing this issue. The COVID 19 pandemic has affected the overall speed of resolution of findings and those requiring external consultant visits and support.

HC-1.5.2 states that in conventional bank licensees with a controller, at least one-third of the board must be independent directors. The bank is not in compliance with the mentioned rule, however, the bank is of the view that this does not compromise the high standards of corporate governance as four of the executive Directors are representing Bahraini state owned entity. In addition, the bank has in place a comprehensive corporate governance framework and relevant measures to take care of the interest of all stakeholders including minority or smaller shareholders.

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, 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
Fahad Murad*	2
Mohammed Abdulla	3
Khurram Mirza	3
Dana Raees	1

**Board members completed their term in March 2020*

The aggregate remuneration to NRCGC members during the year in the form of sitting fees amounted to BD 9,000 [2019: BD 12,000].

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 shortrun 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:

- The cost and quantity of capital required to support the risks taken;
- The cost and quantity of the liquidity risk assumed in the conduct of business; and
- 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%-100%	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	2020	2019
• Sitting Fees	85	69
• Remuneration	71	170
• Others	10	12

(b) Employee remuneration

2020 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	12	984,848	37,800	206,200	89,300	1,318,148
Approved persons in control functions	15	783,026	30,165	85,560	26,640	925,391
Other material risk takers	27	748,683	23,910	104,200	24,600	901,393
Other employeers	38	753,950	26,286	66,360	14,140	860,736
Subsidiaries						
Business Line	6	326,633	7,063	28,799	8,760	371,255
Other employees	18	389,628	8,400	46,522	4,900	449,450
Total	**116**	**3,986,768**	**133,624**	**537,641**	**168,340**	**4,826,373**

2019 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	10	859,365	29,640	351,000	157,300	1,397,305
Approved persons in control functions	16	788,169	27,150	163,200	43,300	1,021,819
Other material risk takers	27	710,949	19,680	196,800	63,200	991,529
Other employees	38	722,295	26,259	121,860	26,140	896,554
Subsidiaries						
Business lines	6	238,552	3,682	16,013	4,003	262,250
Other employees	18	354,004	7,941	49,659	8,060	419,664
Total	**115**	**3,673,334**	**115,252**	**898,532**	**302,003**	**4,989,121**

Notes:

The amounts reported above represent actual awards for 2020 and 2019 rather than accruals and changes in value of prior period awards. Accordingly, the numbers and amounts above may not necessarily agree with numbers/ amounts reported in the financial statements.

(c) Deferred awards

2020 BD 000'	Shares	Amount
Opening Balance	17,094,984	2,632,628
Awarded during the period	1,986,603	301,964
Paid out / released during the period	(1,901,263)	(292,795)
Service, performance and risk adjustment	-	-
Changes in Value of unvested opening awards	-	30,387
Closing balance	**17,180,324**	**2,611,409**

2019 BD 000'	Shares	Amount
Opening balance	16,135,313	2,339,620
Awarded during the period	2,703,605	416,355
Paid out / released during the period	(1,743,934)	(252,870)
Service, performance and risk adjustments	-	-
Changes in value of unvested opening awards	-	(129,522)
Closing balance	**17,094,984**	**2,632,628**

Notes :

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.

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 Disclosures

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

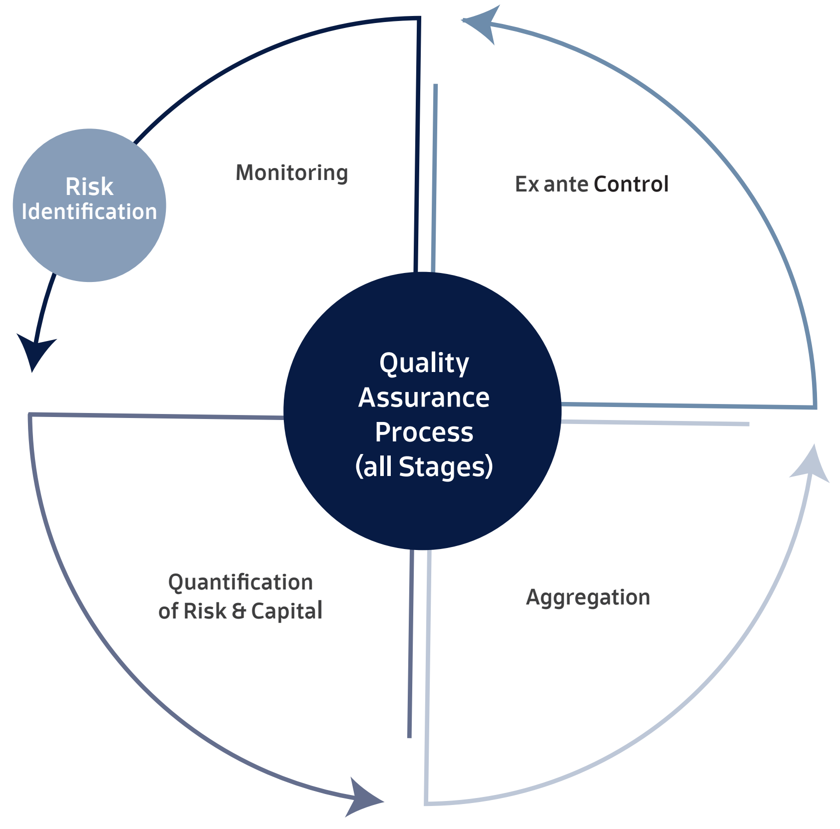
Risk management is the systematic process of identifying, assessing and mitigating the risks to which SICO is exposed. Risk management is essential to the Bank's success, as risk is inherent in its activities, and risks are mitigated by establishing appropriate controls and ensuring that effective monitoring 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 and Risk Committee (BARC):** The BARC 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.
- **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 all 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: • 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 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.

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 and SICO US Real Estate Corp (USA) which is the holding company for US real estate investments.

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.

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 investment securities classified under fair value through other comprehensive income.
c. The Bank does not maintain any additional Tier 1 (AT1).
d. The Bank's Tier 2 capital comprises of general provisions recognized under IFRS 9 Expected Credit Losses
e. The Bank has prepared its capital structure in accordance with the CBB's Basel III capital adequacy framework
f. The Bank has no subsidiaries and/or investments that are required to be deducted from capital.
g. 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)	(2,263)
Less: Treasury Shares	(5,322)
General Reserve	3,217
Legal / Statutory reserves	7,569
Share Premium	761
Retained Earnings Brought forward	7,561
Current interim cumulative net income / losses	2,959
Securitisation exposures subject to deduction	-
Accumulated other comprehensive income and losses	986
Less: Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	-
Total Common Equity Tier 1 Capital (A)	**58,317**
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	72
Total AT1 & Tier 2 (B)	**72**
Total Available Capital (C) = (A) + (B)	**58,389**
Credit risk weighted exposures	40,885
Market risk weighted exposures	27,150
Operational risk weighted exposures	23,803
Total Risk weighted exposures (D)	91,839
CET1 Capital Ratio (A) / (D)	63.50%
Total Capital Adequacy Ratio (C) / (D)	**63.58%**

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)	63.58%	63.50%
SICO Fund Services Company BSC ©	476.23%	476.23%
SICO Financial Brokerage LLC	4.86	3.31

** 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.*

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 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 31st December 2020	Gross credit exposure	Eligible CRM	Credit exposure after CRM	Average Risk Weight	Risk weighted exposure	Capital requirement @ 12.5%
Cash items	-	-	-	-	-	-
Claims on sovereigns	31,498	-	31,498	2%	680	85
Claims on Bahraini PSE	500	-	500	-	-	-
Claims on banks	99,317	46,286	53,031	30%	15,958	1,995
Claims on corporates	15,110	12,612	2,498	101%	2,512	314
Claims on Investment Firms	-	-	-	-	-	-
Regulatory retail portfolios	5,620	5,620	-	-	-	-
Investments in securities	8,478	-	8,478	109%	9,226	1,153
Holdings in real estate	3,375	-	3,375	200%	6,750	844
Other assets	5,760	-	5,760	100%	5,760	720
Total Funded	**169,659**	**64,518**	**105,141**	**-**	**40,885**	**5,111**
Off Balance Sheet exposures	5,013	-	5,013	100%	5,013	627

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 31st December 2020	Less than 1 year	Over 1 year to 5 years	5-10 year	10-20 years	Above 20 years	Total
Cash and cash equivalents	54,393	-	-	-	-	54,393
Treasury bills	1,127	-	-	-	-	1,127
Securities bought under repurchase agreements	73,816	-	-	-	-	73,816
Investments at fair value through profit or loss	8441	6084	1388	-	6,530	22,443
Investments at fair value through other comprehensive income	-	4,538	431	-	4,754	9,723
Investments at amortized cost	-	1169	8,784	-	-	9,953
Investment property	-	-	427	-	-	427
Property, equipment and intangibles	169	758	495	-	-	1,422
Fees receivable	1,153	-	-	-	-	1,153
Other assets	7,323	-	-	-	-	7,323
Total gross credit exposures	**146,421**	**12,549**	**11,525**	**0**	**11,284**	**181,780**
Commitments	2,841					2,841
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 31st December 2020	Financial	Sovereign	Diversified Funds	Real Estate	Others	Total
Cash and Bank balances	41,918	21	0	0	0	41,939
Treasury bills	0	1,127	0	0	0	1,127
Placements with banks	12,454	0	0	0	0	12,454
Securities bought under repurchase agreements	48,415	17,849	0	0	7,552	73,816
Investments at fair value through profit or loss	4,311	3,704	10,547	2,448	1,433	22,443
Investments at fair value through other comprehensive income	2,363	4,187	0	1,914	1,258	9,723
Investments at amortized cost	0	9,953	0	0	0	9,953
Investments property	0	0	0	427	0	427
Fees receivable	0	0	0	0	1,153	1,153
Furniture, equipment and Intan-gibles	0	0	0	0	1,422	1,422
Other assets	0	0	0	0	7,323	7,323
Total assets	**109,462**	**36,842**	**10,547**	**4,789**	**20,140**	**181,780**

5.4. Geographical distribution

As at 31st December 2020	Middle East and Asia	North America	Europe	Total
Cash and bank balances	51,470	442	2,481	54,393
Treasury bills	1,127	-	-	1,127
Securities bought under repurchase agreements	67,475	-	6,341	73,816
Investments at fair value through profit or loss	14,323	5,247	2,873	22,443
Investments at fair value through other compre-hensive income	9,723	-	-	9,723
Investments at amortized cost	9,953	-	-	9,953
Investments property	-	427	-	427
Fees receivable	1,107	-	46	1,153
Furniture, equipment and Intangibles	1,422	-	-	1,422
Other assets	7,291	19	13	7,323
Total assets	**163,891**	**6,135**	**11,754**	**181,780**

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 require-ments of rule CM-5.6.2 of the Credit Risk Management module of the Rulebook.

Counterparty	Country	Amount	Exposure as a % to eligible capital base
GFH - KHCB	Bahrain	34,972	59.9%
CBB	Bahrain	12,475	21.4%
FISRT ENERGY BANK	Bahrain	11,978	20.5%
NBK	Bahrain	9,468	16.2%
KFH BH	Bahrain	9,398	16.1%

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 dy-namic 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			
	During the year to date period			
	Minimum	Maximum	As at 31-Dec-19	Capital Requirement @ 12.5%
Interest Rate Position Risk	898	959	959	120
Equities Position Risk	404	1,135	1,135	142
Foreign Exchange Risk	18	102	78	10
Total min capital required for market risk			**2,172**	**272**
Multiplier			12.5	12.5
Total			**27,150**	**3,394**

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	2846	2846	356
- Unlisted	-	-	-
Investment in rated funds	-	-	-
Investment in unrated funds - listed/unlisted	5,632	6,379	797
Total	**8,478**	**9,226**	**1,153**

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.

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

As at 31st December 2020	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non- interest sensitive	Total
Cash and Bank balances	-	-	-	39,951	**39,951**
Call deposits	-	1,988	-	-	**1,988**
Treasury bills	-	1,127	-	-	**1,127**
Short-term placements with banks	2.46%	12,454	-	-	**12,454**
Securities bought under repurchase agreements	2.00%	73,816	0	0	**73,816**
Investments at fair value through profit or loss	5.70%	1,323	7,362	13,758	**22,443**
Investments at fair value through other comprehensive income	6.79%	0	4,970	4,753	**9,723**
Investments at amortized cost**	6.90%	-	9,953	-	**9,953**
Investment property	-	-	-	427	**427**
Fees receivable	-	-		1,153	**1,153**
Other assets	-	-	-	7,323	**7,323**
Furniture, equipment and intangibles	-	-	-	1,422	**1,422**
Total Assets		**90,708**	**22,285**	**68,787**	**181,780**
Short-term bank borrowings	1.18%	7,400	-	-	**7,400**
Securities sold under repurchase agreements	1.52%	74,406	-	-	**74,406**
Customer accounts	-	-	-	34,885	**34,885**
Other liabilities	-	-	-	5,426	**5,426**
Payable to unit holders in consolidated funds	-	-	-	1,340	**1,340**
Total Liabilities		**81,806**	**-**	**41,651**	**123,457**
Total Equity				**58,323**	**58,323**
Total Liability and Equity		**81,806**	**-**	**99,974**	**181,780**
Interest rate sensitivity Gap		8,902	22,083	(31,187)	
Cumulative Interest rate sensitivity gap		**8,902**	**22,083**	**-**	

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 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:

Amount in BD '000					
50 bps increase	100 bps increase	200 bps increase	50 bps decrease	100 bps decrease	200 bps decrease
(334)	(668)	(1,335)	334	668	1,335

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)

	2017	2018	2019
Gross income	9,993	12,029	16,063
Average gross income (A)			12,695
Alpha (B)			15%
(C) = (A) * (B)			1,904
Risk weighted exposures (D) = (C) * 12.5)			**23,803**
Capital requirement @ 12.5% of (D)			**2,975**

8. Other risks

8.1. Concentration risk

oncentration 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.

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

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

APPENDIX 2

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

	Published financial statements 31-Dec-20 BD '000	Consolidated PIR data* 31-Dec-20 BD '000
Assets		
Cash and cash equivalents	54,393	54,403
of which Cash and balances at central banks	41,939	41,938
of which Placements with banks and financial institutions	12,454	12,464
Treasury bills	1,127	1,127
Securities bought under repurchase Agreement	73,816	73,856
Investments at fair value through profit and loss	22,443	22,443
Investments at fair value through other comprehensive income	9,723	9,723
Investments at Amortized Cost	9,953	9,953
Investment in Properties	427	427
Fees receivable	1,153	1,153
Other assets	7,323	7,339
of which loans and advances (margin receivables)	5,242	5,259
of which interest receivable	713	713
of which other assets	1,368	1,367
Furniture, equipment and intangibles	1,422	1,422
Total assets	**181,780**	**181,846**
Liabilities		
Short-term bank borrowings	7,400	7,400
Securities sold under repurchase agreement	74,406	74,406
Customer Accounts	34,885	34,885
Other liabilities	5,426	5,426
of which Interest payable	169	169
of which other liabilities	5,257	5,257
Payable to other unit holders (Other liabilities)	1,340	1,340
Total liabilities	**123,457**	**123,457**

	Published financial statements 31-Dec-20 BD '000	Consolidated PIR data* 31-Dec-20 BD '000
Shareholders' Equity		
Share Capital - eligible for CET1	42,849	42,849
Shares under employee share incentive scheme	-2,263	-2,263
Treasury shares	-5,322	-5,322
Statutory reserve	8,330	8,330
of which share premium	761	761
of which legal reserve	7,569	7,569
General reserve	3,217	3,217
Investments fair value reserve	992	986
of which unrealized gains from fair valuing equities	487	487
of which unrealized gains from other financial instruments	505	499
Retained earnings	10,520	10,520
of which retained earnings brought forward from previous year	7,561	7,561
of which net profits for the current period	2,959	2,959
Expected Credit Losses (Stages 1 & 2)	-	72
Total shareholder' equity	**58,323**	**58,389**
Total liabilities and equity	**181,780**	**181,846**

**The figures are gross of expected capital loss.*

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	35,264		
2	Retained earnings	10,520		
3	Accumulated other comprehensive income (and other reserves)	12,533		
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**	**58,317**		
	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	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)**	**58,317**		
	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)	58,317		

	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
	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)	72		
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**	**72**		
58	**Tier 2 capital (T2)**	**72**		
59	**Total capital (TC = T1 + T2)**	**58,389**		
	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**	**91,839**		
	Capital ratios			
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**63.50%**		
62	**Tier 1 (as a percentage of risk weighted assets)**	**63.50%**		
63	**Total capital (as a percentage of risk weighted assets)**	**63.58%**		

	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
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)	63.50%		
	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)	72		
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	Commercial Companies Law, Bahrain
	Regulatory treatment	
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 35.26 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
	Coupons / dividends	
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	NA
	immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

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