SICO
Est 1995
سيكو

Informed
Financial Services

BUILDING PARTNERSHIPS
for Sustainable Growth

Annual Report 2018

sicobank.com

Building Partnerships for Sustainable Growth

In 2018 SICO has proven that it is the partner of choice for IPOs, market making, fund raising and investments in sectors that are helping propel growth and create opportunities for millions of people in Bahrain and the wider GCC. The Bank's internal and external stakeholders view it as more than just a service provider but as a true partner. SICO has a low turnover of both clients and employees, and is increasingly being viewed as a strategic partner to the Bahraini government and local champion for government driven initiatives.

His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

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

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Year in Review

Informed Financial Services Since 1995

SICO is a leading regional asset manager, broker, and investment bank, with USD 1.9 billion in assets under management (AUM). Today, SICO operates under a wholesale banking licence from the Central Bank of Bahrain (CBB) and also oversees two wholly owned subsidiaries: an Abu Dhabi-based brokerage firm, SICO Financial Brokerage, and a specialized regional custody house SICO Fund Services Company (SFS) in Bahrain.

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

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

2018 Awards

Best Investment Bank – Bahrain
World Finance Awards

Most Innovative Investment Bank
International Finance Awards

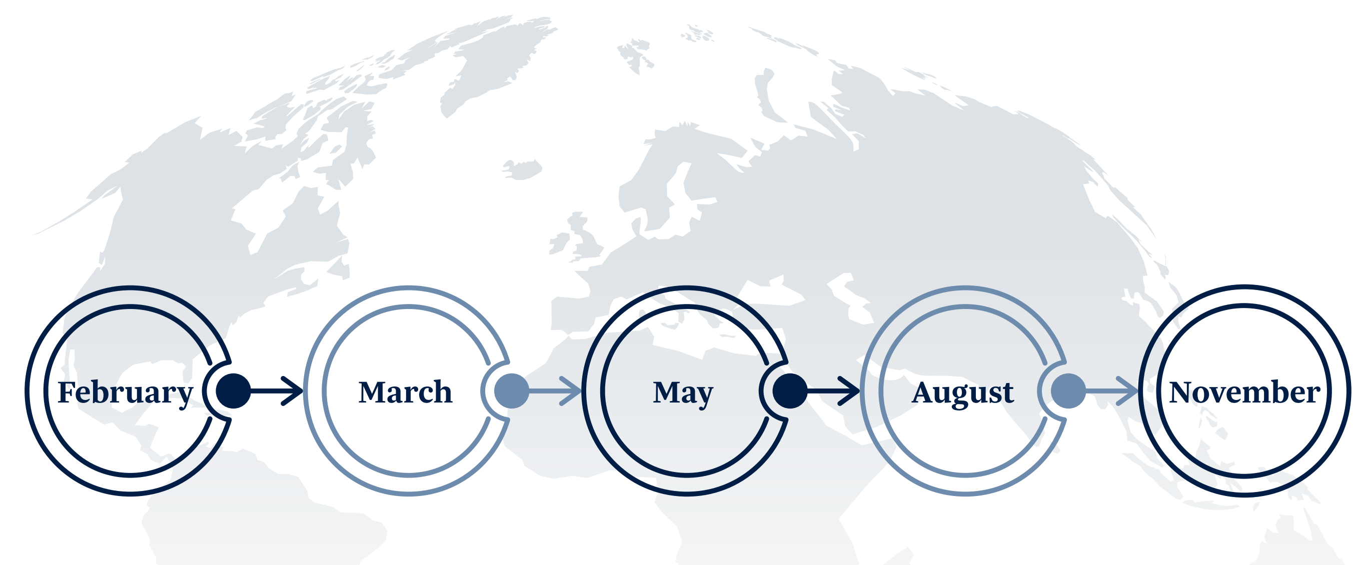
Best Investment Management Firm – Bahrain
World Finance Awards

Number One Broker – Bahrain Bourse
20th consecutive year

The Middle East's Most Influential Women – SICO CEO, Najla Al Shirawi
Forbes Middle East/4th consecutive year

> 2018 proved to be another landmark year for SICO, from brokerage to asset management, investment banking and treasury, SICO continues to demonstrate its ability to turn market opportunities into avenues for growth.

2018 Milestones



Membership in NASDAQ Dubai Derivatives Market
SICO joins NASDAQ and offers clients new investment tools

SICO LIVE Offers E-Settlement
Real-time electronic cash management and FAWATEER settlement services in Bahrain

ABC Market Making Mandate
SICO is appointed as market maker for Bank ABC on the Bahrain Bourse

Market Making Accreditation in UAE
SICO acquires license to operate as market maker and liquidity provider on DFM and ADX

APM Terminals IPO
SICO is lead manager, underwriter, market maker, and participating broker on the most successful IPO in Bahrain in a decade

> We have developed a clearly articulated set of goals that include expanding our product offering, growing our AUMs, and looking for more regional opportunities; these goals align with our mission, vision, and values and will ensure our long-term growth.

Mission

Our mission is to be the most innovative, reliable and trustworthy financial solutions provider and partner that creates value for our shareholders, clients, employees, and community.

Vision

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

Values

We are committed in all our personal and professional day-to-day interactions to excellence and innovation. We value honesty, integrity, transparency, and building long-term partnerships.

Chairman's Statement

It is with tremendous pride and honor that I present to you SICO's annual report and financial statements for the year ending 31 December 2018. On behalf of the Board of Directors of this esteemed organization, I would like to express the strong sense of pride we feel as we share the details of SICO's financial and operational results on the forthcoming pages of this report.

Beyond the commendable numbers and landmark achievements of 2018, I am also deeply proud of the position that SICO has attained over the years as a leading capital markets player both locally and regionally. In our home market of Bahrain, we have not only consolidated our position as the leading investment bank and brokerage house in the kingdom, but we are also increasingly regarded as the partner of choice for sophisticated capital markets transactions by our clients, peers, and regulators.

One year ago today as we developed our business plan and strategy for 2018 we braced ourselves for a turbulent year ahead. With the geopolitical uncertainty that has become a given in our part of the world and oil prices barely inching above USD 60, the region-wide fiscal and monetary challenges were clear. We were very cognizant of the fact that we would have to raise the bar in order to keep growing our core business and capturing new opportunities for both our asset management and investment banking lines of business.

Today I'm happy to report that despite the significant hurdles 2018 has proven to be a good year for SICO. All our business lines have outperformed with healthy revenue and cash flow. From brokerage to asset management, investment banking and treasury, SICO continues to demonstrate its ability to turn market opportunities into avenues for growth.

With a 12% increase in net profits to BD 3.7 million from BD 3.3 million and 20% growth in revenue y-o-y, we have delivered a solid set of results for the year and proven our ability to outperform the market despite mixed performances on regional exchanges and operational headwinds. Almost all business lines have reported higher revenue for the year resulting in a total net operating income of BD 10.7 million in 2018, up by 16% from BD 9.3 million in 2017. Basic earnings per share stand at 10.01 Bahraini fils compared to 8.01 fils in 2017.

SICO has increased its total assets under management by 50% y-o-y to BD 699.1 million (USD 1.9 billion), up from BD 465.3 million (USD 1.2 billion) at year-end 2017. All our funds topped the league tables and distributed dividends during the year, an achievement that is not easy to come by given the current climate. Our remarkable AUM growth trajectory is testament to a prudent investment approach and a forward-looking strategy that has grown investor confidence in our institution's ability to generate risk-adjusted returns particularly during times of volatility.

> In our home market of Bahrain we are increasingly regarded as the partner of choice by our clients, peers, and regulators.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

> Sentiment in Bahrain has improved, but we must continue to invest in our infrastructure and in defensive non-oil sectors that can grow the economy and spur job creation.

Our achievements in 2018 were many but a number of operational milestones stand out in particular as we reflect on an eventful year. High atop the list is the BD 11.880 million IPO of APM Terminals Bahrain, which currently stands as the most successful public offering in Bahrain in the past decade. SICO is exceptionally proud to have played the role of lead manager, underwriter, market maker and participating broker for an offering that attracted interest and attention from a broad base of investors. The results of this IPO were extremely encouraging as they were indicative of the degree of faith that the market has in Bahrain and in SICO. In line with our strategy to opportunistically explore regional expansion in areas where we have excelled locally, SICO has been accredited as a market maker and liquidity provider on both the Dubai Financial Market (DFM) and the Abu Dhabi Exchange (ADX) making us the first non-UAE institution to receive this accreditation.

While all of these developments are indeed encouraging signs of more good things to come, we must once again be cautious about the year ahead which promises to be a mixed bag of challenges and opportunities. Volatility remains, which is why governments in the region are staying the course with their reform programs and efforts to diversify their economies away from oil.

I think we've seen good progress in Bahrain. Under the leadership of His Royal Highness, Prince Salman bin Hamad Al Khalifa, Crown Prince of Bahrain and the Chairman of the Bahrain Economic Development Board (EDB), FDI has hit record highs with the aggregate value of investment projects supported by the EDB more than doubling year on year in 2018. We've also been heartened by announcements like Amazon Web Services' (AWS) plan to open a Bahrain-based Middle East operation in the first half of 2019, which will no doubt attract new investment and further enhance an innovation and entrepreneurship ecosystem that is already being championed by the government.

On the back of positive announcements such as these as well as the Gulf aid package that was announced last summer, sentiment in Bahrain has improved, but we must continue to invest in our infrastructure and in defensive non-oil sectors that can grow the economy and spur job creation. In the short-term, the impact of some of these reform measures, such as the implementation of the VAT in 2019, will present uncertainties, but in the long-term VAT will bolster Bahrain's non-oil revenues and help the country achieve a balanced budget by 2022.

Regardless of the ups and downs that the year ahead may bring we look forward to continuing the journey with all of our internal and external partners and stakeholders. I have the utmost confidence in each and every member of the team. They have proven time and again that they have the ability to manage risk and capture opportunity sustainably and responsibly.

On behalf of SICO's Board of Directors I would like to take this opportunity to thank the Central Bank of Bahrain and the Bahrain Bourse for their strong leadership and steadfast support of our vision. The entire team at SICO would also like to offer its best wishes and sincere gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince for their wise leadership and support of Bahrain's financial sector.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

3.7 BD MN
2018 Net Profit

10.7 BD MN
2018 Net Operating Income

12%
2018 Increase in Net Profits

Board of Directors

Shaikh Abdulla bin Khalifa Al Khalifa

Chairman and Executive Director since 2011, representing Social Insurance Organisation – Bahrain

- Chairman of SICO Board Investment Committee
- Chief Executive Officer, Osool Asset Management BSC (c)
- Chairman, Batelco
- Board Director, BBK, Amanat Holding PJSC, Amlak Social Insurance Organisation Development Company, Bahrain Marina Development Company, Bina Al Bahrain
- Professional experience: 22 years
- Education: BSc in Business Administration, George Washington University, Washington DC, USA

Hussain Al Hussaini

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

- Member of SICO Board Investment Committee
- Chief Executive, Treasury, Capital Markets & Wealth Management, National Bank of Bahrain BSC
- Chairman, Esterad Investment Company BSC
- Professional experience: 37 years
- Education: PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing & Management Change, DePaul University Chicago, USA; and BA in Economics, Concordia University, Montreal, Canada

Fahad Murad

Independent Director since 2011, representing Investcorp Bank BSC – Bahrain

- Chairman of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Managing Director, Head of Placement for Bahrain and Oman, Investcorp Bank BSC
- Professional experience: 34 years
- Education: BBA and MBA in Finance from the University of Houston, Texas, USA

Waleed K. Al-Braikan

Independent Director since 2014, representing Gulf Investment Corporation – Kuwait

- Chairman of SICO Board Audit Committee
- Director of GCC Equities Division, Gulf Investment Corporation
- Professional Experience: 33 years
- Education: BA in Finance from Kuwait University, Kuwait

Anwar Abdulla Ghuloom Ahmadi

Executive Director since 2002, representing Social Insurance Organisation – Bahrain

- Member of SICO Board Audit Committee
- Board Director, Al Seef Properties
- Professional experience: 37 years
- Education: ACPA, GED, CIPA; and BSc in Accounting

Mohammed Abdulla Isa

Executive Director since 2009, representing BBK BSC – Bahrain

- Member of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Group Chief Financial Officer, BBK
- Professional experience: 28 years
- Education: Certified Public Accountant, American Institute of Certified Public Accountants, Delaware State Board of Accountancy (2001), USA

Prakash Mohan

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

- Member of SICO Board Investment Committee
- Group Head – Corporate Banking, Ahli United Bank
- Professional experience: 26 years
- Education: MBA from McCombs School of Business, The University of Texas at Austin, USA; MS in Chemical Engineering from Iowa State University, Ames, USA; and BTech in Chemical Engineering from Indian Institute of Technology, Kanpur, India

> “ SICO’s Board of Directors is comprised of renowned industry professionals with vast experience in the global and regional financial sector; the Board is committed to excellence in corporate governance and adheres to international best practices and the principles of the Corporate Governance Code of the Kingdom of Bahrain.

Khurram Ali Mirza

Executive Director since 2017, representing Social Insurance Organization – Bahrain

- Member of SICO Board Nomination, Remuneration & Corporate Governance Committee
- Head of Asset Allocation, Osool Asset Management BSC (c)
- Professional Experience: 26 years
- Education: Fellow, Institute & Faculty of Actuaries, UK; BSC in Actuarial Science and MSc in Mathematical Trading & Finance from Cass Business School, University of London, UK

Emad Al Saudi

Independent director since 2017, representing Bank ABC – Bahrain

- Member of SICO Board Audit Committee
- Head of Derivatives & Foreign Exchange, Bank ABC
- Professional Experience: 27 years
- Education: BSc in Business Administration from Pepperdine University, California, USA; General Certification from International Securities Market Association

CEO's Note

> From spearheading Bahrain's most successful IPO in a decade, to crucial market making activities and new investment products, we are proud to be regarded as an integral component of Bahrain's growth story.

Dear Shareholders,

SICO has been on a steady journey that has seen it reap the benefits of market upswings and withstand the challenges of economic downturns for the better part of two decades. Through it all we have always been eager, willing, and able to proficiently navigate turbulent terrain and turn challenges into opportunities. By supporting our clients, investing in innovation, and partnering with both private and public sector stakeholders we have proudly played a hand in creating the economic activity that will fuel sustainable growth in our country and our region for many years to come.

In order to ensure that we remain profitable even in down markets our business model has delicately shifted from putting capital at risk for proprietary book returns to the more sustainable approach of putting capital to work to increase our fee business in a manner that will drive growth even when markets are not trending in our favour. This prudent strategy has helped us maintain our prominent position in the market as true partners for our clients, our peers, and the government as we enthusiastically embrace the role of local champion for capital markets initiatives.

In 2018, SICO reinforced its position as a positive force for growth in local capital markets. From spearheading Bahrain's most successful IPO in a decade, to crucial market making activities and new investment products, we are proud to be regarded as an integral component of Bahrain's growth story. Today SICO is the market leader in asset management, brokerage, and investment banking in Bahrain with an expanding regional footprint, and we have consistently proven that we know how to create value for our clients, shareholders, and the markets in which they do business irrespective of the challenging operating environment.

As the year unfolded we were keen to maintain the positive momentum that we built in 2017. To ensure our continued growth and profitability, a clearly articulated set of goals were put into place that included expanding our product offering, growing our AUM and looking for more regional opportunities. I'm happy to report that we have met our goals and exceeded our expectations on all fronts.

Our AUM growth remains robust on both the fixed income and equities side of the business with our net subscriptions for the year reaching USD 527 million. The growth of our AUM y-o-y to USD 1.9 billion from USD 1.2 billion is a testament to the faith that our clients continue to place in us and our ability to outperform the market and generate healthy returns. While we are extremely proud of our ability to consistently grow our AUM, we are well aware that diversification will be key going forward and thus we began catering to a broader set of clients with a wider variety of products including alternative asset classes.

Najla M. Al Shirawi
Chief Executive Officer

Market Background

The structural reform and fiscal consolidation that has been set in motion region-wide in the past two years has given us a more optimistic outlook on the future. On the long term these measures are positive and will lead to sustainable growth for the economies of single countries and the region as a whole. While the pace of reform differs from one country to another we have witnessed forward momentum across the board, even within countries that face less pressure such as Kuwait. With oil prices averaging a higher than expected USD 72 in 2018, funding pressure on oil-producing countries temporarily eased, but as the year drew to a close, prices once again started to falter underscoring the fact that reform and diversification away from oil is imperative.

One of the key themes across most markets in the GCC in 2018 was the MSCI/FTSE inclusion, weight changes, and related capital inflows. Most GCC markets ended 2018 on a high note with the exception of markets in Dubai and Oman that experienced declines throughout the year. The drop in oil prices in the fourth quarter spooked the markets with the majority witnessing selling pressure towards the end of the year. Overall turnover in GCC markets was low, particularly Dubai which declined 42% y-o-y in 2018 and was also the worst performing market (-25%) as concerns on the real estate outlook and overall economic slowdown weighed on the index. Although Saudi market turnover increased 5% y-o-y, daily turnover remains below the USD 1 billion level.

Bahrain remained the top performing market in 2018 in terms of improving turnover 30% y-o-y. In the capital markets space, the APM Terminals IPO proved to be highly successful, both in terms of market demand and share price performance subsequent to the listing. Furthermore, the country's fiscal outlook and market sentiment witnessed a considerable boost after the announcement of the USD 10 billion financial support package from Kuwait, the UAE, and Saudi Arabia. The package also supported the kingdom's bonds, ending the year as the best performing fixed-income market in the emerging market space with an average return of 4.7%.

We are also nearing the end of the interest rate hike cycle in fixed income after the Federal Reserve increased its rates four times in 2018. As a result, performance was subdued with the Barclays GCC Bond Index only returning 0.3% over the entire year. However, yields on regional bonds are now close to their highest levels at 4.65% and their inclusion in the JP Morgan Emerging Market Bond Index is as a testament to the success of the regional credit market and will serve as a catalyst going forward. Overall, new debt supply from the MENA region in 2018 stood at USD 75.4 billion as compared to USD 86.4 billion, USD 62.0 billion and USD 27.8 billion in 2017, 2016, and 2015 for the same time period.

Operational Highlights

In 2018 we continued to outperform our peers and grow our fee-based income for the eighth consecutive year under a challenging operating environment. In addition to our traditional discretionary portfolio services, we have expanded our offering to include fixed income and equity asset management advisory as a means of broadening our client base with products that directly target the evolving needs of multiple categories including institutional and high-net-worth individuals.

As an institution that continues to be ambitious through the adoption of technology and innovation, we are very pleased to report that our online trading platform SICO LIVE launched in 2017 and has achieved promising results both internally and externally. Internally we have a streamlined process for order execution and workflow and we are now the first in the region to offer online settlement and cash management. Through a link to the BENEFIT payment network clients with Bahraini bank accounts can now credit or withdraw funds directly from their SICO brokerage accounts. Our capital markets division has also been very active in bundling sell-side research with brokerage whereby road shows for institutional sales are held with the active participation of sell-side research. Combining the strength of our world-class research team with the experience and capabilities of our brokerage division will provide our clients with unparalleled service and advice on the management of their portfolios.

527 USD MN

2018 Asset Management Net Subscriptions

1.9 USD BN

2018 Total AUM

620 USD MN

Increase in AUM y-o-y

2018 has been an extremely successful year for our investment banking division. In terms of public market transactions our crown jewel has been the BD 11.88 million APM Terminals IPO where we played the role of lead manager, underwriter, market maker, and participating broker. We felt that this was an excellent opportunity where we could put our capital at risk to fully underwrite the transaction and offer it to our clients through the public market. The IPO which was completed in record time (just under six months) was met with strong demand from local and regional institutions and retail investors alike, resulting in an oversubscribed offer with funded applications totaling 6.8x the institutional offer size and 2.2x the retail tranche.

Our investment banking team also took the lead on a new Bahrain Energy Fund in cooperation with the government of Bahrain. We are extremely proud of our partnership with the National Oil & Gas Authority (NOGA) on the Fund, which reflects our ongoing commitment to attract new capital for investment opportunities in Bahrain.

As the market maker for a number of organizations including new mandates from Bank ABC and Batelco, our Market Making division has witnessed robust expansion in Bahrain. In 2018 we were granted new licenses in Abu Dhabi and Dubai that will allow us to act as market makers and liquidity providers on both UAE exchanges, the DFM and ADX. As the first non-UAE-based

> 2019 will be a challenging year in the GCC which can also open up opportunities for innovative investment banks like SICO.

company to receive this accreditation we have reinforced SICO's position as a regional leader in financial services and we look forward to expanding our role in the UAE's financial markets.

Institutional Capability

In 2017 we announced a realignment of our organizational structure that included a merging of fixed income and equities asset management and the reorganization of five departments reporting directly to a Chief Capital Markets Officer. The move has helped us support our goals and better serve our clients by delivering more streamlined investment solutions particularly on the brokerage side of the business. Today the complementary services of brokerage, sell-side research, treasury, proprietary investments, and market making all fall under one umbrella. The decision to spin off Market Making as an independent department came as a result of its increasing importance to our business and the potential that it has for growth in other markets beyond Bahrain.

As the sophistication of our products, transactions, and relationships with the clients increased, the need for an in-house legal counsel became apparent. In 2018, we appointed Simone Del Nevo as our in-house legal advisor, providing solutions and structures with quick turnaround times to support our business. We are currently in the process of ramping up our distribution capabilities and building a team that will help us expand into markets where we don't currently have a presence.

We have taken serious steps to adopt new technology and fintech solutions that will strengthen our overall business, and we are on track with our cyber security framework, which is now a priority that we have with an open platform for our clients. We are working to adopt artificial intelligence to help us run our business more efficiently and give clients more insight and control over their accounts and portfolios.

Corporate Social Responsibility

A dedication to furthering the educational and technical skills of Bahrainis continued to be the focus of our CSR activities in 2018. Throughout the year SICO sponsored a number of worthwhile initiatives including TradeQuest (a simulated business education program in cooperation with the Bahrain Bourse), Bahrain Fintech Bay, and the CFA Society. We continued to sponsor the Crown Prince's International Scholarship Program, an initiative we have been committed to supporting for years, which awards merit-based university scholarships to young Bahrainis from both public and private schools. We also launched our corporate Go Green initiative, which included a number of energy saving campaigns, recycling drives and a company-wide effort to reduce our use of paper and plastics. We look forward to expanding on these important sustainability initiatives and working to spread awareness on ways to mitigate the effects climate change amongst the broader business community in Bahrain.

The Year Ahead

2019 will be a challenging year in the GCC, which can also open up opportunities for investment banks like SICO. From an economic perspective, while measures and reforms are being taken to bring in more diversification and raise non-oil revenues, this does bring its own share of challenges, which can to some extent cause temporary disruption. However, this also provides a strong business case for companies to merge, pursue synergies, and cut costs, possibly offering opportunities for Investment banks like SICO to advise clients on M&A opportunities. A further push for privatization by regional governments as part of reform programs will also bring about opportunities in the primary market as we have seen with the APM Terminals IPO. Assuming oil prices average below USD 70/bbl in 2019, most GCC economies will likely have higher fiscal deficits as they pursue an expansionary budget, which implies more sovereign issuances and consequently opportunities on the fixed income side of the business.

Overall, we expect 2019 to be a relatively volatile year for regional markets influenced by flows ahead of MSCI & FTSE inclusion, government spending (as expansionary budgets translate to higher capex), and of course oil prices.

For Bahrain specifically, 2019 will be significant on several fronts. The kingdom's aluminum giant, Alba, will launch their landmark line 6 project in early 2019, which is expected to expand capacity by nearly 50%, while the multi billion dollar BAPCO refinery expansion project will also gain traction during the year. Additionally, the new USD 1 billion airport terminal is slated for completion towards the end of 2019. These developments along with the implementation of indirect taxes and higher utility charges should strengthen Bahrain's economy and fiscal position.

I'm extremely proud of everything that we have achieved over the years but what makes me most proud of being CEO of SICO is the remarkable team of world-class professionals that I'm privileged to work with day in and day out. We take great pride in the fact that we have been able to build long-term relationships, not only with our clients who have on average been with us for 10 years-plus, but also with our people. We have been fortunate enough to have exceptionally low turnover amongst our senior team. In fact, we are the biggest asset manager in the region that has had the same senior team in place since we established the line of business as we know it today. Because our culture is entrepreneurial, our people feel like they are true partners and as such they treat SICO as their own business.

We will continue to invest in our people by supporting them with competitive packages and ongoing opportunities for career growth. Last year we sent a number of people to the Darden School of Business at the University of Virginia to pursue MBAs. We also support our team members to pursue various professional qualifications particularly the CFA.

I would like to thank each and every member of our team for a tremendous year. Your talent, dedication and loyalty are the reason that SICO, an investment bank that is based in the single smallest economy in the GCC, is able to successfully compete with peers in larger markets. I would also like to give special thanks to our Board of Directors, shareholders, business partners, and clients, as well as the Central Bank of Bahrain and the Bahrain Bourse. We look forward to another busy and productive year. The busier it gets, the better.

Najla M. Al Shirawi
Chief Executive Officer

GCC Market Snapshot

GCC markets on an overall basis did reasonably well compared to most global and emerging markets in 2018. The S&P GCC price return index gained 8% led by its biggest constituent Saudi Arabia, which increased by a similar percentage. Qatar remained the best market returning 20.8% in 2018 after being the worst-performing market in 2017 when it declined 18%. GCC markets outperformed despite a sell-off in 4Q18 led by global volatility and a steep decline in oil prices which lost nearly 40% from their peak in early October and thus closed out the year 20% lower y-o-y in 2018.

Saudi Arabia had a strong start to the year, up 15% in 1H18 fueled by a FTSE and MSCI emerging markets index inclusion event alongside strength in crude prices. Momentum, however fizzled in the second half of the year.

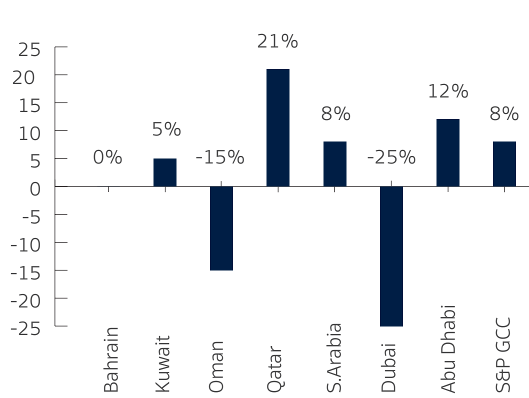
Dubai's stock market was the worst performer of the year losing a quarter of its value in 2018, dragged down by the real estate sector, which continues to struggle. Abu Dhabi on the other hand finished on a high note reporting a double-digit increase in its index (+11.7%) in 2018, led primarily by First Abu Dhabi Bank as it revised upward its forward guidance.

Kuwait's stock market was up 3.5% in the first three months of 2018, after the index was divided into three different indices based on criteria, including market capitalization and volume of shares traded. Oman's index declined 15.2% in 2018, primarily due to lower liquidity and no triggers while Bahrain's stock market ended flat in 2018 but on higher turnover, up 30% y-o-y.

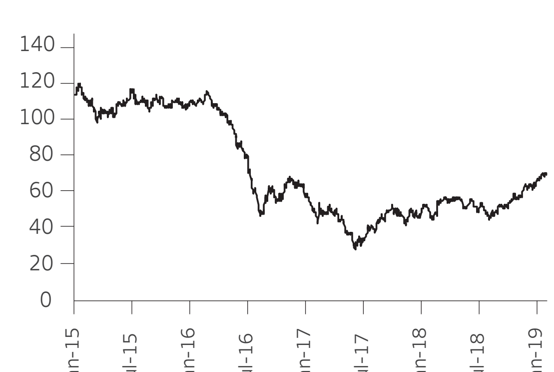
Overall volumes in GCC markets were low. Dubai experienced the biggest y-o-y decline in turnover in 2018 (-42%), followed by Kuwait (-26%). Despite a 5% y-o-y increase in Saudi market turnover in 2018, average daily turnover was below USD 1 billion levels.

Bahrain's CDS spreads spiked in 2H18 but then rapidly declined following a commitment made by three of its neighboring countries to provide a USD 10 billion financial support package.

Index Returns in 2018

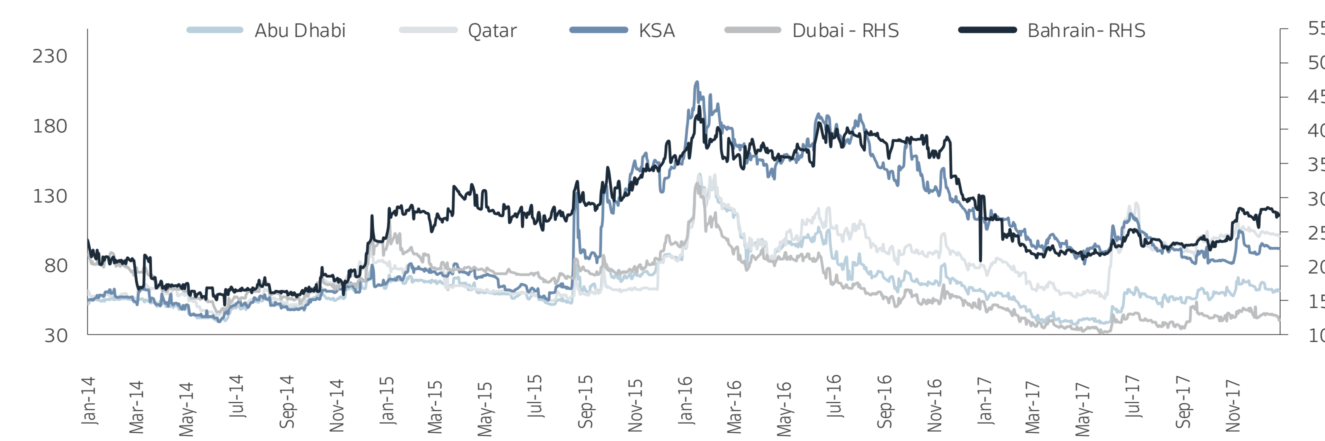


Brent price (USD/bbl)

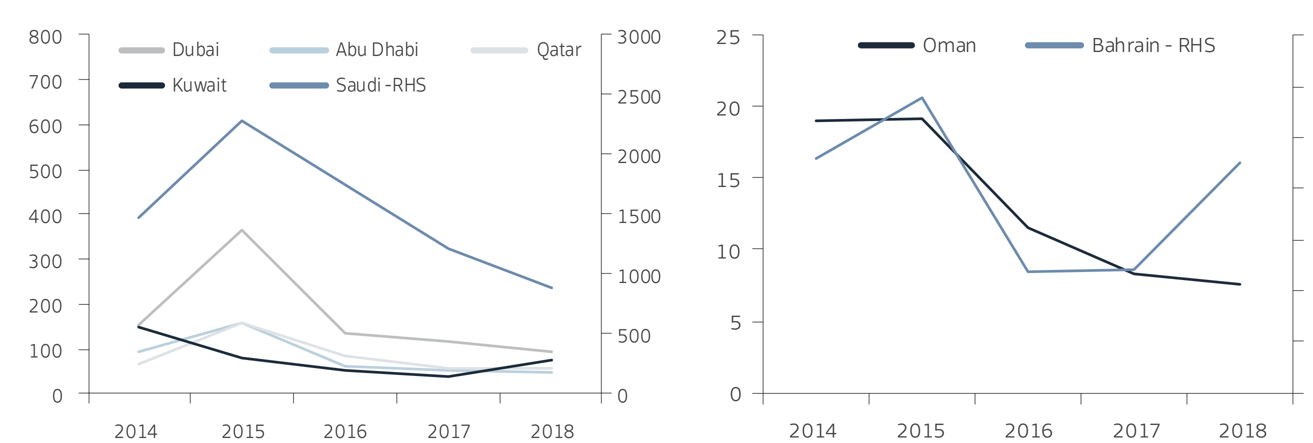


> GCC markets out-performed despite a sell-off in 4Q18 led by global volatility and a steep decline in oil prices which lost nearly 40% from their peak in early October.

CDS Spreads (2015-2018)



Average Turnover (USD mn)



Management Team

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

Seated from left to right:

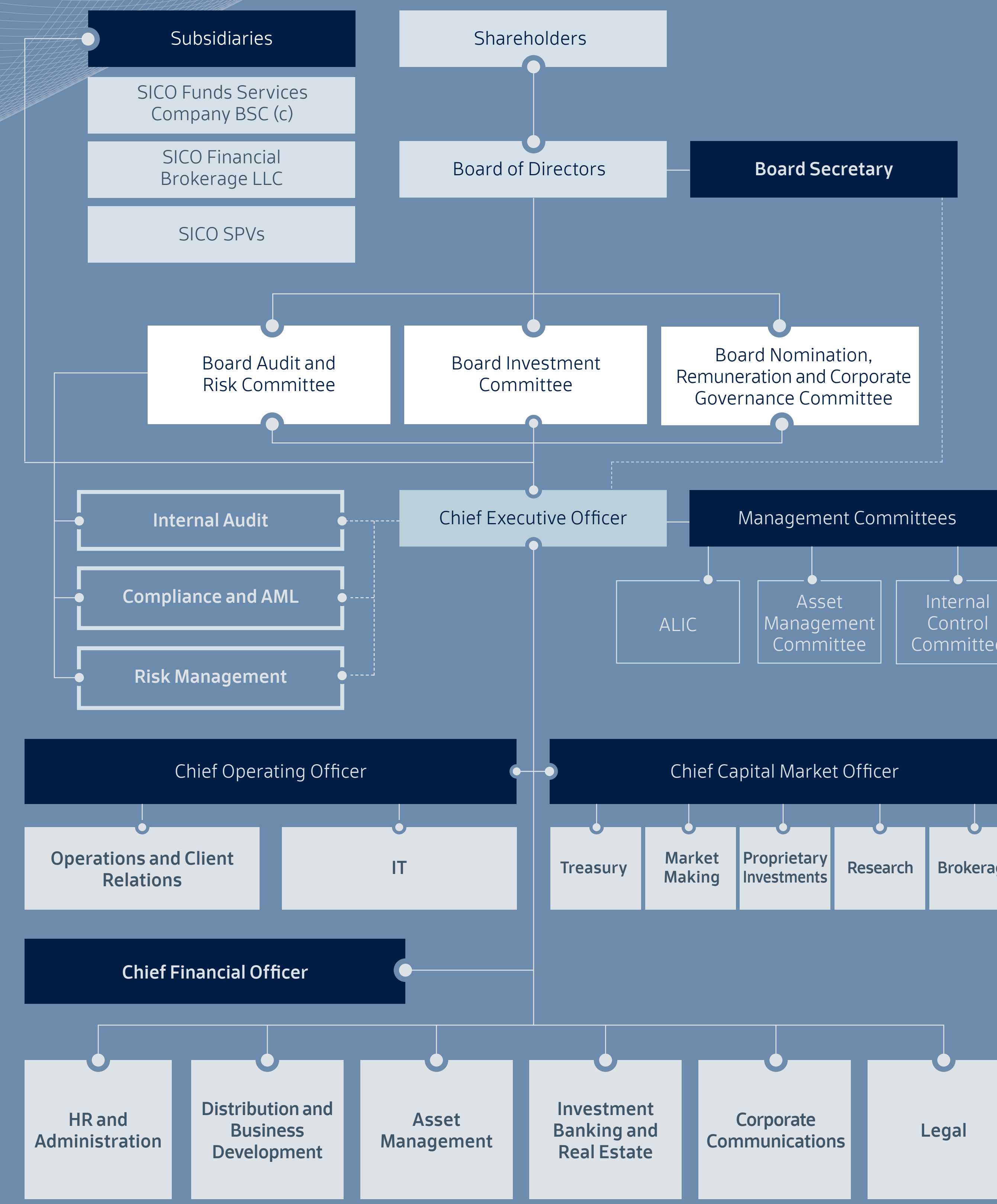
Mohamed Juma, Head of Compliance
Shakeel Sarwar, Head of Equities Asset Management
Najla Al Shirawi, Chief Executive Officer
Wissam Haddad, Head of Investment Banking and Real Estate
Nadia Albinkhalil, Head of HR and Administration

Standing from left to right:

Mohammed Ibrahim, Head of Information Technology
Sreenivasan Konnat, General Manager, SICO Funds Services Company (SFS)
K. Shyam Krishnan, Chief Financial Officer
Ali Marshad, Head of Fixed Income Asset Management
Anantha Narayanan, Chief Operating Officer
Nishit Lakhotia, Head of Research
Joseph Thomas, Head of Internal Audit
Nadeen Oweis, Head of Corporate Communications
Simone Del Nevo, Head of Legal
Amal Al Nasser, Head of Operations and Client Relations
Fadhel Makhlooq, Chief Capital Markets Officer
Mariam Isa, Head of Brokerage
Bassam Khoury, General Manager, SICO Financial Brokerage (Abu Dhabi)
***Jithesh Gopi,** Head of Proprietary Investments
***Haitham Haji,** Head of Distribution and Business Development

*Appointed in 2019

Organization Chart



2018 FINANCIAL PERFORMANCE

In 2018, SICO continued to deliver superior financial results even against the backdrop of region-wide fiscal and monetary challenges. FY18 net profit came in at BD 3.7 million, up a full 12% y-o-y.

2018 Financial Highlights

> SICO has delivered a solid set of results for the year and proven its ability to outperform the market.

1.01 BD MN
2018 Interest Income
VS
2017 BD 1.028 mn

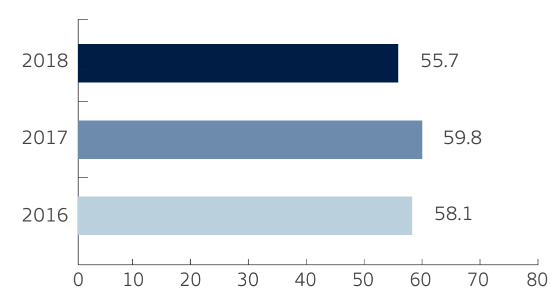
2.5 BD MN
2018 Brokerage and Other Income
VS
2017 BD 2.1 mn

3.05 BD MN
2018 Net Investment Income
VS
2017 BD 3.014 mn

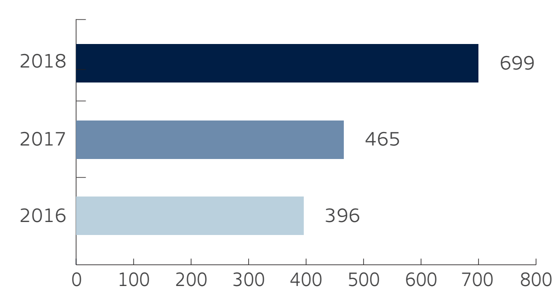
3.87 BD MN
2018 Asset Management and Other Fee Income
VS
2017 BD 2.991 mn

0.29 BD MN
2018 Investment Banking Income
VS
2017 BD 0.173 mn

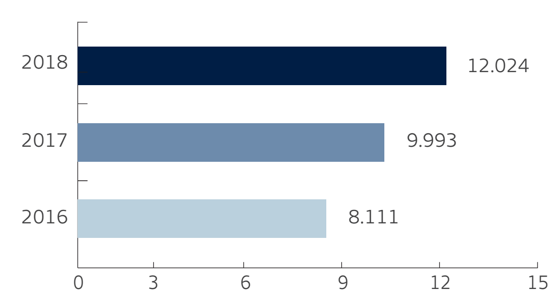
Shareholders' Equity
BD mn



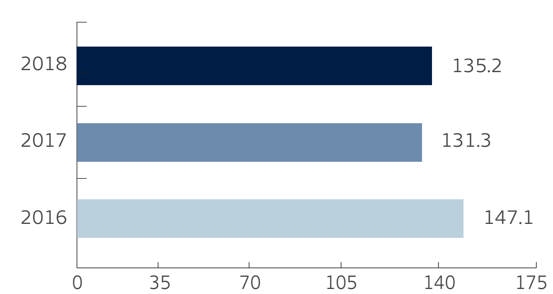
Assets Under Management
BD mn



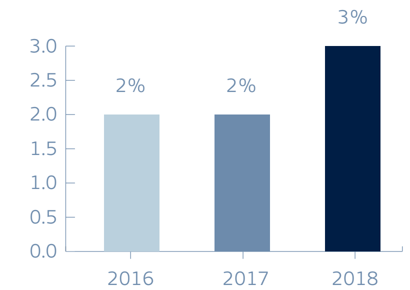
Total Revenues
BD mn



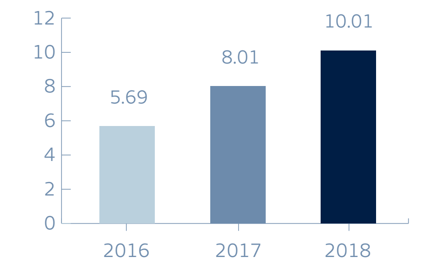
Total Assets
BD mn



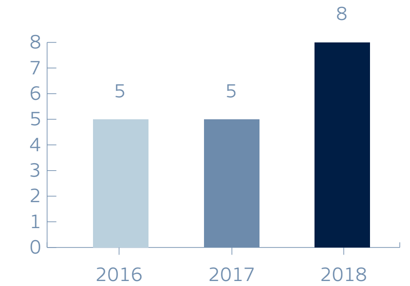
Return on Average Assets
Annual Ratio



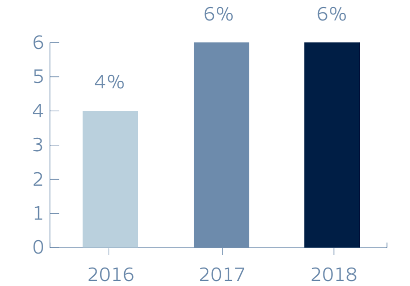
Earnings per Share (Fils)
Annual Ratio



Dividends per Share (Fils)
Annual Ratio



Return on Average Equity
Annual Ratio



Management Discussion & Analysis

In 2018, a year that presented significantly challenging market conditions, SICO was able to deliver a strong financial performance. While there was some respite with regard to declining oil prices, a commodity at the core of many regional economies, other macro-economic challenges along with geopolitical issues provided for a difficult backdrop across the region.

Nevertheless, SICO witnessed a steady and significant growth in its recurring fee-based income across all the lines of business. As we kicked-off 2018, our focus was to diversify and generate sustainable sources of revenue streams, with merits of our strategy clearly reflected on our results.

Net profit for the year reached BD 3.7 million; which translates to an increase of 12% over the previous year. The stronger bottom-line came as SICO delivered a 15% increase in net operating income to BD 10.7 million in 2018, while simultaneously maintaining a tight rein on operating expenses including staff and other unit-level costs.

Other comprehensive income for 2018 amounted to BD 77 thousand. This led to a total comprehensive income, which includes net profit, of BD 3.8 million.

Earnings per share in 2018 amounted to 10 Bahraini fils as compared to 8 Bahraini fils in the previous year, representing a 25% increase and is testament to SICO's ability to deliver growth in shareholder value.

During 2018, SICO worked to achieve growth across all business areas, with key initiatives including market making mandates in Bahrain and the UAE; the successful execution of our role as underwriter and lead manager in the APM Terminals IPO, the largest in Bahrain during the year; and increasing mandates on the Repos and Reverse Repos activities.

I. Appropriations

Due to the remarkable performance achieved by SICO in 2018, the Board has recommended a cash dividend of 8 Bahraini fils per share; which represents 8% of the nominal value. This is in comparison to the 5% dividend that was distributed in 2017.

The dividend distributions have been effected after transferring an amount equal to BD 370 thousand to statutory reserves; representing 10% of net profit in 2018.

II. Asset Management

Both the Equity and Fixed Income Asset Management divisions delivered significant growth in total AUMs in 2018. This emphasizes the confidence clients place in SICO to identify appropriate investment opportunities and enhance their net worth.

Total AUM stood at USD 1.85 billion as of December 2018, compared to USD 1.23 billion at the close of the previous year. Growth was driven by several new mandates as well as top ups to existing mandates during the year. Assets under custody increased by 8% in 2018 to BD 2.33 billion, up from BD 2.15 billion in December 2017.

Management fees increased from BD 2.5 million to BD 3.1 million; whilst performance and custody fees witnessed good growth in 2018 as compared to the previous year. In addition, significant growth was also achieved in advisory and underwriting fees as compared to 2017.

III. Securities Brokerage

Despite the challenging market conditions, SICO was successful in growing its client book across both equities and fixed income brokerage, including Treasury bills. SICO's brokerage services are offered out of Bahrain and through the fully owned subsidiary SICO Financial Brokerage based in Abu Dhabi, UAE.

Overall brokerage income in 2018 remained largely stable compared to 2017 even as market volumes declined significantly in the UAE. In Bahrain, SICO continued to be the number one broker for the 20th consecutive year.

The online brokerage platform, SICO LIVE, that was launched last year has been increasingly contributing to client growth in Bahrain. The platform continues to roll out new features to attract a wider client-base, including updates to price feeds and traded markets on an on-going basis.

IV. Investment Banking & Real Estate

The Investment banking team was busy throughout the year in a marketplace that while small in size, is incredibly competitive. The division targeted different types of mandates throughout the year, with the highlight being the IPO of APM Terminals. The success of the APM terminal transactions contributed positively to the investment banking revenues in 2018.

In addition to success and underwriting fees, revenues for the year also include regular management fees for certain existing mandates, including real estate and advisory fees. Investment Banking & Real Estate recorded income of BD 294 thousand in 2018, up 70% compared to BD 173 thousand in 2017.

V. Proprietary Investments

The investments at fair value through PL generated an overall gain of BD 1.3 million in 2018. This includes dividend income as well as realized and unrealized appreciation gains and losses in the portfolio. Investments classified as fair value through other comprehensive income contributed BD 335 thousand in 2018; this includes the positive fair valuation movements in the equities and debt portfolio.

VI. Treasury

SICO's treasury team had a successful year having generated net interest income of over BD 1 million driven by inter-bank placements, repos and other treasury activities. Additionally, foreign exchange income for the year recorded BD 793 compared to BD 661 thousand in 2017.

VII. Market Making

SICO was successful in securing a number of new market making mandates in 2018, including mandates in the UAE. Total market making income was BD 583 thousand in 2018, up 61% compared to the BD 362 thousand generated in 2017.

> “ Investment Banking & Real Estate recorded income of BD 294 thousand in 2018, up 70% compared to BD 173 thousand in 2017.

OPERATIONAL REVIEW

In 2018, SICO delivered on its strategy to expand its product offering, grow its AUMs, and bolster its regional presence, building on the momentum it kickstarted in 2017. Even through the market headwinds seen across the region, SICO continued to expand the sophistication of its products, transactions, and relationships with clients as it worked to deliver value for all stakeholders.

Asset Management

SICO Asset Management has a long and well-established track record as a market leader in the GCC providing a loyal base of investors with consistently profitable exposure across equity, fixed income, and real estate asset classes in GCC and MENA markets

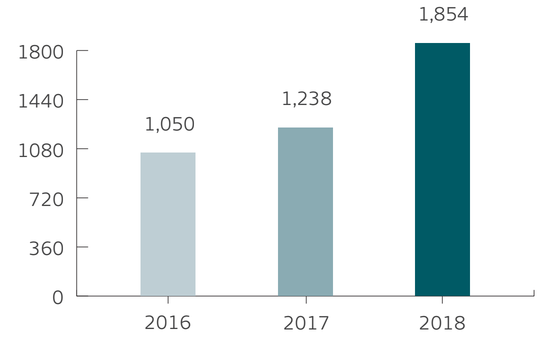
Overview

With USD 1.9 billion in AUM up from USD 1.2 billion in 2017, SICO Asset Management has an unparalleled team of highly-experienced asset managers with one of the longest track records in the market who continue to outperform regional benchmarks, generating returns indicative of SICO's ongoing ability to deploy a bottom-up, value-driven approach with an emphasis on methodical stock picking, prudent risk management and a research-intensive investment process. This has enabled the division to deliver superior returns regardless of the volatility that has become the hallmark of the markets in which it operates.

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

From its base in Bahrain, SICO Asset Management is looking to opportunistically expand its on-the-ground presence to other markets in the region where it can create additional value for investors.

AUM Growth
USD mn



AUM by Asset Class

> Despite regional and global volatility SICO Asset Management grew its AUMs by an impressive USD 625 million in 2018.

2018 Operational Review

Notwithstanding the frequent fluctuations, market trends in 2018 were generally favorable for equities. The S&P GCC Total Return Index ended the year up 12.8% with strong performances coming from Qatar, which closed the year up 29% (S&P Qatar TR), and the Tadawul in KSA, which ended the year up 12.4% (S&P Saudi TR) on the back of Saudi Arabia's upcoming upgrade to emerging market status on the MSCI Emerging Markets Index in 2019. Similarly, the market in Kuwait gained some positive traction based on news that it has been placed on the MSCI Watch List. The smaller markets of Bahrain and Oman lacked momentum whereas the UAE saw Abu Dhabi end the year up 12% while Dubai closed down 25% as per official indices because of softness in the real estate market.

The climate in 2018 was more challenging on the fixed income front, with GCC markets experiencing their toughest year in over a decade. The Barclays' GCC Bond Index generated a total return of just 0.3%, while credit risk spreads rose across the board. Four interest rate hikes, heightened political tensions, and a brewing international trade war between the US and China resulted in a slowdown of global growth and presented additional challenges that affected yields and bond prices in 2018.

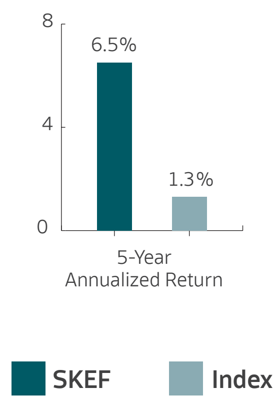
Despite regional and global capital markets both experiencing their fair share of volatility in 2018,

1.9 USD BN
Total AUM

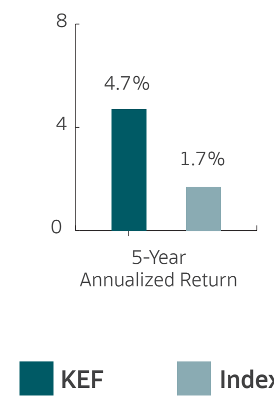
1.4 USD BN
Equity AUM

211 USD MN
Fixed income AUM

SICO Kingdom Equity Fund



Khaleej Equity Fund



SICO Asset Management saw its AUM climb by an impressive USD 620 million to register at USD 1.9 billion at year-end 2018. The 50% y-o-y increase was driven by net subscriptions of c. USD 527 million and another USD 93 million in market appreciation.

Equities

SICO Asset Management 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.

Equities asset management delivered superior results in 2018 with an increase of more than USD 518 million in AUM out of which 392 million are a result of net subscriptions and USD 126 million are from market appreciation. As of year-end 2018 equities asset management had AUM of USD 1.4 billion up from USD 870 million at the end of 2017.

SICO's flagship Khaleej Equity Fund which invests in equities listed on stock markets in the GCC and Egypt, ended 2018 with a return of 12.7%, making it one of the GCC's best-performing funds of the year. SICO is currently in the process of converting its Gulf Equity Fund, a fund with a mandate to invest in all GCC equity markets, excluding Saudi Arabia, into a Sharia-compliant version of the Khaleej Equity Fund.

The SICO Kingdom Equity Fund closed 2018 as the top-performing Saudi fund in the region delivering positive returns of 22.6%. By investing heavily in large caps where fundamentals supported SICO's investment rationale, the Fund outperformed the benchmark by a healthy margin of c.10% despite a contraction in the Saudi market in the fourth quarter of the year. SKEF's primary objective is to seek long-term capital appreciation by investing in carefully-selected securities listed in Saudi Arabia. Since inception seven years ago, SKEF has been one of the top performing funds in the region.

In 2018 SICO Asset Management took on new advisory mandates in addition to a discretionary portfolio both from existing clients which is indicative of an ongoing trend that sees existing clients topping up mandates.

External funds managed by the division on behalf of financial institutions such as Al Ahli Bank of Kuwait and Riyad Bank continue to generate solid returns.

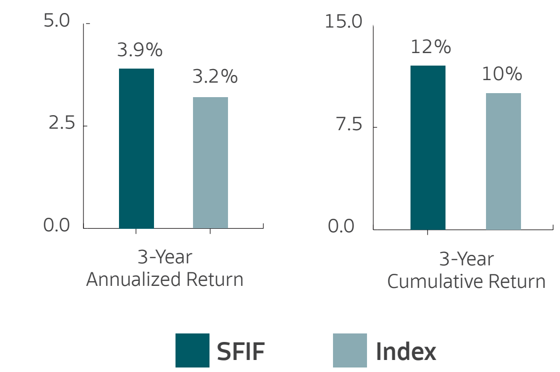
Fixed Income

2018 saw SICO Asset Management's fixed income business deliver outstanding returns despite the most challenging interest rate environment faced by GCC fixed-income markets since the global financial crisis of 2008. Total fixed income AUMs climbed by USD 75 million to reach USD 211 million at year-end 2018.

The division's flagship SICO Fixed Income Fund generated returns of 1.9% during 2018, ending the year as the GCC's best performing bond fund and one of just a handful of funds to close the year on a positive note. The Fund's positive performance amid emerging market headwinds underscores the strength of SICO's forward-looking strategy and the team's ability to preempt market volatility. The fixed income team was able to anticipate the Federal Reserve's four rate hikes and adjust its strategy accordingly to capitalize on higher LIBOR rates.

The division focused on high-yield, short-term issuances backed by strong balance sheets. It also maintained an overweight on Bahraini securities despite the uncertainty prevailing for much of the year, concentrating on the undersupplied sukuk space. This strategy, which was made possible by the on-the-ground team's solid understanding of the risks involved, yielded significant gains following the GCC's announcement in October of a fiscal support package for Bahrain. Throughout the year, the team stayed true to its philosophy of picking out the gems which paid off across the board. As of year-end 2018, the SICO Fixed Income Fund had paid two dividends during the year and was up 23.2% since its inception in April 2013, outperforming the benchmark Barclays GCC Bond Index by 4.1 percentage points. The strategy also worked for the fixed income division's other portfolios as they closed off the year with the best performing Sharia Compliant GCC Income composite amongst their peers.

SICO Fixed Income Fund Growth



SICO's fixed income discretionary funds continued to deliver solid results in 2018, with returns averaging 3.99%. Five new discretionary clients were acquired in 2018, representing nearly USD 70 million of new assets under management, a testament to the team's ability to gain client trust and deliver market leading results in even the toughest market environments.

In keeping with its spirit of innovation, SICO Asset Management introduced a new fixed income advisory instrument in 2018 to help address client demand for autonomy. SICO's fixed income advisory services include investment advisory, in addition to a number of customized solutions.

Real Estate

SICO's real estate asset management activities include the sub-investment management of the USD 52 million Eskan Bank Realty Income Trust (EBRIT), a Sharia-compliant real estate investment trust (REIT) that invests in properties in Bahrain as well as a USD 55 million real estate income fund that invests in multi-family residential spaces across the US.

In 2018 EBRIT, which continues to be traded on the Bahrain Bourse, made two dividend distributions of 3% each in May (covering the second half of 2017) and September (covering the first six months of 2018). An oversupply of retail properties in the market caused some price pressure on real estate rental rates in Bahrain that the Fund continues to maneuver around. SICO reappointed Cluttons as the REIT's property manager after the completion of a wide public tender.

In 2018 SICO registered with the Central Bank of Bahrain to launch the SICO US Real Estate Income Fund I, a private, US-focused income generating real estate fund that SICO is currently co-investing in and managing. Thus far the Fund has acquired five properties in four different states — Illinois, Missouri, Michigan, and New York — all in the multi-family residential space. All of the properties are unleveraged and yield around 10% net at the property level. The fund is currently targeting an unleveraged distribution of 7% net to investors.

2019 Outlook

With ongoing concerns over trade and oil price volatility, a mood of uncertainty will likely prevail for much of 2019. However, SICO's Asset Management team has repeatedly demonstrated its ability to navigate in choppy waters and turn challenges into opportunities.

Regional heavyweights Saudi Arabia and Kuwait are expected to see significant inflows from passive funds as they are now officially on the radar of global investors which will likely be a game changer. SICO Asset Management is currently exploring new opportunities for geographical expansion in Saudi Arabia that will further facilitate its investment in Saudi assets.

On the fixed income front, Saudi Arabia and other GCC markets should see further inflows following their inclusion in JPMorgan's Emerging Markets Bond Index. While this could serve to catalyze activity in the fixed income space, SICO Asset Management will maintain the cautious stance that served it well in the volatile atmosphere of 2018. Given increasingly tight spreads and the inversion of yield curves, the division will continue to focus on low-duration, high-yield instruments. With interest rates still higher than they were at the beginning of 2018, SICO Asset Management will attach greater priority to money market portfolios, offering clients government-backed securities that provide greater liquidity and higher rates than conventional instruments. The division will also work to expand its new advisory portfolios.

SICO Asset Management is also exploring several avenues for product expansion in the months ahead. The division is considering the establishment of an innovative hedge fund and is working to develop its profitable repo business, and finalize the conversion of its Gulf Equity Fund into the Sharia-compliant version of its flagship Khaleej Equity Fund

> "The SICO Kingdom Equity Fund and the SICO Fixed Income Fund both closed out the year as the top performing GCC funds in their asset class.

SICO Fund Performance 2018

Fund Name	Launch Date	Principal Investment Focus	Benchmark	Peer Group	Return (January - December 2018)	Annualized Return
Khaleej Equity Fund	March 2004	Equity securities listed on stock markets of GCC countries	S&P GCC Index	GCC	12.7% vs benchmark 12.8%	4.7% vs benchmark 1.7% (last five years)
SICO Kingdom Equity Fund	February 2011	Equity securities listed in Saudi Arabia	Tadawul	Equity Saudi	22.6% vs benchmark 12.4%	6.5% vs benchmark 1.3% (last five years)
SICO Fixed Income Fund	April 2013	Government and corporate fixed income, sukuk, repo money market instruments, and other fixed income -related instruments	Barclays Emerging Markets GCC Bond Index	Fixed Income GCC	1.9% vs benchmark 0.3%	3.9% vs benchmark 3.2% (last three years)

Brokerage

SICO Securities Brokerage is the number one broker on the Bahrain Bourse and a market-leading broker in the GCC with a well-earned reputation as a one-stop-shop backed by superior in-house research capabilities.

> In 2018, SICO became the first broker in the region to connect its online trading with real-time electronic cash management and FAWATEER settlement services through clients' accounts with all retail banks in Bahrain.

Overview

For two decades SICO has been the number one brokerage on the Bahrain Bourse and a leading GCC broker. The Division's performance is backed by an established track record of operational excellence, a highly experienced professional team of dedicated brokers, and one of the region's most highly regarded research houses.

Since 2012, SICO has operated a second brokerage arm in Abu Dhabi through its wholly owned subsidiary SICO Financial Brokerage. The firm offers equities brokerage with access to the Dubai Financial Market (DFM), the Abu Dhabi Stock Exchange (ADX), and, since 2017, NASDAQ Dubai.

SICO's Brokerage Division offers a wide-ranging portfolio of products and services including direct securities, such as equities, bonds, and sukuks; 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 began operations in 2011 and subsequently became part of the Brokerage Division in 2017. It has since established itself as a leader in the industry by continuing to cultivate innovative strategies in both developed and emerging market issues.

SICO's Agency Brokerage Desk, the first-of-its-kind in Bahrain, has since inception in 2010 allowed clients to have a single broker to carry out transactions on their behalf. It also allows them to maintain their own disclosed accounts in several GCC and MENA stock exchanges where they are required to have a nominated custodian.

SICO is the broker of choice for institutional clients, who make up 70% of its client base, and ultra-high-net-worth individuals who rely on SICO's unmatched strength in the equities and fixed-income spaces. More recently, the firm has expanded its client base by venturing into the high-potential retail market as a means of further diversifying its portfolio. In keeping with the strategy to reach a broader base of investors, SICO Brokerage launched a new, innovative online trading platform — SICO LIVE — in 2017. SICO LIVE affords clients seamless, multi-market access across all major regional stock markets from a single account across devices, giving them the ability to trade in real time and access SICO's world-class research products whenever and wherever they are.

2018 Operational Review

2018 saw SICO maintain its position as the number one broker in Bahrain, representing c.43.6% of the market in terms of volume traded, with the division continuing to be the prime broker for institutions and foreign investors in Bahrain. During the year, the Brokerage team executed a total of 14,448 transactions, representing 37.58% of total market executions on the Bahrain Bourse. Total traded value for the year was BD 252.96 million which represented 39.06% of the total market share.

In May 2018, SICO was mandated as the lead manager, underwriter, market maker, and participating broker for the IPO of APM Terminals Bahrain. This marked the first time that local equity brokers were able to accept applications for subscriptions on behalf of their clients both inside and outside the kingdom. The IPO was also the first time in Bahrain that investor subscriptions were allowed to be processed by equity brokers online, and SICO processed 78% of the BD 64 million total subscriptions. SICO Brokerage was one of only four participating brokers in the landmark IPO.

Through its newly formed partnership with BENEFIT, Bahrain's conduit for all electronic financial transactions, SICO became the first broker in the region to connect online trading with real-time electronic cash management and FAWATEER settlement services through Bahraini retail bank accounts. This innovative service allows SICO clients to transfer funds from retail accounts held at any BENEFIT member bank to their SICO investment account, allowing for quicker and easier securities trading on both the Bahraini and regional exchanges and for real-time settlement of investment amounts.

SICO Performance on Bahrain Bourse (2018)

	Amount	Market Share	Ranking
Total value of shares traded	BD 252.9 million	39.06%	1
Total volume of shares traded	1,256 million	43.60%	1
Total number of transactions	14,448	37.58%	1

Source: Bahrain Bourse Annual Trading Bulletin

> SICO Brokerage is streamlining all its client-facing services to leverage existing synergies and bring a more tailored, customer-centric product offering to clients.

SICO Financial Brokerage

Abu Dhabi-based SICO Financial Brokerage successfully concluded a challenging year that saw trading volumes in the UAE fall significantly on the back of negative sentiment and rising geo-political tension. Despite the general slowdown across the Emirates, SICO Financial Brokerage managed to improve its market share and remains ideally positioned to expand its presence further in the coming year. The division's market share in Dubai increased to 2.14% from last year's 1.30%, while in Abu Dhabi the company's market share increase to 1.00% from last year's 0.65%. As such, our ranking for the year rose to 17th in Dubai and 20th in Abu Dhabi.

Operationally, 2018 marked the year the firm launched Financial Futures trading on NASDAQ Dubai for clients and in March 2018 SICO became a member of the NASDAQ Dubai equity derivatives market as part of the firm's strategy to further expand its regional footprint. SICO's clients will now have access to new investment opportunities as well as the ability to hedge and use the unique futures platform to take positions on share price fluctuations in the UAE. The market offers attractive investment opportunities for SICO's growing number of institutional and high-net-worth individual clients.

Fixed Income

SICO's Fixed Income Trading Desk cemented its position in 2018 as one of the leading brokers in the fixed income space for both local and regional clients. Volumes hit a record USD 1.27 billion, a 67% y-o-y increase compared to USD 762 million in 2017.

The team was exceptionally active in the T-bill business this year, having kicked off a secondary market for CBB bills at competitive rates in collaboration with SICO's Treasury Division. This has resulted in improved liquidity for clients and bolstered trading flows and investment opportunities.

In 2018, the desk grew the repo book by USD 50 million to USD 130 million, representing an increase of over 62% y-o-y. Over half of this new business came in the form of Sharia-compliant lending as Islamic banks continue to expand their funding lines.

New products and service offerings were set up to help clients enhance returns, with SICO's Fixed Income Trading Desk 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. The desk worked on enhancing communication channels with clients, providing them with accurate, daily updates that help raise the firm's profile as a multi-asset broker.

2019 Outlook

Coming into 2019, SICO's Brokerage Division will look to streamline all its client-facing services to leverage existing synergies between SICO's other lines of business and bring a more tailored, customer-centric product offering to clients.

Among the new initiatives planned for the coming year is Brokerage Advisory. The new advisory offering is the result of a combined effort between Brokerage and SICO's renowned Research Division which has built a stellar track record based on expertise and on-the ground industry knowledge.

In a drive to further broaden its product offering, SICO Brokerage plans to launch global markets trading on its online trading platform in cooperation with a leading global broker that covers a range of asset classes.

As part of its client-focused approach, the division is also planning on a review of its Margin Trading business to cater to increased client demand for the service. Alongside product diversification, SICO Brokerage in coordination with the Treasury will continue to press on with its client diversification strategy to further strengthen its leadership position in Bahrain and the GCC region as a whole.

43.6%

Brokerage market share in Bahrain

253 BD MN

Total traded value in 2018

1.27 USD BN

Fixed income value in 2018

Investment Banking

SICO Investment Banking has built a solid 23-year track record as the market leader in Bahrain with an unmatched ability to provide a basket of innovative products and complementary services including IPOs, capital increases, REITs, M&A, advisory, and bond issuances.

> 2018 was a significant year for Investment Banking as they stewarded a number of important deals including the Bahrain Bourse's most successful initial public offering in a decade, a transaction that served to recharge investor confidence in Bahrain's capital markets.

Overview

SICO's Investment Banking division has maintained its position as Bahrain's advisor of choice for equity and debt capital markets transactions and M&A deals for more than two decades. A world-class team of investment banking professionals has developed an innovative platform that offers clients a comprehensive suite of services including the arrangement of primary and secondary issuances, deal structuring, valuation and a host of tailored advisory services. SICO's unique position as a regional wholesale bank also allows the team to offer clients pre- and post-investment banking mandate services, including project and syndicated debt financing, post-listing brokerage, liquidity and market making, research support, and asset management.

The sheer breadth of SICO's service offerings along with a unique client-centric approach and expertise across multiple sectors of the economy have given the investment banking division a strong competitive advantage amongst its peers. Today, the division operates as a one-stop-shop for a broad range of clients—from private corporations to high-net-worth individuals and public entities including government entities—who have come to rely on SICO's unparalleled knowledge of Bahrain's investment landscape and ability to seamlessly execute some of the most high-profile regional transactions.

SICO Investment Banking has delivered consistent growth and established a solid track record as a market pioneer. Over the years the division led a number of unique transactions such as the Eskan Bank REIT, Bahrain's first listed REIT, the first perpetual tier 1 convertible capital securities issuance listed on the Bahrain Bourse for BBK, the first 100% listed acquisition through a share-swap deal on the local exchange for Gulf Hotel Group's acquisition of Bahrain Tourism Company, and most recently the team took the lead on the APM Terminals IPO, Bahrain's most successful IPO in the past decade. As these landmark deals clearly illustrate, the division has consistently proven its ability to innovate, diversify, and work successfully with clients to achieve mutually beneficial outcomes even during times of market volatility.

2018 Operational Review

SICO Investment Banking further consolidated its position as corporate Bahrain's gateway to capital markets. 2018 was a significant year for the division as they stewarded a number of important deals including Bahrain's most successful initial public offering in a decade, a transaction that served to recharge investor confidence in Bahrain's capital markets.

SICO successfully carried out its mandate as lead manager, underwriter, market maker, and participating broker for the BD 11.88 (USD 31.5) million initial public offering of APM Terminals Bahrain, the exclusive port operator of Bahrain's only commercial port. The IPO which successfully closed on November 25, 2018, was widely viewed as a proxy on Bahrain's non-oil economy, offering investors attractive dividend yields of 15.5% based on the company's 2017 performance.

SICO's Investment Banking team was responsible for:

- structuring the transaction
- underwriting
- due diligence
- the appointment of the registrar, allotment agent, receiving bank, market maker, and paying agent
- coordinating all media efforts
- the drafting of the offer documentation
- the submission of documentation to regulatory authorities for final approval of the IPO
- undertaking a road show for the IPO
- overseeing the allotment and refunds
- ensuring a successful listing on the Bahrain Bourse

The transaction comprised an offering of 18,000,000 shares, 70% of which were allocated to institutional investors with the remaining 30% purchased by retail investors. The IPO generated a total demand of 97.4 million shares (BD 64.3 million), which was fully funded, among both institutional and retail investors, with the total shares subscribed 5.4x. The offer's institutional tranche was subscribed 6.8x the original offer size, with strong domestic and foreign demand, especially amongst GCC institutional investors. Demand from retail investors was also strong, with the retail tranche subscribed 2.2x the original offer size.

The positive results were a resounding vote of confidence for Bahrain's economy and testament to the Investment Banking team's ability to generate demand on an accelerated timeline and to capitalize on its strong, high-profile shareholder base.

SICO Investment Banking furthered its relationship with Bahrain Kuwait Insurance Co. (BKIC) in 2018. After advising BKIC on its acquisition of Takaful International Company BSC in 2017, the team conducted a Purchase Price Allocation (PPA) study to assist BKIC in completing the acquisition and assessing the valuation of assets at Takaful to enable their consolidation on BKIC's financial statements. The process required an asset and liability assessment and a revaluation of assets and liabilities to reflect their market value where applicable. The acquisition target's value was c. USD 16 million.

SICO Investment Banking remains engaged in a mandate to represent one of the world's largest private equity firms on its local transactions. In this capacity, SICO is responsible for the firm's private equity distribution within the Kingdom of Bahrain.

APM Terminals Bahrain IPO Results

Shares Offered	Offer Size	Total Number of Subscribers
18 mn shares	11.88 BD mn	800+

Total Transaction	Retail Tranche	Institutional Tranche
5.4x subscribed	2.2x subscribed	6.8x subscribed

Value of all 2018 IB Mandates

157 USD MN

APM Terminals Total Subscriptions

16 USD MN

Insurance

5 USD MN

Private Equity

1 USD BN

Energy Fund

> "With a clear market trend towards M&As, SICO Investment Banking will draw on its expertise in providing M&A advisory services to capture more deal flow in 2019.

2018 also saw SICO Investment Banking structure and provide advisory services to NOGA (Bahrain's National Oil and Gas Authority) on a new, first-of-its kind USD 1 billion energy fund that could potentially provide regional and international institutional investors with access to a portfolio of energy projects in the kingdom. The Fund seeks to invest in a range of energy projects in Bahrain across the downstream, midstream, and upstream sectors. With the announcement of a major oil discovery off the west coast of Bahrain that is estimated to contain approximately 80 billion barrels in shale deposits, the Fund also seeks to invest in the development of newly discovered oil and gas resources.

2019 Outlook

As the government of Bahrain continues to move towards the privatization of state-owned assets through IPOs and other mechanisms, SICO Investment Banking is perfectly positioned to play a leading role in assisting and partnering with government entities to not only take assets to market but to also streamline operations by splitting the role of regulator and operator across multiple industries.

The division will leverage the success achieved with the APM Terminals IPO and the renewed interest in Bahraini capital markets to help widen a pipeline of new deals in the coming year as prospects for the economy in general start to improve. With a clear market trend towards M&As particularly in the finance and hospitality sectors, SICO Investment Banking will draw on its expertise in providing M&A advisory services to capture more deal flow in 2019.

SICO will continue to increase its exposure to the real estate sector by growing the Eskan Bank REIT and exploring the possibility of launching additional REITs. Despite a volatile final quarter of 2018 for global equity markets, trust and confidence are regaining a foothold in Bahrain's capital markets which bodes well for products like REITs and the acquisition of new mandates.

With rising interest rates there will be greater potential for debt restructuring. Going forward the division sees potential in becoming more active in helping clients restructure their obligations by arranging new debt and issuing new bonds or sukuk. SICO will continue to pursue a strategy that will see it expand into alternative assets which will entail an expansion of the Bank's distribution capabilities and coverage to multiple markets in the GCC.

Treasury

Overview

SICO's Treasury Division manages SICO's liquidity while employing a client-focused approach to provide value-added services for clients across the GCC. In an effort to provide attractive funding sources to pursue market opportunities, the Treasury Division offers services including short-term money market and liquidity solutions, 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.

2018 Operational Review

Despite significant headwinds in global and emerging markets in 2018, SICO's Treasury Division has established sufficient strongholds to protect against volatility and therefore continued to deliver a positive performance. Foreign exchange income was bolstered during the year with a contribution of BD 793 thousand as a result of increased brokerage activities, while interest income played a substantial role during the year, achieving net interest income of BD 576 thousand following interest rate hikes. SICO maintained a sound and liquid balance sheet throughout 2018, with a capital adequacy ratio of 63.97%, substantially above the CBB's minimum requirement.

> "In line with stated objectives, the Treasury contributed positively to SICO's bottom line during 2018.

63.97%

Capital Adequacy Ratio

576K BD

Net Interest Income

Proprietary Investments

Overview

The Proprietary Investments Division's primary focus is managing the Bank's proprietary capital based on clearly defined investment objectives and processes. The mandate also includes supporting initiatives taken by SICO's business units by providing necessary seed capital to support new product launches and investment ideas. Focussing on capital preservation, the investment objective is to generate sustainable returns following a well-diversified asset allocation while ensuring that a major component of the investment return is driven by income-generating assets providing visibility and stable performance.

2018 Operational Review

In line with stated objectives, the proprietary book contributed positively to SICO's bottom line during 2018. Having been constructed in accordance with IFRS 9 standards, the 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 2018, active management of equity and debt exposures helped maintain a buoyant portfolio during periods of excessive volatility. Furthermore, increasing the portfolio's alternative investment component helped the portfolio to lower overall correlation with regional capital markets.

The FVOCI portfolio, which includes mainly regional equity and debt securities, continued to make a positive contribution to overall returns driven by an income strategy that focuses on medium-term, income-generating financial assets.

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

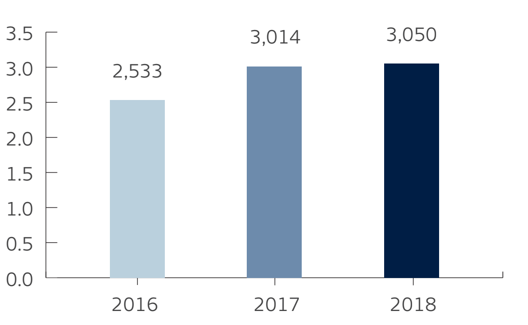
The proprietary book's prudent strategy enabled the Bank to generate positive and sustainable returns, generating a net investment income of BD 3.050 million in 2018 compared to BD 3.014 million during the previous year. Notably, the income was achieved while maintaining a low correlation of 0.65 to the S&P GCC Index and a lower volatility of 3.90% compared with 7.07% of the index.

2019 Outlook

Capital markets and risky assets are expected to witness higher levels of volatility during 2019 given fading fiscal stimulus, tightening monetary policy, and uncertainty regarding global trade. In line with the stated mandate, the portfolio will continue to be steered towards more defensive, high-quality investments to generate stable and visible income to match the Bank's risk appetite while meeting both return and diversification objectives.

Net Investment Income 2016-2018

BD '000



Market Making

SICO pioneered the market making concept on the Bahrain Bourse more than two decades ago

> SICO became the first non-UAE based entity to be granted a license to operate as a market maker and liquidity provider in the UAE on both the ADX in Abu Dhabi and the DFM in Dubai.

Overview

SICO has maintained its position as the leading market maker on the Bahrain Bourse since 1995. In 2018, SICO became the first non-UAE based entity to be granted a license to operate as a market maker and liquidity provider in the UAE on both the ADX in Abu Dhabi and the DFM in Dubai.

As the market maker for a number of large publicly listed entities in Bahrain SICO helps create a market for selected stocks, post-IPO listings, and cross listings. The Division's primary objective is to stimulate trading activities by increasing market depth through active participation on the bid and offer side to narrow price spreads.

2018 Operational Review

SICO's Market Making Division achieved several important milestones during 2018. In addition to successfully leveraging its expertise and acquiring its first market making license outside of Bahrain, the division was also able to secure significant new mandates in its home market. In 2018, SICO was appointed as the designated market maker for one of Bahrain's leading financial institutions, Bank ABC. Later in the year, the division was appointed as the post-IPO market maker for APM Terminals, an important role that will ensure the stability of the share price post-listing. The division also received approval from the Central Bank of Bahrain (CBB) and the Bahrain Bourse to act as the sole market maker for regional telecoms group, Bahrain Telecommunications Company (BATELCO) with respect to the company's ordinary shares listed on the Bahrain Bourse.

The new mandates give SICO full discretion to buy and sell shares, on behalf of their clients, thereby creating a more dynamic two-way market that will enhance liquidity and reflect more accurately the true value of the shares in question.

The Bahrain Liquidity Fund (BLF), a BD 42.5 million fund that SICO initiated and co-seeded in 2016 with the aim of creating a sustainable increase in liquidity on the Bahrain Bourse, continues to achieve its targets and boost average daily traded volume (ADTV). Since its launch three years ago BLF has made a positive impact on investor sentiment, market volumes, valuations and performance.

Bahrain Bourse ADTV reached BD 1.1 million in 2018 representing an increase of 30% y-o-y, with BLF transactions representing 22% of the total ADTV for the year vs. 39% in 2017. The drop in BLF's market share is a natural progression for a liquidity fund that was intended to serve as a catalyst to generate more interest from market participants. The fact that investors are now more encouraged to actively participate in the market is an indicator that the fund is serving its purpose and has been able to unlock significant value in one of the GCC's smaller markets. BLF has generated an annual return on capital of 6.44% in 2018 representing a net asset value (NAV) of BD 42.5 million. The return includes cash dividends distributed to unit holders in the Fund.

BLF is co-seeded by prominent Bahrain-based financial institutions including Osool, BBK, Bahrain Mumtalakat Holding Company, and NBB.

2019 Outlook

Looking ahead into 2019, a year which could prove challenging for GCC markets, SICO's Market Making Division is preparing to onboard its first clients in the UAE to broaden its reach within the GCC. In terms of fundamentals, the Bahraini market offers one of the highest yields in the GCC, and in 2019 the Division sees triggers in many major listed companies that will likely improve turnover even further. The recently-concluded IPO of APM Terminals and its subsequently strong listing indicates that investors (local and international) are confident to participate and trade actively in Bahraini stocks.

22%
Percentage of BLF Transactions on Bahrain Bourse in 2018

6.44%
Annual Return on Capital BLF 2018

42.5 BD MN
BLF NAV 2018

Research

SICO is a pioneer in the provision of sell-side research in the Middle East, providing high-quality and insightful research products to a diversified client base in the GCC and beyond. The division has built up an eight-analyst strong team of some of the most qualified professionals in the industry, the majority of whom are CFA charter holders. SICO Research has incrementally increased both the quality and scope of its in-depth proprietary research to cover more than 80 companies across 12 key regional sectors. SICO Research is known for its objectivity and thoroughness. The Research Team continues to focus on providing timely and accurate advice to clients who have come to rely on and trust their best-in-class products and services.

Operational Review 2018

In 2018, SICO Research continued to expand its coverage universe to include eight new companies across the consumer, banking, insurance, industrial and building materials sectors, with more than 1,000 reports published during the year, including periodicals.

During the year SICO Research also added insurance as a new sector under coverage in addition to launching a new monthly newsletter — SICO Top 20 — that lists the top 20 stock picks across the GCC region and benchmarks their performance against the broader S&P GCC Composite Index.

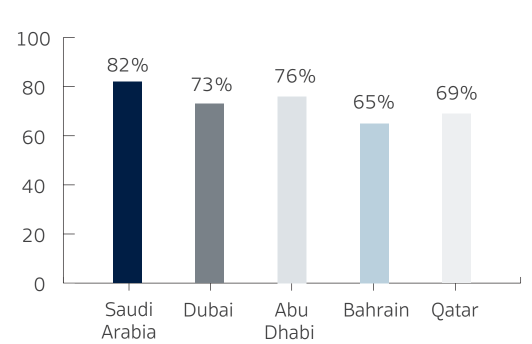
SICO's Top 20 List performed broadly in line with the overall S&P GCC Index in 2018 returning more than 12% total return for the year.

In terms of coverage by market cap, SICO provides robust coverage in key markets such as Saudi Arabia, Dubai, Abu Dhabi, and Qatar in addition to being the only research house with an in-depth level of coverage of Bahraini equities.

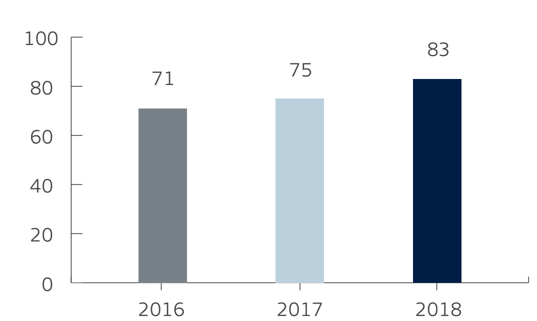
In addition to written research products and client support, the division continued to host analyst and investor conference calls for listed companies across the GCC as part of the value added services and corporate access that it regularly provides to its clients.

SICO Research Coverage

Key GCC Countries*



SICO Research Company Coverage



*as a percentage of index market capitalization

Companies Under Coverage by Sector

5	7	5	7	6	21	9	4	11
Healthcare	Building Materials	Logistics & Transportation	Consumer	Real Estate & Construction	Banks	Telecoms	Industrials & Utilities	Petrochemicals

Reports Published

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

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

Bahrain Daily
Published daily, provides and interprets information on the Bahrain equity market.

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

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

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

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

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

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

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

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

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

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

SICO Funds Services (SFS)

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

As one of the GCC's most successful and highly regarded custody service players, the company anchors its success in its client-centric approach and its utilization of technology tools, processes, and delivery platforms. This winning formula enables SFS to offer clients innovative, flexible, and seamless service offerings. While SFS is backed by SICO's long-standing brand equity in the region, it operates independently with its own Board of Directors and functions on a strictly arm's-length basis with SICO's Brokerage and Asset Management businesses.

2018 Operational Review

2018 witnessed growth in both regional and global markets. Market appreciation and increased activities contributed to a 40% increase in net profit for SFS compared to the same period in 2017. Total custody and administration fees show an increase of 22% mainly due to the increase in net asset value which contributed to a 27% increase in gross revenue. Assets under custody grew by 8.4% to BD 2.3 billion (USD 6.2 billion) in 2018 from BD 2.2 billion (USD 5.7 billion).

2019 Outlook

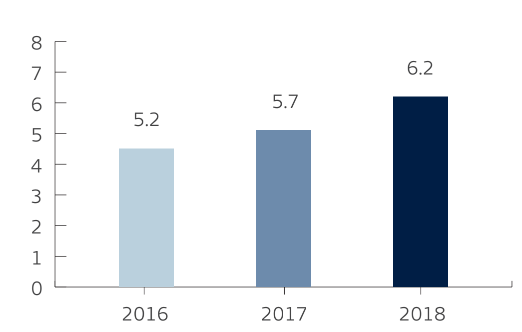
The introduction of automation such as Robotic Process Automation (RPA) in areas with a high degree of manual intervention will lead to faster execution, increased efficiency, and greater accuracy. SICO continues to work to enhance systems by upgrading its core banking system (CBS). SFS is planning to acquire systems that enhance custody, administration, and registrar services through composite reporting and analytical tools with additional features such as an online customer portal.

The implementation of new technologies will place SFS a step ahead of its competitors and transition the business towards sophisticated analysis and reporting. Developments in areas like RPA and other tools developed in collaboration with Bahrain Fintech Bay will be the first of their kind once implemented. Initial analysis indicates SFS will be a regional market pioneer in terms of technology. The company is also looking into potential collaboration with market leaders an global custodians to complement its services and take the business to the next level.

The outlook for 2019 is positive for SFS. As interest rates are expected to show further improvement and regional stability returns, market conditions are due to improve which will lead to a larger volume of business. The strategy for SFS going forward is to continue to expand its direct client base in order to reduce risk and dependency on SICO clients.

3-Year Assets Under Custody Progression

USD bn



Support Functions

Client Relations

SICO's Client Relations Department serves as the direct liaison between the Bank and its clients. A dedicated team of knowledgeable and financially literate professionals works to process requests, answer inquiries and provide guidance to both existing and prospective clients. Queries and complaints concerning all non-trading issues are attended to promptly and efficiently by highly-trained customer service personnel. The client relations department also engages with the various business lines within the Bank to pass on relevant feedback that they receive directly from their daily interactions with SICO's clients. Their scope of activities includes opening new accounts for Brokerage, Fixed Income, and Asset Management. They are also responsible for completing and updating all client forms to ensure full compliance with CBB regulations. Significantly, no formal complaints were received during 2018, reflecting the Bank's commitment to continuously improve its customer service and satisfaction standards.

Human Resources

SICO's most valuable asset is its people. One of the Bank's biggest competitive advantages over the past 20 years has been its hardworking and loyal team of talented investment professionals whom we view as partners and active participants in the Bank's evolving growth story. At SICO, we strive to create a corporate culture that values diversity, teamwork and open communication. We believe that fostering a welcoming professional environment, promoting healthy competition, and rewarding exceptional achievement are key to maintaining employee satisfaction and retention.

The Bank is also committed to cultivating the talent of our employees and promoting from within, as this helps us strengthen institutional memory and ensure stability of operations. SICO continues to provide career development opportunities by offering funding for employees to further their education and professional qualifications such as CFA.

SICO is being increasingly regarded as training institute specially when it comes to talents in treasury, investment management and research. In 2018, SICO employees participated in special departmental training programs for VAT provided by the Bahrain Institute of Banking and Finance (BIBF). The Bank continued to provide AML training and specialized courses on fintech as necessary.

While we actively cultivate the talent of our current employees, SICO is also committed to identifying and training new talent through our internship and executive training programs. SICO's six-month executive training program targets fresh graduates interested in pursuing careers in the banking and finance industry. Since inception in 1995, the program has been trying to increase the number of participants. In 2018, three people participated in executive training.

SICO is proud to report that 67.5% of its employees are Bahraini nationals. The Bank and its subsidiaries are equally proud of the diversity of the overall team which is comprised of seven different nationalities including Bahrainis, 37% of whom are women.

Headcount and Bahrainization Percentage - Bahrain

	Bahraini	Non-Bahraini	Total	Bahrainization %
SICO	54*	26	80	67.5%
SFS	10	1	11	91%
TOTAL	64	27	91	71%

*This number includes three executive trainees
Note: SICO Financial Brokerage is SICO's wholly owned subsidiary in the UAE, employs 11 personnel, including one Bahraini

Breakdown by Gender

	Male	Female	Total
SICO	48	32	80
SFS	6	5	11
SICO Financial Brokerage	10	1	11
TOTAL	64	38	102

Legal

In July 2018 SICO established a new in-house legal department headed by a specialized and experienced legal counsel with years of expertise in advising financial institutions in Europe and in Asia.

The primary tasks of the newly established legal department include:

- 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, while incorporating sound and innovative legal solutions.
- Administering the legal affairs of SICO through the internal provision of professional, timely, and useful legal advice and services, and by arranging and actively managing the services of outside counsel as needed.

- Minimizing the liability exposure of SICO by recommending and implementing appropriate policies, practices, and procedures.
- Administering the legal affairs of SICO in the most cost-efficient manner so as to contribute to the SICO-wide team effort to maximize returns to shareholders.

Information Technology

Following the successful launch of the online trading platform, SICO LIVE, SICO's IT department focused its attention on completing the BENEFIT payment system integration thereby creating a direct settlement platform with retail banks that allows clients who have an account with a retail bank in Bahrain to trade seamlessly on the Bahrain Bourse by routing orders through the SICO LIVE platform. Automated cash settlement through BENEFIT has been available in Bahrain on SICO LIVE since March 2018 and could potentially be rolled out to other GCC markets in the future based on client demand. SICO LIVE users can now trade directly with access to two new markets (Oman and Egypt) in 2018 for a total of nine markets overall.

SICO is currently in the process of upgrading its Core Banking System to the latest Temenos version R18 from R09. The new system offers important features such as improved reporting and data organization which will benefit both internal and external clients. The transition to the new system began in 3Q18 and is targeted to go live by April 2019. The move to the most up to date platform is a testament to SICO's commitment to digital transformation for all business processes and a desire to provide the most innovative online services for customers. Moreover, R18 will be hosted on one of the latest and most advanced Enterprise Cloud Solutions globally which will significantly improve cyber security controls and enhance business continuity plans.

On the business process automation front, SICO is currently moving into automatic and digital customer onboarding which will eliminate all manual work and increase the speed of workflows while adding controls. The IT Division has enabled its systems to facilitate all reporting, invoicing, and tax calculation in compliance with Bahrain's newly-launched VAT.

A Business Continuity Testing (BCP) was completed in early 2018 to ensure that all SICO services are fully backed up in real-time on our disaster recovery site.

During the year the IT department also led the transition to a new high-tech telephony system that allows voice and video calls and other telephony services like voice messaging to be available and accessible anywhere in the world using a mobile app. Moreover, services like fax, SMS, and voice-messaging will be transmitted to the designated user as emails so that they receive immediate notification. The shift to the new technology will benefit both internal staff at SICO and customers by allowing them to communicate smoothly and efficiently.

Projects in progress for 2019 include linking SICO LIVE to the SICO Research portal to provide a 360-degree customer view, adding functionality that will allow users of SICO LIVE to access global markets in Europe and the US and the completion of automatic customer onboarding using the national Electronic Know Your Customer (EKYC) services that will launch soon in Bahrain.

Operations

The main responsibility of the Operations Department is the processing and settlement of all transactions for all SICO's business lines starting from account opening and booking cash for clients to managing daily transaction reconciliations and the settlement cycle and issuing reports to Client Relations and the Business divisions. SICO's robust Core Banking System has enabled all processes and procedures to be fully automated and integrated with SWIFT and more recently integration with T24, which has improved efficiency and accuracy. All of the department's team members are highly trained professionals who attend regular training sessions to enhance their knowledge and awareness of financial instruments and regulatory requirements in compliance with CBB requirements and customer needs.

Corporate Communications

In 2018 SICO's corporate communications department worked to fully implement the Bank's new brand identity across all digital and print platforms. SICO's new corporate website (sicobank.com), research portal (research.sicobank.com), online trading platform (sicolive.com), and new corporate newsletter (Radius) were all launched successfully throughout the first half of 2018 with the new brand identity. SICO's two wholly-owned subsidiaries, SICO Funds Services Company (SFS) and SICO Financial Brokerage also benefited from the rebranding with a uniform look and feel that clearly identifies them as a part of SICO Group.

Corporate communications also worked on the digitalization of the client experience through reports, presentations, and an enhanced social media presence. SICO's new unified brand identity has been well received by various internal and external stakeholders in Bahrain and the broader region.

In the second half of the year the department provided considerable support on all PR related activities for the IPO of APM Terminals Bahrain pre- and post -listing on the Bahrain Bourse.

Throughout the year, SICO continued to sponsor select conferences and events that can properly position the brand, create value, and maximize benefit for both the Bank and the cause to which it lends its support.

The department's over-arching strategy is based on transparency, accessibility, availability, and trust. All 2018 initiatives were carried out simultaneously with ongoing activities such as public relations, social media management, and corporate social responsibility and sustainability programs.

> "SICO is committed to digital transformation for all business processes and providing the most innovate online services for customers.

Control Functions

Compliance and Anti-Money Laundering

As a licensed conventional wholesale and listed bank, SICO has put in place comprehensive policies and procedures to ensure full compliance with all relevant rules and regulations of the Central Bank of Bahrain (CBB), the Bahrain Bourse, and other regulatory authorities. In keeping with Basel and CBB guidelines, the Bank has established an independent Compliance Department, which acts as the central coordinator for all matters related to regulatory reporting and other requirements. The department is also responsible for ensuring compliance with CBB regulations for anti-money laundering (AML) and counter-terrorism financing (CFT), which are managed by a designated Money Laundering Reporting Officer (MLRO) and Deputy MLRO. During 2018, SICO remained compliant with the latest regulatory requirements of the CBB and the Bahrain Bourse. An overview of SICO's corporate governance framework, plus a report of key developments during the year, are covered in the Corporate Governance Review section of this annual report.

Risk Management

SICO's independent Risk Management Department is responsible for establishing the risk management framework and appropriate risk guidelines to assist the Bank in achieving its strategic and business objectives. The department provides leadership, direction, and coordination in implementing the risk management framework across the entire organization. This entails a systematic process of identifying, assessing and mitigating the principal business risks facing SICO by establishing appropriate controls to manage these risks; and ensuring that appropriate monitoring and reporting processes are in place. During 2018, Risk Management continued to play a pivotal role in ensuring that SICO remains strong, methodical, and consistent in the face of economic uncertainty. An overview of SICO's risk management framework, plus a report of key developments during the year, are covered in the Risk and Capital Management section of this annual report.

Internal Audit

SICO has a well-established independent Internal Audit function that reports directly to the Board Audit Committee to provide independent and objective assurance over the adequacy and effectiveness of the Bank's governance, internal controls, and risk management processes. Its scope and role are defined and approved by the Audit Committee.

During 2018, 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 the subsidiary SICO Financial Brokerage UAE were audited/reviewed. Internal Audit also carried out spot check reviews on an ad-hoc basis covering various areas based on Management's request, with the results being presented to the Senior Management/Audit Committee.

During the year our regulator, the CBB, issued many new regulations relevant to Internal audit, Risk Management, Compliance etc., among others. The department is working to align with the new requirements and to carry out and plan for a number of new internal audits/areas as part of these regulations such as IFRS 9 policy and model reviews. The department is also working towards enhancing its facilities, capabilities, and practices in line with the new regulations. During the year, the department also assisted management with inputs and reviews at various stages for a number of the Bank's additional projects.

Financial Control

The Financial Control Department, which comprises the Accounting and Reporting Unit (ARU) and the Internal Control Unit (ICU), is responsible for all aspects of accounting and Internal controls at SICO.

During 2018, the ARU produced MIS and regulatory reports, and prepared consolidated financial statements in accordance with international accounting standards. All regulatory requirements were complied with in a timely manner. Quality financial presentations were given to both internal and external stakeholders.

One key project that was undertaken by the Financial Control department in 2018 was work on SICO's Value Added Tax (VAT) readiness. All internal systems and general ledgers were enhanced to be VAT compliant. Additionally, a new VAT tool has been implemented and can be fully configured to meet with all requirements as laid out by the Kingdom's regulations.

ICU is responsible for ensuring that the Bank's daily operations run smoothly in a risk-free and compliant manner. Additionally, ICU is closely involved in contingency planning and plays a coordinating role between the Control Functions, Information Technology and the various business lines. During 2018, ICU was closely involved in a number of new project developments, including the VAT implementation project.

> "SICO's independent Risk Management Department is responsible for establishing the risk management framework and appropriate risk guidelines to assist the Bank in achieving its strategic and business objectives.

CORPORATE SOCIAL RESPONSIBILITY

With a mandate to create shared value for all stakeholders, SICO's corporate social responsibility platform is one of the cornerstones of its success and continued growth. By identifying key community development planks and working to build relationships with partners that can help the Bank see them through, SICO effectively serves the community in which it does business.

Corporate Social Responsibility

As a key player in Bahrain's financial sector, SICO strives to play a central role in supporting our local community, protecting our surrounding environment, and developing our industry.

In 2018, our corporate social responsibility (CSR) strategy focused on helping drive sustainable growth for all our stakeholders. By supporting worthwhile initiatives dedicated to education, healthcare, sports and the empowerment and well-being of youth, and creating frameworks to reduce our carbon footprint and bolster Bahrain's financial sector, we hope to ensure the sustainable growth of our business, country, and region.

Throughout the year, our efforts were concentrated on five strategic pillars:

- Supporting Education
- Advancing the Financial Sector
- Improving Healthcare
- Promoting Sports and the Wellbeing of Youth
- Preserving the Environment

Supporting Education

SICO continued to support Bahrain's flagship educational initiatives including the Al Mabarrah Al Khalifia Foundation and the Crown Prince's International Scholarship Program (CPISP). The long-standing Crown Prince scholarship program awards 10 fully-funded university scholarships each year to Bahraini students from both public and private schools. SICO is honored to have helped further the education of more than 160 students through CPISP to date.

Each year, a large number of young Bahrainis graduate from local and international institutions and enter the job market. For many the competitive landscape can be daunting, which is why SICO also strives to help new graduates enhance their career prospects through a number of initiatives that focus on building leadership skills and improving financial literacy.

As part of its partnership with CFA Society Bahrain, SICO sponsored and participated in the Society's Career Day 2018. The event included a full day of skills building workshops hosted by industry professionals covering a broad range of topics related to the job market in Bahrain's financial sector. The Bank also sponsored a number of additional CFA Bahrain initiatives such as Mutamahin and the Research Challenge. The society also held mock exams to assist CFA candidates acquire certification and held an award ceremony for candidates, both of which were sponsored by SICO.

During the year, we celebrated our tenth consecutive year sponsoring Trade Quest - The Trading Challenge. The initiative, organized by the Bahrain Bourse, brings public and private schools

> Our corporate social responsibility strategy focuses on helping drive sustainable growth for all our stakeholders.

Trade Quest trading challenge simulation 2018 at the Bahrain Bourse

and university students together for a portfolio management competition that simulates financial markets. In 2018 approximately 200 students competed in teams that were asked to invest in a virtual portfolio of companies listed on the BHB and the New York Stock Exchange. The initiative aims to teach students how to analyze and select equities, manage a portfolio, and acquire presentation, teamwork, conflict resolution, and time-management skills. A total of five investment professionals from across different divisions at SICO served as mentors for the competition.

SICO also sponsored a specialized trading simulation course given by the Bahrain Institute of Banking and Finance (BIBF) entitled 'Bank Management Simulation'. The course was attended by 12 students from the University of Bahrain and Bahrain Polytechnic. It covered a number of topics and provided students with practical tools such as how to analyze stock market data and manage an equity and bond portfolio.

Advancing the Financial Sector

Financial institutions worldwide are keen to integrate innovative technology solutions into their day to day operations that will revolutionize the way that they interact with clients and customers. In Bahrain, a country that is emerging as a regional leader in the fintech space,

> Improving the wellbeing and overall health of our community has been one of the main pillars of SICO's CSR agenda for many years.

SICO is proud to partner with Fintech Bay, a versatile technology incubator that provides entrepreneurs with a dedicated co-working space that includes state of the art meeting rooms, innovation labs, acceleration programs, and educational opportunities.

SICO also sponsored Bahrain's CFA Society, a non-profit organization established by the CFA Institute in 2006. The society contributes to the development of local capital markets and the professional skills of its members through educational initiatives, volunteer opportunities, and networking events. This year, the society held a number of conferences and workshops covering key topics such as pension reform and fintech.

In October 2018, SICO sponsored the first Bahrain Association of Banks' (BAB) Annual Forum entitled 'FinTech: Opportunities & Challenges'. The forum focused on raising fintech awareness among bankers in Bahrain and brought in local and international experts to discuss the advantages and challenges of adopting new technology.

Improving Healthcare

Improving the wellbeing and overall health of our community has been one of the main pillars of SICO's CSR agenda for many years. In 2018, we continued to support healthcare initiatives throughout the country. SICO hosted a blood drive in collaboration with King Hamad University Hospital blood bank, that saw employees donate blood to the hospital and gain awareness on how vital and necessary blood donation is to saving lives. We also supported a worthwhile men's health initiative through our sponsorship of the Movember Foundation's Distinguished Gentleman's Ride, a motorcycle ride that takes place annually in over 650 cities worldwide to raise funds and awareness for men's general health issues.

Promoting Sports and the Wellbeing of Youth

SICO was the proud sponsor of the 2018/2019 Kings Football Cup and the Prince Nasser Bin Hamad Premier League Football Tournament. The sponsorship is in line with SICO's efforts to support the revitalization of Bahrain's sports sector and youth athletics. In 2018 the Bank identified sports and the general wellbeing of youth as one of its main CSR pillars.

Preserving the Environment

In 2018, SICO launched an internal Go Green initiative to promote sustainable business practices and help preserve our environment. The initiative raised awareness within the Bank on ways to reduce our carbon footprint and minimize our environmental impact.

We provided our employees with personalized reusable glass water bottles to reduce the use of harmful plastics and we changed default settings on all printers on site to print in black and white and double-sided to reduce our paper and ink consumption, thereby reducing both paper and electronic waste. We also encouraged employees to turn off monitors, lights, and other electronic equipment at the end of the day and instructed them to close applications on their computers when not in use to reduce energy consumption.

REGULATORY DISCLOSURES

SICO BSC (c) CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2018

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 accompanying 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 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. 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 3(d) of the consolidated financial statements)

Description	How the matter was addressed in our audit
The Group's portfolio of quoted equity, debt and fund investments at fair value make up 20% of the Group's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they comprise liquid, quoted investments. However, due to the materiality in the context of the consolidated financial statements as a whole, they are considered to be one of the areas which had the greatest impact on our overall audit strategy and location of resources in planning and completing our audit.	**Our procedures included:** • Agreeing the valuation of investments in the portfolio to externally quoted prices; • Agreeing investments holdings in the portfolio to independently received third party confirmations; and • Assessing the adequacy of Group's disclosures by reference to the requirements of 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 Board of directors' report set out on pages 1-2.

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 2018 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 Central Bank of Bahrain (CBB) Rule Book, we report that:

a. the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b. the financial information contained in the board of directors' report is consistent with the consolidated financial statements;
c. we are not aware of any violations during the year of the 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 Fakhro
Partner registration number 213
4 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

			Bahraini Dinars '000
	Note	**2018**	**2017**
Assets			
Cash and bank balances	7 a	34,467	35,695
Treasury bills	7 a	10,416	1,495
Placements with banks		-	4,974
Securities bought under repurchase agreements	7 b	41,927	31,633
Investments at fair value through profit or loss	8	23,644	29,496
Investments at fair value through other comprehensive income	9	6,214	6,158
Investments at amortized cost		9,990	10,008
Investment in properties	10	1,955	-
Fees receivable	11	1,252	875
Other assets	12	4,159	9,589
Furniture, equipment and intangibles	13	1,240	1,420
Total assets		**135,264**	**131,343**
Liabilities and equity			
Liabilities			
Short-term bank borrowings	14 a	3,385	5,655
Securities sold under repurchase agreements	14 b	42,573	32,388
Customer accounts	15	23,135	26,718
Other liabilities	16	3,805	4,173
Payable to other unit holders in consolidated funds	6	6,701	2,651
Total liabilities		**79,599**	**71,585**
Equity			
Share capital	17	42,849	42,849
Shares under employee share incentive scheme		(1,599)	(1,599)
Treasury shares	17	(5,913)	-
Statutory reserve	18	7,362	6,992
General reserve	19	3,217	3,217
Investments fair value reserve		133	307
Retained earnings		9,616	7,992
Total equity		**55,665**	**59,758**
Total liabilities and equity		**135,264**	**131,343**

The consolidated financial statements were approved by the board of directors on 4 March 2019 and signed on its behalf by:

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

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018	2017
			Bahraini Dinars '000
Net investment income	20	3,050	3,014
Net fee income	21	4,166	3,164
Brokerage and other income	22	2,332	2,072
Other interest income	23	2,288	1,743
Rental income from investment properties		188	-
Total income		**12,024**	**9,993**
Staff and related expenses	24	(4,267)	(3,934)
Interest expense	23	(1,280)	(715)
Other operating expenses	25	(2,383)	(1,904)
Expected Credit Loss		(20)	(4)
Share of profit of non-controlling unit holders in consolidated funds	6	(373)	(130)
Profit for the year		**3,701**	**3,306**
Basic and diluted earnings per share (fils)	**31**	**10.01**	**8.01**

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
		Bahraini Dinars '000
Profit for the year	**3,701**	**3,306**
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVTOCI debt instruments	15	(30)
- Net amount transferred to profit or loss on sale of debt instruments	5	-
Items that will not be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVTOCI equity instruments	57	567
Total other comprehensive income for the year	**77**	**537**
Total comprehensive income for the year	**3,778**	**3,843**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

Bahraini Dinars '000

2018	Share capital	Shares under employee share incentive scheme	Treasury shares	Statutory reserve	General reserve	Invest-ments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2018	**42,849**	**(1,599)**	**-**	**6,992**	**3,217**	**307**	**7,992**	**59,758**
Comprehensive Income: Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**3,701**	**3,701**
Other comprehensive income:								
Net change in fair value of FVTOCI instruments	-	-	-	-	-	72	-	72
Net amount transferred to profit or loss on sale of FVTOCI debt instruments	-	-	-	-	-	5	-	5
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	-	(251)	251	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(174)**	**251**	**77**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(174)**	**3,952**	**3,778**
- Transfer to charitable donation reserve	-	-	-	-	-	-	(30)	(30)
Transaction with owners recognized directly in equity:								
- Transfer to statutory reserve	-	-	-	370	-	-	(370)	-
- Dividends declared for 2017	-	-	-	-	-	-	(1,928)	(1,928)
- Treasury shares purchased	-	-	(5,913)	-	-	-	-	(5,913)
Balance at 31 December 2018	**42,849**	**(1,599)**	**(5,913)**	**7,362**	**3,217**	**133**	**9,616**	**55,665**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2018

All figures in BD'000

Bahraini Dinars '000

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

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018	Bahraini Dinars '000 2017
Operating activities			
Net interest received		2,428	2,480
Net decrease / (increase) in placements with banks		4,974	(4,974)
Net sale / (purchase) of investments at fair value through profit or loss		6,450	(499)
Net (purchase) / sale of investments at fair value through other comprehensive income		(61)	(1,365)
Net sale of investments at amortized cost		18	(1,107)
Purchase of investment properties		(1,955)	-
Net decrease in customer accounts		(3,583)	(16,276)
Securities bought under repurchase agreements		(10,294)	(14,664)
Securities sold under repurchase agreements		10,185	(1,966)
Dividends received		1,050	567
Rental income received		188	-
Movement in brokerage accounts and other receivables		11,442	1,630
Movement in other liabilities		(496)	175
Payments for staff and related expenses		(4,139)	(3,839)
Payments for other operating expenses		(1,939)	(1,340)
Net cash from / (used in) operating activities		**14,268**	**(41,178)**
Investing activities			
Net capital expenditure on furniture and equipment		(138)	(149)
Net cash used in investing activities		**(138)**	**(149)**
Financing activities			
Net decrease in short-term bank borrowings		(2,270)	754
Treasury shares purchased		(5,913)	-
Dividend paid		(1,928)	(2,142)
Contribution by other unit holders in consolidated fund		236	-
Distribution to other unit holders in consolidated fund		3,441	(282)
Net cash used in financing activities		**(6,434)**	**(1,670)**
Net increase / (decrease) in cash and cash equivalents during the year		**7,696**	**(42,997)**
Cash and cash equivalents at the beginning of the year		37,190	80,187
Cash and cash equivalents at the end of the year*	**7**	**44,886**	**37,190**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.
*Excludes ECL of BD 3 (2017: NIL)

Notes to the 31 December 2018 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;
- To offer financial advisory and underwriting services, such as advising corporations and family businesses on going public, and structuring transactions for privatization programs, mergers and acquisitions.

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

2. Basis of preparation

(a). Statement of compliance

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

(b). Basis of measurement

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

(c). Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 3 (c).

(d). New standards, amendments and interpretations effective from 1 January 2018

The Group has adopted IFRS 15 from 1 January 2018. A number of other new standards, amendments and interpretations are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

2. Basis of preparation (continued)

(d). New standards, amendments and interpretations effective from 1 January 2018 (continued)

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a cmprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group initially applied IFRS 15 on 1 January 2018, the group has adopted IFRS 15 using the cumulative method. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. Due to transition options chosen by the group in applying this standard, comparative information through these consolidated has not been restated.

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

IFRS 16 – Leases

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

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

The Group plans to apply IFRS 16 on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019.

The adoption of the standard will not have a significant impact on the financial position of the Group.

(f) Early adoption of standards

The Group did not early adopt new or amended standards in 2018.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements except for changes arising from adoption of IFRS 15.

(a). Consolidation

(i) Subsidiaries

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

(ii) Non-controlling interests (NCI)

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b). Foreign currencies

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

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

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

Judgments

Classification of investments

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

Determination of control over investees – Investment funds

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

(d). Investment securities

(i) Classification

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

3. Significant accounting policies (continued)

(d). Investment securities (continued)

(i) Classification (continued)

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

(iv) Fair value measurement

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

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

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

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

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

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

(v) Impairment

Financial assets

The Group measures loss allowances for its trade and other receivables at an amount equal to lifetime ECL.

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

Stage 1: 12 months ECL

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. 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 that 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. Expected credit losses 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 expected credit loss using Probability of Default (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.

3. Significant accounting policies (continued)

(e). De-recognition of financial liabilities

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

(f). Cash and cash equivalents

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

(g). Amortized cost measurement

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

(h). Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties) 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 recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(i). Furniture, equipment and core banking software

Furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each
balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.
Depreciation is provided on cost by the straight-line method, which is intended to write off the cost of the assets over their expected useful life as follows:

Core banking software	10 years
Furniture and equipment	3-5 years

(j). Bank borrowings

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

(k) Repurchase agreements

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

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

(l). Customer accounts

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

(m). Investment Properties

Investment property 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.

Recognition and Measurement

An investment property is recognized 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 capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Group.

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 recognized in profit or loss. Depreciation methods, residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Derecognition

An item of investment property is derecognized 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 recognized net within profit or loss.

(n). Employee benefits

(i) Bahraini employees

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

(ii) Expatriate employees

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

(iii) Employee share incentive scheme

The Bank operates a discretionary share based plan, which is designed to provide competitive long term incentives and is a cash-settled share based payment scheme. The total amount is expensed over the vesting period 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.

(o). Provisions

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

3. Significant accounting policies (continued)

(p). Fiduciary activities

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

(q). Settlement date accounting

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

(r). Offsetting

Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and intends to settle either on a net basis, or to realize the asset and settle the liability simultaneously. 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.

(s). Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(t). Interest income and expense

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

(u). Fee and commission

Policy applicable from 1 January 2018

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 recognized 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 estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of fee recognized, will not occur when the associated uncertainty is resolved.

Performance fee is recognized in accordance with investment management agreements where the Group is entitled to receive a share of the profits of the investment funds once a certain hurdle is

reached on a high water mark basis. In accordance with the terms and conditions of the investment management agreements, the performance fee due to the Group is calculated at each reporting date, taking into account each performance condition and distribution arrangements of the Funds as a whole.

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

Policy applicable before 1 January 2018

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

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

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

(v). Net investment income

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

(w). Dividend income

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

(x). Brokerage and other income

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

Brokerage and other income consist of brokerage income, other income and foreign exchange income. This income is recognized when the related services are performed.

(z). 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 in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, corporate finance, investments, market making and custody business. At present the Group's revenue is reviewed by lines of business. However, the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in these consolidated financial statements.

4. Financial risk management

(a). Introduction and overview

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

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

Notes to the 31 December 2018 consolidated financial statements All figures in BD'000

4. Financial risk management (continued)

(a). Introduction and overview (continued)

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

Risk management framework

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

The Board has set up an independent Risk Management Unit that provides leadership, direction and coordination of the efforts in managing the risks. It provides a holistic, integrated, future-focused and process-oriented approach to enable the Group to balance its key business risks and opportunities with the intent of maximizing returns and shareholder value.

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit Function which undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b). Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. The credit risk for the Group arises principally from its brokerage activities and issuer price risk in proprietary portfolios. Counterparty credit risk consists of two categories of risks – Pre-Settlement and Settlement risks. In Brokerage Department, counterparty credit risk arises vis-a-vis trading counterparties and counterparty brokers. In Asset Management and Investment and Treasury Departments, deals routed through counterparty brokers gives rise to counterparty credit risk.

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 investments and treasury department based on the business model and various external factors including but not limited to external rating, issuer rating, coupon rates, country risk etc.

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

Management of credit risk

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

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

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

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

Exposure to credit risk

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

	2018	2017
Cash and Bank	34,467	35,695
Treasury bills	10,416	1,495
Placements with banks	-	4,974
Securities bought under repurchase agreements	41,927	31,633
FVTPL debt securities	6,647	12,682
FVTOCI debt securities	3,076	2,201
Fee receivable	1,252	875
Other receivables	3,900	9,191
	101,685	**98,746**

Currently the margin trading lending on the GCC Stock Exchange and REPO transactions are subject to formal collateral arrangement. The margin scheme is undertaken in accordance with the related regulation issued by the Central Bank of Bahrain. The shares in the Margin Trading portfolio is held as collateral against the amount lent to the customer. Such shares are marked to market on a daily basis. If there is any deficit in the minimum equity ratio, then a maintenance margin call is issued.

Additionally, brokerage client agreements have a clause that the Group has a right to liquidate the client's shares under its custody, if such client fails to honor its obligations.

The Group writes off a customer / investment balance when the Group determines that carrying amounts are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer / issuer's financial position such that the customer / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. There were no such write-offs during the year.

Risk Exposure Concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits. Concentration of risks is managed by counterparty, by geographical region and by industry sector.

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2018 was BD 21,436 (2017: BD 12,451), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income".

All figures in BD'000

4. Financial risk management (continued)

(b). Credit risk (continued)

Geographical Exposure Distribution

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

2018	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	34,308	152	7	34,467
Treasury bills	10,416	-	-	10,416
Placements with banks	-	-	-	-
Securities bought under repurchase agreements	40,393	-	1,534	41,927
Investments at fair value through profit or loss	18,260	2,105	3,279	23,644
Investments at fair value through other comprehensive income	6,214	-	-	6,214
Investments at amortized cost	9,990	-	-	9,990
Investments in Properties	-	1,955	-	1,955
Fees receivable	1,242	1	9	1,252
Other assets	5,385	12	2	5,399
Total assets	**126,208**	**4,225**	**4,831**	**135,264**
Liabilities				
Short-term bank borrowings	3,385	-	-	3,385
Securities bought under repurchase agreements	33,466	-	9,107	42,573
Customer accounts	22,526	93	516	23,135
Other liabilities	3,791	-	14	3,805
Payable to unit holders	6,701	-	-	6,701
Total liabilities	**69,869**	**93**	**9,637**	**79,599**

2017	Middle East & Asia countries	North America	Europe	Total
Assets Assets				
Cash and cash equivalents	35,663	-	32	35,695
Treasury bills	1,495	-	-	1,495
Placements with banks	4,974	-	-	4,974
Securities bought under repurchase agreements	29,505	-	2,128	31,633
Investments at fair value through profit or loss	22,118	1,382	5,996	29,496
Investments at fair value through other comprehensive income	6,158	-	-	6,158
Investments at amortized cost	10,008	-	-	10,008
Fees receivable	866	-	9	875
Other assets	11,006	-	3	11,009
Total assets	**121,793**	**1,382**	**8,168**	**131,343**
Liabilities				
Short-term bank borrowings	5,655	-	-	5,655
Securities sold under repurchase agreements	18,835	-	13,553	32,388
Customer accounts	25,808	247	663	26,718
Other liabilities	4,157	-	16	4,173
Payable to unit holders	2,651	-	-	2,651
Total liabilities	**57,106**	**247**	**14,232**	**71,585**

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

2018	Financial services	Others	Total
Total assets	74,621	60,643	**135,264**
Total liabilities	**56,419**	**23,180**	**79,599**

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

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

Particulars	Gross Exposure	Expected Credit Loss	Net Exposure
Bank balances	34,470	3	34,467
Securities bought under repurchase agreements	41,936	9	41,927
Investment Securities	16,205	1	16,204
Other Assets (Margin Lending On-balance sheet)	856	2	854
Other Assets (Margin Lending Off balance sheet)	2,107	5	2,102
Total	**95,574**	**20**	**95,554**

Fees and commission income do not have any ECL as these are settled on next trade date.

Investments in debt securities classified as FVTOCI 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 OCI statement.

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

Settlement risk

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

(c). Liquidity risk

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

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.

All figures in BD'000

4. Financial risk management (continued)

(c). Liquidity risk (continued)

The Bank faces three types of liquidity risks as follows:

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

Management of liquidity risk

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

The residual contractual maturity of financial liabilities is as follows:

2018	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	3,385	3,392	3,392
Securities sold under repurchase agreements	42,573	42,724	42,724
Customer accounts	23,135	23,135	23,135
Other liabilities	3,805	3,805	3,805
Payable to unit holders in consolidated funds	6,701	6,701	6,701
	79,599	**79,757**	**79,757**

2017	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	5,655	5,660	5,660
Securities sold under repurchase agreements	32,388	32,460	32,460
Customer accounts	26,718	26,718	26,718
Other liabilities	4,173	4,173	4,173
Payable to unit holders in consolidated funds	2,651	2,651	2,651
	71,585	**71,662**	**71,662**

(d). Market risk

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

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

(i) Equity Price Risk

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

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

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

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

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

	Investments at fair value through profit or loss		Investments at fair value through other comprehensive income	
	2018	2017	2018	2017
Increase of 1%	236	295	62	62
Decrease of 1%	(236)	(295)	(62)	(62)

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The investments in debt instruments, placements, borrowings and call deposits are subject to interest rate risk. The Treasury Unit carefully monitors these exposures in order to mitigate this risk.

The Bank minimizes its exposure to interest rate risk by careful monitoring of exposures. Placements and call deposits with banks are at fixed interest rates and mature within three months. The liabilities of the Bank include customer advances for purchase of investments on their behalf.

The Bank maintains cash balances with various banks in different currencies to meet liquidity requirements for equity share deals settlement in these currencies. These arise due to the need for timely payment of settlement amounts by clients as well as proprietary trades.

The Bank has exposures to debt instruments issued by GCC institutions in its proprietary portfolios. 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.

All figures in BD'000

4. Financial risk management (continued)

(d). Market risk (continued)

The Bank follows the Standardized Methodology for managing interest rate risk, where the risk exposures in fixed income securities are measured using a two pronged approach – measuring the issuer risk and general market risk. The Duration Gap approach methodology is used for this and the discounted cash flow for fair valuation of the fixed income securities.

Interest rate re-pricing profile

2018	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	14,813	14,813
Call deposits*	-	707	-	-	707
Treasury bills	-	10,416	-	-	10,416
Placements	3.24%	18,947	-	-	18,947
Securities bought under repurchase agreements	3.36%	41,927	-	-	41,927
Investments at fair value through profit or loss	6.45%	685	5,962	16,997	23,644
Investments at fair value through other comprehensive income	6.02%	-	3,076	3,138	6,214
Investments at amortized cost**	-	-	9,990	-	9,990
Investment in Properties		-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	4,159	4,159
Furniture, equipment and intangibles	-	-	-	1,240	1,240
Total assets		**72,682**	**19,028**	**43,554**	**135,264**
Short-term bank borrowings	3.69%	3,385	-	-	3,385
Securities sold under repurchase agreements	3.20%	42,573	-	-	42,573
Customer accounts	-	-	-	23,135	23,135
Other liabilities	-	-	-	3,805	3,805
Payable to unit holders in consolidated funds	-	-	-	6,701	6,701
Total liabilities		**45,958**	**-**	**33,641**	**79,599**
Equity		**-**	**-**	**55,665**	**55,665**
Total liabilities and equity		**45,958**	**-**	**89,306**	**135,264**
Interest rate sensitivity gap		**26,724**	**19,028**	**(45,752)**	**-**
Cumulative interest rate sensitivity gap		**26,724**	**45,752**	**-**	**-**

Interest rate re-pricing profile

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

* At 31 December 2018 the effective interest rate on Bahraini Dinar call deposits is 0.75 % (2017: 0.45%) and on USD call deposits is 0.45 % (2017: 0.15%).
** At 31 December 2018 the effective interest rate of investments at amortized cost is 6.72 % (2017: 6.44%).

(iii) Exchange risk

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

All figures in BD'000

4. Financial risk management (continued)

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

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

Another endeavor of the Bank's operational risk management is to usher in straight through processing (STP) to enable seamless processing and reduce operational errors and optimize productivity. The Bank upgraded the core banking system and office automation which was implemented during 2013.

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

Corporate Finance activity is exposed to legal and reputational risk. Obtaining the necessary legal and regulatory approvals mitigates this risk. Advisory and underwriting matters are monitored and controlled by the Asset Liability Investment Committee (ALIC).

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

(f). Capital Management

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

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

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2016. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

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

Based on year end balances

	2018	2017
Risk weighted exposure		
Credit risk	44,684	55,725
Market risk	26,188	30,063
Operational risk	15,101	15,288
Total risk weighted assets	**85,973**	**101,076**
Common Equity (CET 1)	54,978	59,758
Additional Tier 1	20	-
Total regulatory capital	**54,998**	**59,758**
Capital adequacy ratio	**63.97%**	**59.12%**

The capital adequacy ratio as at 31 December 2018 has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

Capital allocation

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

5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2018. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund.

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

Subsidiary	Percentage ownership	Year of incorpo-ration /	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 Kingdom Equity Fund	32%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
10. SICO Fixed Income Fund	65%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks.
11. SICO US Real Estate Income Fund I LP	91	2017	Cayman Island	Investment in income generating properties in various geographies in the United States.

All figures in BD'000

6. Payable to other unit holders in consolidated funds

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

SICO Kingdom Equity Fund

	2018	2017
Other unit holders' share	68%	36%
Cash and cash equivalents	394	202
Investment at fair value through profit or loss	7,295	3,107
Other liabilities	(28)	(70)
Net assets	**7,661**	**3,239**
Carrying amount of payable to other unit holders – %	3,992	1,155
Investment income	914	288
Profit	824	214
Total comprehensive income	**824**	**214**
Profit allocated to other unit holders	**360**	**76**
Cash flows used in from operating activities	(3,407)	(202)
Cash flows / (used in) financing activities	3,599	(437)
Net increase / (decrease) in cash and cash equivalents	**192**	**(639)**

SICO Fixed Income Fund

	2018	2017
Other unit holders' share	35%	38%
Cash and cash equivalents	588	804
Investment at fair value through profit or loss	3,736	3,748
Other assets	62	60
Short-term bank borrowings	(626)	(659)
Other liabilities	(11)	(11)
Net assets	**3,749**	**3,942**
Carrying amount of payable to other unit holders – %	**1,312**	**1,496**
Investment income	138	165
Interest income	(3)	28
Profit	69	141
Total comprehensive income	**69**	**141**
Profit allocated to other unit holders - %	**24**	**54**
Cash flows from / (used in) operating activities	44	(125)
Cash flows (used in) / from financing activities	(260)	4
Net decrease increase in cash and cash equivalents	**(216)**	**(121)**

All figures in BD'000

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

SICO US Real Estate Income Fund

	2018	2017
Other unit holders' share	9%	
Cash and cash equivalents	151	-
Investment in properties	1,955	-
Other assets	9	-
Other liabilities	(185)	-
Net assets	1,930	-
Carrying amount of payable to other unit holders – %	174	-
Rental income	188	-
Loss	(135)	-
Total comprehensive income	(135)	-
Loss allocated to other unit holders - %	(12)	-
Cash flows used in operating activities	(1923)	-
Cash flows from financing activities	2,074	-
Net increase in cash and cash equivalents	151	-

7. (a) Cash and bank balances

	2018	2017
Cash and bank balances	14,813	16,840
Call deposits	707	261
Short-term placements	18,950	18,594
Expected credit loss	(3)	-
Total cash and cash equivalent as per balance sheet	**34,467**	**35,695**
Treasury bills	10,416	1,495
Total cash and cash equivalent as per cash flow	**44,883**	**37,190**

Cash and bank balances include bank balances amounting to BD 4,902 (2017: BD 5,058) held on behalf of discretionary customer accounts.

(b) Reverse Repurchase agreements have been entered with clients amounting to BD 41,927 (2017: BD 31,633) for which client owned securities of BD 45,534 (2017: BD 39,103) are pledged as collateral.

8. Investments at fair value through profit or loss

	2018	2017
Quoted equity securities – (listed)		
- Consolidated funds	7,295	3,107
- Parent	1,621	2,948
Funds		
- Quoted	4,415	7,051
- Unquoted	3,667	3,708
Quoted debt securities		
- Parent	2,910	8,934
- Consolidated funds	3,585	3,516
Unquoted debt securities		
- Consolidated funds	151	232
	23,644	**29,496**

Investments at fair value through profit or loss as at 31 December 2018 include securities amounting to Nil (31 December 2017: BD 1,155), sold under agreement to repurchase (note 14 b).

9. Investments at fair value through other comprehensive income

	2018	2017
Equity securities		
- Quoted	3,074	3,662
- Unquoted	64	295
	3,138	3,957
Debt securities		
- Quoted	1,940	113
- Unquoted	1,136	2,088
	3,076	2,201
	6,214	**6,158**

10. Investment in properties

SICO US Real Estate Income Fund I LP (the Fund) was initially incorporated as a limited partnership by SICO on 18 January 2017 in the Cayman Islands. Operations commenced in February 2018. The Fund is managed by SICO and seeks income generating properties in various geographies in the United States. The Fund focuses on multifamily residential properties with high levels of occupancy in growing suburban markets. As of 31 December 2018, the Fund had completed the acquisition of five properties. The Fund adheres to the principles of Sharia's with oversight from a dedicated Sharia's Board and acquires properties without the use of leverage. The Fund targets a 5 year term and an investor return of 7% per annum.

All figures in BD'000

10. Investment in properties (continued)

As of 31 December 2018, the bank has subscribed to a majority portion of the above fund and therefore, the financial positions and results of the SICO US Real Estate are consolidated with the Bank' accounts. The entire Investment in properties as shown in the statement of financial position at cost less accumulated depreciation. Since the properties were acquired during the year, the management estimates that, the fair value of the property is not significantly different from its cost. Due to this being a recent transaction, it's considered as a level 1 fair value.

The details of the investment in properties is as follows:

31 December 2018

	Amount
Cost	
At 1 January 2018	-
Additions	1,985
At 31 December 2018	**1,985**
Accumulated depreciation	
At 1 January 2018	-
Depreciation for the year	(30)
At 31 December 2018	**(30)**
Carrying amount	**1,955**

11. Fees receivable

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

	2018	2017
Management and administration fees	852	735
Performance fee	368	109
Custody fee	32	31
	1,252	**875**

12. Other assets

	2018	2017
Receivables from clients and brokers	2,093	6,946
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	259	398
Interest receivable	570	540
Other receivables	737	1,205
	4,159	**9,589**

13. Furniture, equipment and intangibles

	Software	Furniture and Equipment & Others	Capital work in progress	2018 Total	2017 Total
Cost					
At 1 January	2,466	1,044	-	3,510	3,456
Additions	58	35	15	108	149
Disposals	-	(8)	-	(8)	(95)
At 31 December	**2,524**	**1,071**	**15**	**3,610**	**3,510**
Depreciation					
At 1 January	1,277	813	-	2,090	1,949
Charge for the year	217	71	-	288	237
Disposals	-	(8)	-	(8)	(96)
At 31 December	**1,494**	**876**	**-**	**2,370**	**2,090**
Net book value at 31 December 2018	**1,030**	**195**	**15**	**1,240**	**-**
Net book value at 31 December 2017	1,187	233	-	-	1,420
Cost of fully depreciated assets in use	**-**	**-**	**-**	**1,202**	**1,203**

14. Short-term bank borrowings and Securities sold under repurchase agreements:

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

At 1 January 2018	5,655
Borrowings made during the year	4,516
Borrowings settled during the year	(6,786)
At 31 December 2018	**3,385**

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

At 1 January 2018	32,388
Securities sold under repurchase agreements made during the year	25,608
Securities sold under repurchase agreements settled during the year	(15,423)
At 31 December 2018	**42,573**

The fair value of the investments at fair value through profit or loss and Investments at fair value through other comprehensive income pledged as collateral amounts to Nil (2017: BD 1,155) (refer to note 8). Additionally, repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 45,549 (2017: BD 39,103) are pledged as collateral.

All figures in BD'000

15. Customer accounts

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

16. Other liabilities

	2018	2017
Accrued expenses	1,036	952
Provision for employee indemnities	653	593
Employee share incentive scheme liability	1,713	1,634
Other payables	403	994
	3,805	**4,173**

17. Share capital

	2018	2017
Authorized share capital		
1,000,000,000 (2017: 1,000,000,000) shares of 100 fils each	**100,000**	**100,000**

	2018	2017
Issued and fully paid		
At 1 January 2018: 428,487,741 ordinary shares of 100 fils each (2017: 428,487,741 ordinary shares of 100 fils each)	42,849	42,849
Issue of shares to employee share incentive scheme trustees during the year	-	-
As at 31 December 2018: 428,487,741 ordinary shares of 100 fils each (2017: 428,487,741 ordinary shares of 100 fils each)	**42,849**	**42,849**

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

Pursuant to a resolution of the extraordinary general meeting of the shareholders dated 11 December 2017, the Bank completed the repurchase of 10% of its issued and outstanding share capital. The repurchase was undertaken through an offer availed to all shareholders of the Bank at a price of BD 0.138 per share amounting to BD 5,913. The offer closed on 22 January 2018 with a total repurchase of 42,848,774 shares of SICO, representing the maximum legal limit of 10% of the Bank's issued and outstanding share capital. The repurchased shares will currently be held as treasury shares.

Appropriations

	2018	2017
Proposed dividend 5% (2017: 5%)	3,085	1,928

		2018		2017	
The shareholders are:	**Nationality**	**Capital**	**% holding**	**Capital**	**% holding**
Social Insurance Organization	Bahrain	15,922.5	37.16	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	3,667	8.56	5,115	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	3,390	7.91	4,125	9.63
Investment Corp Bank BSC	Bahrain	2,366	5.52	3,300	7.70
Arab Banking Corporation BSC	Bahrain	2,366	5.52	3,300	7.70
Gulf Investment Corporation GSC	Kuwait	3,300	7.70	3,300	7.70
Employee stock ownership plan (volaw trust)	Jersey	1,599	3.73	1,599	3.73
Al Salam Bank – Bahrain BSC	Bahrain	591	1.39	825	1.93
SICO BSC (c) – Treasury shares	Bahrain	4,285	10	-	-
		42,849	**100**	**42,849**	**100**

18. 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 370 (2017: BD 331).

19. 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 2018, no appropriations to general reserve are recommended.

All figures in BD'000

20. Net investment income

	2018	2017
Net gain on investments carried at fair value through profit or loss	547	935
Loss on sale of Investments at fair value through other comprehensive income	(5)	-
Interest income from debt instruments	1,450	1,512
Dividend income	1,050	567
Other investment income	8	-
	3,080	**3,014**

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

	2018	2017
Realized gain / (loss) on sale	690	858
Unrealized fair value gain	(143)	77
	547	**935**

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

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

21. Fee income / (expense)

	2018	2017
Fee income from trust or other fiduciary activities		
- Management fee	3,099	2,537
- Performance fee	383	110
- Custody fee	426	374
- Investment banking fee	110	96
- Advisory & Underwriting fee	184	77
	4,202	**3,194**
Fee expense		
- Custody fee	(36)	(30)
Net fee income	**4,166**	**3,164**

22. Brokerage and other income

	2018	2017
Brokerage income	1,246	1,275
Foreign exchange gain	793	661
Other income	293	136
	2,332	**2,072**

23. Net interest income

	2018	2017
Interest income from:		
Placements, call deposits and reverse repos	2,157	1,635
Margin lending	131	108
	2,288	**1,743**
Interest expense on:		
Bank borrowings and repos	(1,280)	(715)
Net other interest income	**1,008**	**1,028**

24. Staff and related expenses

	2018	2017
Salaries, allowances and bonus	3,953	3,655
Social security costs	177	168
Other costs	137	111
	4,267	**3,934**

As at 31 December 2018, the Group employed 66 (2017: 62) Bahrainis and 37 (2017: 38) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 177 (2017: BD 168).

Notes to the 31 December 2018 consolidated financial statements All figures in BD'000
All figures in BD'000

25. Other operating expenses

	2018	2017
Occupancy expenses	272	229
Communication expenses	454	403
Marketing expenses	160	150
Professional fees	182	146
Other operating expenses	997	743
Depreciation	318	237
	2,383	**1,908**

26. Related party transactions

Transactions with funds owned by the Subsidiary Companies

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

	2018	2017
Fee and commission income	**624**	351
Fee receivable	**244**	106
Investments at fair value through profit or loss:		
-Khaleej equity fund	**1,136**	1,055
-Bahrain liquidity fund company	**1,237**	1,203

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

The Group obtained short term borrowings from its bank shareholders for a total of BD 1,885 (2017: BD 5,655). 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.

	2018	2017
Fee and commission income	**659**	495
Fee receivable	**236**	107
Funds under management	**65,356**	56,362
Placements	**3,019**	5,199
Borrowings	**1,885**	5,655

Key Management Personnel

Key Management Personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The key management personnel comprise of the members of the Board of Directors, Chief Executive Officer, Chief Capital Markets Officer, Chief Operating Officer, Chief Financial Officer, and heads of departments.

Compensation to key management personnel is as follows:

	2018	2017
Salaries and short term benefits	1,071	1,019
Post-employment benefits	53	45
Equity compensation benefits	113	94
	1,237	**1,158**

Attendance fees and remuneration paid to Board members and other related expenses amount to BD 186 (2017: BD 167).

27. Employee Share Ownership Plan

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

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

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

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

The Group has recognized an employee liability of BD 1,713 (2017: BD 1,634) on the shares granted till date. This liability has been determined on the value of the Group's net assets as at 31 December 2018 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

All figures in BD'000

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

	2018 No. of shares issued	2017 No. of shares issued
As at 1 January	15,987,741	15,987,741
Shares issued during the year *	-	-
	15,987,741	**15,987,741**

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

28. Involvement in unconsolidated structured entities

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

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

	2018	2017
Investments in funds		
Khaleej equity fund	1,136	1,055
Bahrain liquidity fund	1,237	1,203
	2,373	**2,258**

29. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in 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 106 (2017: BD 106) and margin lending drawdown commitments of BD 2,028 (2017: BD 3,124).

Funds under management (net asset value)	2018	2017
Khaleej Equity Fund	**15,270**	16,114
SICO Gulf Equity Fund	**307**	1,506
Bahrain Liquidity Fund	**42,469**	41,298
SICO Kingdom Equity Fund	**7,661**	3,239
SICO Fixed Income Fund	**3,749**	3,941
Discretionary portfolio management accounts	**629,631**	399,268

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

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.

	2018	2017
Assets under custody	**2,334,070**	**2,152,893**

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2018, assets amounting to BD 2,334,070 (2017: BD 2,152,893) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 354,487 (2017: BD 294,024) were registered in the name of the Bank.

Legal claims

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

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

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

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

Claims against the Bank amounting to BD 26 not acknowledged as debts, represents labour cases filed against the Bank. No provision in respect of the given case is considered necessary.

29. Contingencies, commitments and memorandum accounts (continued)

Contingencies

The Company has letters of guarantee in the amount of BD 5,133 (31 December 2017: BD 5,133) 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.

30. Significant net open foreign currency positions

	2018	2017
QAR	**(85)**	418
US Dollar	**40,766**	46,106
JOD	**15**	4
KWD	**1,097**	637
SAR	**9,698**	8,852
GBP	**1**	16
AED	**6,321**	10,892
OMR	**(125)**	33
EUR	**-**	8
EGP	**3**	344

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

31. Basic earnings per share

	2018	2017
Profit for the year	**3,701**	3,306
Weighted average number of equity shares (In 000's)	**428,487**	428,487
Less: Shares issued for employee share incentive scheme	**(15,988)**	(15,988)
Less: 10% Treasury shares	**(42,848)**	-
Weighted average number of shares as at 31 December	**369,651**	412,499
Earnings per share (in fils)	**10.01**	8.01

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

32. Maturity profile of assets and liabilities

	Less than 1 year	1 to 5 Years	Above 5 Years	Total
31 December 2018				
Assets				
Cash and cash equivalents	34,467	-	-	34,467
Treasury bills	10,416	-	-	10,416
Placements with banks	-	-	-	-
Securities bought under repurchase agreements	41,927	-	-	41,927
Investments at fair value through profit or loss	9,600	3,698	10,346	23,644
Investments at fair value through other comprehensive income	-	-	6,214	6,214
Investments at amortized cost	-	-	9,990	9,990
Investment in properties	-	-	1,955	1,955
Furniture, equipment and intangibles	3	296	941	1,240
Fees receivable	1,252	-	-	1,252
Other assets	4,159	-	-	4,159
Total assets	**101,824**	**3,994**	**29,446**	**135,264**
Liabilities				
Short-term bank borrowings	3,385	-	-	3,385
Securities sold under repurchase agreements	42,573	-	-	42,573
Customer accounts	23,135	-	-	23,135
Other liabilities	3,805	-	-	3,805
Payable to other unit holders	6,701	-	-	6,701
Total liabilities	**79,599**	**-**	**-**	**79,599**
Liquidity gap	22,225	3,994	29,446	55,665
Cumulative liquidity gap	**22,225**	**26,219**	**55,665**	**55,665**

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

All figures in BD'000

33. Accounting classification and fair values

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

31 December 2018	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 balance	-	-	-	34,467	34,467
Treasury bills	-	-	-	10,416	10,416
Placements with banks	-	-	-	-	-
Securities bought under repurchase agreements	-	-	-	41,927	41,927
Investments at fair value through profit or loss	23,644	-	-	-	23,644
Investments at fair value through other comprehensive income	-	6,214	-	-	6,214
Investments at amortized cost	-	-	-	9,990	9,990
Investment in properties	-	-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	3,900	3,900
	23,644	**6,214**	**-**	**103,907**	**133,765**
Short-term bank borrowings	-	-	-	3,385	3,385
Securities sold under repurchase agreements	-	-	-	42,573	42,573
Customer accounts	-	-	-	23,135	23,135
Other liabilities	-	-	-	3,805	3,805
Payable to unit holders in consolidated funds	-	-	6,701	-	6,701
	-	**-**	**6,701**	**72,898**	**79,599**

31 December 2017	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 balance	-	-	-	35,695	35,695
Treasury bills	-	-	-	1,495	1,495
Placements with banks	-	-	-	4,974	4,974
Securities bought under repurchase agreements	-	-	-	31,633	31,633
Investments at fair value through profit or loss	29,496	-	-	-	29,496
Investments at fair value through other comprehensive income	-	6,158	-	-	6,158
Investments at amortized cost	-	-	-	10,008	10,008
Fees receivable	-	-	-	875	875
Other assets	-	-	-	9,191	9,191
	29,496	**6,158**	**-**	**93,871**	**129,525**
Short-term bank borrowings	-	-	-	5,655	5,655
Securities sold under repurchase agreements	-	-	-	32,388	32,388
Customer accounts	-	-	-	26,718	26,718
Other liabilities	-	-	-	4,173	4,173
Payable to unit holders in consolidated funds	-	-	2,651	-	2,651
	-	**-**	**2,651**	**68,934**	**71,585**

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 categorized.

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	3,074	-	64	3,138
- Debt securities	1,940	1,136	-	3,076
Fair value through profit or loss:				
- Equity	8,916	-	-	8,916
- Debt securities	6,495	151	-	6,646
- Funds	6,041	1,131	910	8,082
Investments at amortized cost:				
- Debt securities				
Liabilities				
- Payable to unit holders in consolidated funds	(6,701)	-	-	(6,701)
	19,765	**2,418**	**974**	**23,157**

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	3,662	-	295	3,957
- Debt securities	113	2,088	-	2,201
Fair value through profit or loss:				
- Equity	6,055	-	-	6,055
- Debt securities	12,450	232	-	12,682
- Funds	7,444	2,330	985	10,759
Investments at amortized cost:				
- Debt securities	10,126	-	-	10,126
Liabilities				
- Payable to unit holders in consolidated funds	(2,651)	-	-	(2,651)
	37,199	**4,650**	**1,280**	**43,129**

All figures in BD'000

33. Accounting classification and fair values (continued)

(ii) Fair value hierarchy (continued)

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

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

	Level 3 2018
At 1 January 2018	**1,280**
Total gain:	
- in income statement	(76)
- in other comprehensive income	(230)
Purchases	-
Settlements	-
Transfers into / (out) of level 3	-
At 31 December 2018	**974**

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

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.

34. Comparatives

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

Corporate Governance Review

Commitment

SICO is committed to upholding the highest standards of corporate governance. This entails complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value, and achieving organisational efficiency. The Bank has Board-approved policies for risk management, compliance and internal controls, in accordance with the 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 at 31 December 2018, the Bank had issued 428,487,741 ordinary shares of Bahraini fils 100 each. The last Annual General Meeting was held on 28 March 2018.

Responsibilities of the Board of Directors

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

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

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

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

Board Composition and Election

The Board's composition is guided by the Bank's Memorandum of Association. As at 31 December 2018, the Board consisted of nine Directors, three of whom are Independent directors, and six are Executive directors including the Chairman and Vice-Chairman. The Bank recognises the need for the Board's composition to reflect a range of skills and expertise. Profiles of Board Members are listed later in this Review. The Company Secretary is Matthew B. Hansen. The appointment of Directors is subject to prior approval by the CBB. The classification of 'Executive' Directors, 'Non-executive' Directors and 'Independent' Directors is per the definitions stipulated by the CBB. Directors are elected by the shareholders at the AGM, subject to the approval of the CBB, for a period of three years, after which they shall be eligible for re-election for a further three-year period.

Independence of Directors

In line with the requirements of the CBB's HC Module, the Bank has put in place Board-approved criteria to determine 'Test of Independence' using formal requirements as specified in the CBB rule book and other relevant requirements as assessed by the Board of SICO. The purpose of the Test is to determine whether the Director is: 'Independent of management, and any business or other relationships, which could materially interfere with the Director's ability to exercise objective, unfettered or independent judgement; or the Director's ability to act in the best interests of SICO'. Based on an assessment carried out in 2018, the Board of Directors resolved that the three Non-executive Directors of SICO met the relevant requirements of the 'Test of Independence'; and accordingly, they were classified as 'Independent' directors and Committee members of SICO's Board of Directors.

Board and Committee Evaluation

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

Remuneration of Directors Policy

The Board of Directors' remuneration is governed by provisions of the Commercial Companies Law 2001 and the CBB. The Directors' remuneration is approved by the shareholders at the annual general meeting. In addition, the members are paid sitting fees for the various sub committees of the Board. The Board's remuneration is reviewed by the Nomination, Remuneration 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 2018, four Board meetings were held in Bahrain, and the members' attendance is noted in the table overleaf:

Directors' Attendance: January to December 2018

Board Meetings

Board members	25th Feb 2018 #131 - SICO	15th May 2018 #132 - SICO	26th Sep 2018 #133 - SICO	7th Nov 2018 #134 - SICO
Shaikh Abdulla bin Khalifa Al Khalifa (Chairman)	✓	✓	✓	✓
Hussain Al Hussaini (Vice Chairman)	✓	✓	✓	✓
Fahad Murad	✓	✓	✓	✓
Waleed K. Al-Braikan	✓	✓		✓
Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	✓
Mohammed Abdulla Isa	✓	✓	✓	✓
Prakash Mohan	✓	✓	✓	✓
Khurram Ali Mirza	✓	✓	✓	✓
Emad Al Saudi	✓	✓	✓	✓

Investment Committee Meetings

Board members	#26, 8th Feb 2018 - SICO	#27, 17th Apr 2018 - SICO	#28, 3rd Jul 2018 - SICO	#29, 5th Nov 2018 - SICO
Shaikh Abdulla bin Khalifa Al Khalifa (Chairman of Investment Committee)	✓	✓	✓	✓
Hussain Al Hussaini	✓	✓	✓	✓
Prakash Mohan	✓	✓	✓	✓

Audit and Risk Committee Meetings

Board members	#57, 15th Feb 2018 - SICO	#58, 7th May 2018 - SICO	#59, 25th Sep 2018 - SICO	#60, 6th Nov 2018 - SICO
Waleed K. Al-Braikan (Chairman of the Audit Committee)	✓	✓		✓
Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	
Emad Al Saudi	✓	✓	✓	✓

Nomination, Remuneration and Corporate Governance Committee Meetings

Board members	#24, 6th Feb 2018 - SICO	#25, 6th Mar 2018 - SICO	#26, 16th Oct 2018 - SICO
Fahad Murad (Chairman of Nomination, Remuneration and Corporate Governance Committees)	✓	✓	✓
Mohammed Abdulla Isa	✓	✓	✓
Khurram Ali Mirza	✓	✓	✓

Board Committees

Investment Committee

Objective

- Review investment policies, and procedures to monitor the application of, and compliance with, the investment policies
- Approve and recommend (where appropriate) to the Board, relevant investment decisions (as defined in the Investment Policy Guidelines and Restrictions)
- Review strategic and budget business plans prior to submission to the Board
- Review 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.

Note: Pursuant to Board resolution dated November 7, 2018 , the Audit committee's name was changed from Audit Committee to Audit & Risk Committee, with the committee taking up the additional responsibility of reviewing the risk management activities of the Bank, which were previously held with the Board.

Nomination, Remuneration and Corporate Governance Committee

Objective

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

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); Internal Control Committee. Profiles of Managers are listed later in this Review.

Management committees

Managers	Asset Management Committee	Assets, Liabilities and Investments Committee	Internal Control Committee
Chief Executive Officer	Chairperson	Chairperson	Chairperson
Chief 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

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

Asset Management Committee

Objective

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

Assets, Liabilities, & Investments Committee (ALIC)

Objective

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

Internal control committee (ICC)

Objective

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

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

Management Pofiles

Najla Al Shirawi

Chief Executive Officer

Najla Al Shirawi has more than 21 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, the Bahrain Associations of Banks, and the Bahrain Institute of Banking and Finance. She holds an MBA and a BA in Civil Engineering from University of Bahrain.

Fadhel Makhlooq

Chief Capital Markets Officer

With over 36 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 28 years of diversified experience in the areas of operations, audit, and risk in the banking industry, Anantha Narayanan joined SICO in 2008. Prior to joining SICO, he worked for Calyon, BBK, Commercial Bank of Oman/Bank Muscat, and PricewaterhouseCoopers. Anantha is Vice Chairman of SICO Financial Brokerage and Board Member at SFS. Anantha is a Chartered Accountant. He holds a BSc Honours from the University of Manchester, UK.

K. Shyam Krishnan

Chief Financial Officer

K. Shyam Krishnan has 28 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 24 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 13 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 17 years of experience in investment banking, private equity, and corporate finance. Prior to joining SICO in 2014, he was a Director with Gate Capital in Dubai and had previously held senior positions with UAE-based Najd Investments, Unicorn Capital, Emirates NBD's NBD Sana Capital, Saudi National Commercial Bank's NCB Capital, and Eastgate Capital, among others. Wissam holds a BCom degree from Concordia University, Canada.

Mariam Isa

Head of Brokerage

Mariam Isa has 14 years of experience in regional equity trading and sales. She joined SICO in 2005. Before becoming the Head of Brokerage, she held the position of Chief Broker. Mariam holds an MBA in Islamic Finance from University College of Bahrain, an Associate Diploma in Accounting from University of Bahrain, and a Treasury & Capital Market Diploma from BIBF. Mariam has also completed the Leadership Development Program at the University of Virginia.

Nishit Lakhotia

Head of Research

Nishit Lakhotia has more than 15 years of experience in the fields of investment research, risk management, hedge funds and private equity. He has been involved in sell-side research at 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.

***Jithesh K. Gopi**

Head of Proprietary Investments

Jithesh has over 24 years of experience in the investment industry spread across asset management, investment strategy, corporate and product development, research, and analytics. Since 2013, he worked with Al Rajhi Capital, Riyadh in various roles such as Head of Asset Management, Head of Research, and more recently as Director of Corporate Development and Proprietary Investments. He previously worked with SICO as Head of Research until 2013 after joining as a Senior Analyst in 2006. 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.

*Appointed in 2019

***Haitham K. Haji**

Head of Distribution and Business Development

Haitham Haji has 20 years of experience within the fields of investment, private equity, treasury, research and business development. Previously, Haitham was CEO of Investrade Company BSC. Prior to that, he served as a full-time consultant with Gatehouse Bank in London. Prior to that, he was a Director and Senior Relationship Manager for Credit Suisse AG in Bahrain, and prior to that, a Director with ARCAPITA Bank. Haitham began his career with BBK and held several managerial roles in operations, research & business development, and treasury & investments. Haitham holds a BA in Public Administration and Management from the University of Kent and an MBA from Durham Business School in the UK.

Nadeen Oweis

Head of Corporate Communications

Nadeen Oweis joined SICO in 2008 and has accumulated over 19 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, a regional branding and communications consultancy based in Bahrain. She also held posts at Proctor & Gamble Jordan and managed the advertising and promotions account for Radio Fann FM in Jordan. Nadeen holds an MA in Diplomatic Studies from the Jordan Institute of Diplomacy, a BA in Law from the University of Jordan, and a Certificate of Digital Marketing from Columbia Business School.

Simone Del Nevo

Head of Legal

Simone Del Nevo joined SICO as Head of Legal in July 2018 and has over 12 years of experience in managing legal affairs both as private practitioner in major international firms and as in-house counsel. Before joining SICO, Simone worked several years at the international law firm Baker McKenzie in Europe and Japan where he specialized in banking, finance and securities law. After successfully taking on a role as finance-specialist counsel to Snam, Europe's largest gas infrastructure group, Simone moved to the Kingdom of 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 15 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 to 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 16 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.

*Appointed in 2019

Amal Al Nasser

Head of Operations & Client Relations

Amal Al Nasser has more than 30 years of banking experience. After joining SICO in 1997, Amal was Head of Operations at the Bank for 10 years before being appointed General Manager of SFS, a wholly owned subsidiary of SICO, when it was established in 2006. Amal resumed her role as Head of Operations at SICO in 2010 and is also currently a Board Member of SFS. Before joining the Bank, she spent 10 years with ALUBAF Arab International Bank in Bahrain, working in the areas of credit, investment, and commercial banking operations. Amal holds a BA in Economics from Poona University, India.

Mohammed Ibrahim

Head of Information Technology

Mohammed Ibrahim has over 18 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 Leader 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 Postgraduate Diploma in Science and Education from Alexandria University, Egypt.

Nadia Albinkhalil

Head of HR & Administration

Nadia Albinkhalil has more than 24 years of experience and has been with SICO since inception. During her time at the Bank, 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.

Sreenivasan Konnat

General Manager

SICO Funds Services Company (SFS)

Sreenivasan Konnat has over 27 years of professional experience in funds administration, financial control and accounting, and back office operations. Initially a member of SICO's Financial Control department, he transferred to the Bank's subsidiary, SICO Funds Services Company (SFS), in 2007 as Head of Asset Administration and assumed his current position as General Manager in 2017. Prior to joining SICO, Sreenivasan was Back Office Supervisor and Systems Administrator with GWK Bank-Bahrain and Chief Accountant with Al Namal Group of Companies in Bahrain. He holds a BSc degree in Chemistry from the University of Calicut, India and has an Intermediate Level Certification from the Institute of Chartered Accountants, India.

Bassam A. Khoury

General Manager

SICO Financial Brokerage LLC

Bassam has over 33 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 in Business Administration & Economics from King's College, New York, USA.

Governance Framework

SICO's Corporate Governance framework comprises Board and Committee Charters; Code of Business Conduct; operational policies and procedures; internal controls and risk management systems; compliance procedures; 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 acting responsibly, honestly, fairly and ethically; and managing customer complaints. A Whistleblowing Policy and Procedures is included within the Code of Conduct for SICO Staff.

Compliance and Anti-Money Laundering

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

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

Corporate Communications

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

Related Party Transactions & Conflict of Interest

The Directors make every practicable effort to arrange their personal and business affairs to avoid a conflict of interest with the Bank. The Directors disclose their interests in other entities or activities to the NRCG committee on an annual basis, and inform the Bank of any conflict of interest whenever it arises, and abstain from voting on any related subject matter. The Bank reviewed all such transactions during 2018, 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 to the Consolidated Financial Statements.

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

The remuneration paid to Board members and senior management personnel are disclosed in Note 26 to the Consolidated Financial Statements. The information on fees paid to External Auditors for audit and other services will be available to the CBB and shareholders upon request, provided such disclosure does not impact the interest of Bank.

Compliance with 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 & 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 and HC-5.3.2, states that the Corporate Governance Committee, Nomination Committee and Remuneration Committee must include only 3 independent directors. The Chairman of the Nomination, Remuneration and Corporate Governance Committee is an independent director; however, the remaining two members are executive directors. The bank is of the opinion that this does not compromise the high standards of corporate governance as the bank has implemented measures to manage potential conflict of interest.

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. Currently, SICO plans for the same before the end of 2019.

HC-6.6.4 requires all bank licensees to appoint a Head of Risk Management function with direct reporting to the Board and administrative reporting to the CEO and HC 6.6.13 requires this appointment to be approved by the Bank's Audit Committee. As the Bank did not have a designated Head of Risk Management, we are currently in the process of appointing the same with the approval of the CBB.

HC-6.6.14 & HC-6.6.15 requires all bank licensees to establish a Board risk committee composed of at least 3 independent members. During 2018, SICO did not have a separate Board risk committee and the risk management department was directly reporting to the full Board. The topic was discussed at the NRCG and Board meeting held in November 2018, and the Bank's Board has decided to merge the risk committee with the Board Audit Committee.

HC-6.6.16 and HC-6.6.17 requires that the Board of all bank licensees must have a risk appetite statement document which establishes the individual and aggregate level and types of risk that the bank is willing to assume in order to achieve its business objectives. During 2018, the Bank did not have a formal risk appetite document however the Bank has in place various risk policies and investment guidelines which define the risk appetite of the Board. The Bank is in the process of formulating a risk appetite statement as required under the CBB rules.

HC-6.6.33 and HC-6.6.34 requires that the Bank's risk management framework is subject to independent review by a third party other than external auditor when there are material changes in the rulebook or in the business conducted by the Bank. Given the material changes in the rulebook for risk management requirements during 2018, the Bank is required to have an independent review of its risk management framework. The Bank shall conduct an independent review by the consultant in due course.

SICO REMUNERATION POLICY & RELATED DISCLOSURES

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

The current policy framework and incentive components were approved by the shareholders in the Annual General Meeting held on March 30, 2015. The policy is effective from the year 2014 annual performance incentives onwards The key features of the approved remuneration framework are summarised below.

Remuneration strategy

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

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

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

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

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

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

NRCGC role and focus

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

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

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for Approved Persons and Material Risk-Takers, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks, and that the remuneration system takes into consideration employees who earn the same short-run profit, but take different amounts of risk on behalf of the Bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCGC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

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

NRCGC Member Name	Number of meetings attended
Fahad Murad Chairman of the NRCG committee	3
Mohammed Abdulla Isa	3
Khurram Mirza	3

The aggregate remuneration paid to NRCGC members during the year in the form of sitting fees amounted to BD 9,000 [2017: 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 short-run profits, but take different amounts of risk on behalf of the bank, are treated differently by the remuneration system.

Risk assessment framework

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

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

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

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

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

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

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

Risk adjustments

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

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

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

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

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

Malus and Clawback framework

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

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

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

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

Components of Variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.	
Deferred share linked awards	The portion of compensation that is awarded and paid in the form of share linked instruments. The conditions for granting and vesting of shares vary in accordance with the Banks ESOP policy. These awards are granted in following categories:	
	Salary based awards	Provides for up to 5% of annual salary in the form of share awards which are settled at the end of employment.
	Bonus based awards	Granted to employees as a percentage of annual variable compensation in the form of deferred share awards which rateably vests based on completion of predefined service conditions.

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

Deferred compensation

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

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

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

Details of remuneration paid

(a) Board of Directors

BD 000's	2018	2017
• Sitting Fees	78	63
• Remuneration	100	90
• Others	8	14

(b) Employee remuneration

2018 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	10	705,344	28,290	157,200	49,800	940,634
Approved persons in control functions	12	650,483	24,258	95,400	23,600	793,741
Other material risk takers	24	593,854	18,348	95,936	21,620	729,758
Other employees	43	819,581	24,132	83,110	17,940	944,763
Subsidiaries						
Business lines	5	218,359	5,460	18,886	4,721	247,426
Other employees	18	330,042	5,580	35,583	5,400	376,605
Total	**112**	**3,317,663**	**106,068**	**486,115**	**123,081**	**4,032,927**

2017 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	7	606,758	25,080	126,400	31,600	789,838
Approved persons in control functions	11	585,407	22,725	82,640	20,660	711,432
Other material risk takers	25	630,368	22,080	92,424	17,500	762,372
Other employees	38	706,108	25,914	86,640	17,060	835,722
Subsidiaries						
Business lines	6	228,021	4,950	16,000	4,000	252,971
Other employees	18	272,134	4,386	37,328	4,600	318,448
Total	**105**	**3,028,796**	**105,135**	**441,432**	**95,420**	**3,670,783**

Notes:

The amounts reported above represent actual awards for 2018 and 2017 rather than accruals and changes in value of prior period awards. Accordingly, the numbers and amounts reported above may not necessarily agree with numbers/ amounts reported in the financial statements.

(c) Deferred awards

2018 BD 000'	Shares	Amount
Opening balance	15,851,700	2,219,238
Awarded during the period	1,580,340	229,149
Paid out / released during the period	(1,296,727)	(181,542)
Service, performance and risk adjustments	-	-
Changes in value of unvested opening awards	-	(72,775)
Closing balance	**16,135,313**	**2,339,620**

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

Notes :

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

Risk and Capital Management Disclosures

For the period ended 31st December 2018

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

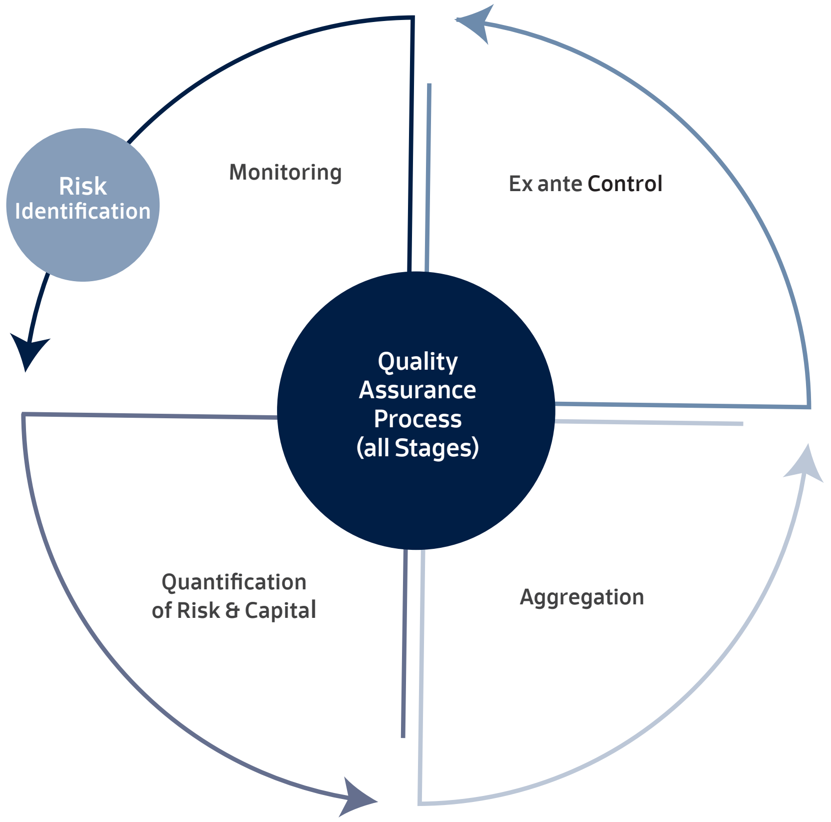
Risk management is the systematic process of identifying, assessing and mitigating the risks to which SICO is exposed. Risk management is essential to the Bank's success, as risk is inherent in its activities, and risks are mitigated by establishing appropriate controls and ensuring that effective monitoring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

The major risk types to which SICO is exposed are:

- Credit risk
- Concentration risk
- Market risk
- Operational risk
- Liquidity risk
- Fiduciary risk
- Legal and regulatory risk
- Reputational risk
- Strategic 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 Investment Committee (BIC):** The BIC is the second stage where decision making surrounding SICO's investment activities is considered. This committee approves investments within its discretionary powers as delegated by the BOD, and in some cases the BIC recommends proposals to the BOD for approval.
- **Audit and Risk Committee (AC):** The AC is responsible for reviewing the Bank's accounting and financial practices to ensure integrity of the Bank's financial statements and adequacy 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.
- **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.
- **Asset Management Committee (AMC):** AMC is a management committee that oversees the fiduciary responsibilities carried out by the Asset Management unit in managing clients' discretionary portfolios as well as the funds operated and managed by SICO. It also reviews the investment strategy of the Bank's funds and portfolios and reviews asset allocations, subscriptions and redemptions and adherence to client guidelines.
- **Internal Control Committee (ICC):** The ICC is a management committee that oversees the internal control functions carried out by SICO's various departments. The remit of ICC is to strengthen the internal control culture throughout the company and to ensure adequacy of controls in the various processes followed in the Bank.
- **Risk Management Department (RMD):** RMD is responsible for establishing a sound risk management framework to assist the Bank in the realisation of its business objectives. It also provides oversight of risk management and risk controls across the organisation by coordinating and communicating with each business unit to manage the risks that arise for its business activities. It also ensures that the principles and requirements of managing risk are consistently adopted throughout the Bank.
- **Compliance Unit:** The unit is responsible for internal compliance, regulatory compliance and KYC and AML functions. It ensures compliance with internal and external rules and regulations and is responsible for implementing the compliance framework across the entire Bank.
- **Internal Control Unit:** The unit is responsible for ensuring the internal control framework of the Bank's business units 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 of banks

Pillar 1

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

Below are the approaches used for deriving the CAR:

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.

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

Scope of application

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

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

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

4. Capital structure and capital adequacy

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

a. The Bank's paid-up capital consists only of ordinary shares that have proportionate voting rights, and the Bank does not have any other type of capital instruments.
b. The Bank's Tier 1 capital, which consists of Common Equity Tier 1, comprises share capital, share premium, reserves, retained earnings, eligible reserves and unrealised losses arising from fair valuing equity securities classified under fair value through other comprehensive income.
c. The Bank does not maintain any additional Tier 1 (AT1) and Tier 2 capital components.
d. The Bank has prepared its capital structure in accordance with the CBB's Basel III capital adequacy framework
e. The Bank has no subsidiaries and/or investments that are required to be deducted from capital.
f. The Bank has no restrictions on the transfer of funds or regulatory capital within the Group, other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

All figures in BD'000

4.1 Capital structure

Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	42,849
Less: Employee stock incentive program funded by the bank (outstanding)	(1,599)
Less: Treasury Shares	(5,913)
General Reserve	3,217
Legal / Statutory reserves	6,670
Share Premium	692
Retained Earnings Brought forward	5,915
Current interim cumulative net income / losses	3,701
Securitization exposures subject to deduction	-
Accumulated other comprehensive income and losses	133
Less: Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	(687)
Total common equity Tier 1 capital (A)	**54,978**
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	20
Total AT1 & Tier 2 (B)	**20**
Total available capital (C) = (A) + (B)	**54,998**
Credit risk weighted exposures	44,684
Market risk weighted exposures	26,188
Operational risk weighted exposures	15,101
Total risk weighted exposures (D)	**85,972**
CET1 capital ratio (A) / (D)	**63.95%**
Total capital adequacy ratio (C) / (D)	**63.97%**

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)	63.97%	63.95%
SICO Financial Brokerage LLC	13.51	8.01

* 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 with anything above 1.25 considered healthy.

4.3 Regulatory capital disclosures

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

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

Appendix 1	Step 1: Balance sheet under the regulatory scope of consolidation
Appendix 2	Step 2: Reconciliation of published financial balance sheet to regulatory reporting
Appendix 3	Step 3: Composition of Capital Common Template (transition)
Appendix 4	Disclosure template for main features of regulatory capital instruments

5. Credit risk

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

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

Risk management works in coordination with business units in identifying and aggregating credit exposures. Credit risk also encompasses the following risks to which SICO is exposed and are being effectively managed as a part of the Credit Risk Management strategy:

Counterparty Risk: SICO deals with different counterparties for its money market placements, brokerage and REPO activities. To measure counterparty risk, SICO performs a detailed assessment of the counterparty risk using both qualitative and quantitative factors.

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

Default Risk: As part of SICO's margin trading facilities and reverse REPO, it is exposed to the risk of default wherein individuals and corporates may be unable to make the required payments on their obligations. SICO accepts only liquid securities as collateral and applies haircuts to the collateral value, which acts as a margin of safety in case it is to offset collateral against outstanding obligations. Moreover, SICO employs margin calls to ensure collateral coverage does not drop below the agreed parameters.

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

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

All figures in BD'000

5.1 Gross credit exposures

	Gross credit exposure	Credit risk weighted assets	Capital requirement @ 12.5%
Cash items	-	-	-
Claims on sovereigns	36,619	-	-
Claims on Bahraini PSE	500	-	-
Claims on banks	53,794	13,533	1,692
Claims on corporates	8,016	3,262	408
Claims on Investment Firms	3,280	479	60
Regulatory retail portfolios	2,157	229	29
Investments in securities	9,324	12,347	1,543
Holdings in real estate	3,851	7,702	963
Other assets	7,142	7,142	893
Total	**124,683**	**44,692**	**5,587**

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

	<1 year	1-5 yrs	5-10 yrs	10-20 yrs	>20yrs	Total
Cash and bank balances	34,467	-	-	-	-	**34,467**
Treasury bills	10,416	-		-	-	**10,416**
Placements with banks	-	-	-	-	-	**-**
Securities bought under repurchase agreements	41,927	-	-	-	-	**41,927**
Investments at fair value through profit or loss	9,600	3,698	9,397	-	949	**23,644**
Investments at fair value through other comprehensive income	-	-	6,214	-	-	**6,214**
Investments at amortized cost	-	-	9,990	-	-	**9,990**
Investment in properties	-	-	1,955	-	-	**1,955**
Furniture, equipment and intangibles	3	296	941	-	-	**1,240**
Fees receivable	1,252	-	-	-	-	**1,252**
Other assets	4,159	-	-	-	-	**4,159**
Total gross credit exposures	**101,824**	**3,994**	**28,497**	**-**	**949**	**135,264**
Commitments	2,134				-	**2,134**
Contingencies	5,133				-	**5,133**

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

5.3 Sectoral distribution

	Financial	Sovereign	Diversified Funds	Real Estate	Others	Total
Cash and Bank balances	34,461	5	0	0	1	**34,467**
Treasury bills	0	10,416	0	0	0	**10,416**
Placements with banks	0	0	0	0	0	**0**
Securities bought under repurchase agreements	27,139	13,240	0	0	1,549	**41,927**
Investments at fair value through profit or loss	6,411	2,305	7,207	2,707	5,015	**23,644**
Investments at fair value through other comprehensive income	2,735	1,940	0	64	1,476	**6,214**
Investments at amortized cost	0	9,990	0	0	0	**9,990**
Investments in Properties	0	0	0	1,955	0	**1,955**
Fees receivable	0	0	0	0	1,252	**1,252**
Other assets	0	0	0	0	5,399	**5,399**
Total assets	**70,745**	**37,895**	**7,207**	**4,725**	**14,692**	**135,264**

5.4 Geographical distribution

	Middle East & Asia countries	North America	Europe	Total
Cash and bank balances	34,308	152	7	**34,467**
Treasury bills	10,416	-	-	**10,416**
Placements with banks	-	-	-	**-**
Securities bought under repurchase agreements	40,393	-	1,534	**41,927**
Investments at fair value through profit or loss	18,260	2,105	3,279	**23,644**
Investments at fair value through other comprehensive income	6,214	-	-	**6,214**
Investments at amortized cost	9,990	-	-	**9,990**
Investments in Properties	-	1,955	-	**1,955**
Fees receivable	1,242	1	9	**1,252**
Other assets	5,385	12	2	**5,399**
Total assets	**126,208**	**4,225**	**4,831**	**135,264**

5.5 Large exposure limits

The following exposures were in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book. However, these exposures qualified to be considered as exempt from the large exposure limits of the CBB, on account of their short-term tenor (of less than 3 months) and inter-bank nature.

Counterparty	Country	Amount	Exposure as a % to eligible capital base
Central Bank of Bahrain	Bahrain	21,436	39%
Gulf Finance House	Bahrain	14,406	26%
Bahrain Islamic Bank	Bahrain	8,626	16%

All figures in BD'000

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 Treasury Unit. The Bank invests and trades across different products, such as equities and fixed income, and through different types of funds in regional and international markets.

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

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

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

- Equity price risk
- Interest rate risk
- Currency risk

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

	Market Risk Weighted Assets			Capital Requirement @ 12.5%
	During the Year to date period		As at	
	Minimum	Maximum	31-Dec-18	
Interest rate position risk	587	965	587	73
Equities position risk	919	1,419	1,419	177
Foreign exchange risk	20	143	89	11
Total minimum capital required for market risk			**2,095**	**262**
Multiplier			12.5	12.5
Total			**26,188**	**3,273**

6.1 Equity price risk

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

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

Equity positions in the banking book

	Gross Exposure	Risk Weighted Assets	Capital requirement @ 12.5%
Equity investments			
- Listed	2,143	2,143	268
- Unlisted	-	-	-
Investment in rated funds	-	-	-
Investment in unrated funds - Listed/Unlisted	7,181	10,204	1,275
Total	**9,324**	**12,347**	**1,543**

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 repricing 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.

Risk and Capital Management Disclosures All figures in BD'000
All figures in BD'000

6.2 (a) Interest rate risk sensitive assets and liabilities

As of 31st December 2017	Effective interest rate% p.a.	Within 1 year	Over 1 year	Non- interest sensitive	Total
Cash and bank	-	-	-	14,813	**14,813**
Call deposits*	-	707	-	-	**707**
Treasury bills	-	10,416	-	-	**10,416**
Placements	3.24%	18,947	-	-	**18,947**
Securities bought under repurchase agreements	3.36%	41,927	-	-	**41,927**
Investments at fair value through profit or loss	6.45%	685	5,962	16,997	**23,644**
Investments at fair value through other comprehensive income	6.02%	-	3,076	3,138	**6,214**
Investments at amortized cost**	-	-	9,990	-	**9,990**
Investment in Properties		-	-	1,955	**1,955**
Fees receivable	-	-	-	1,252	**1,252**
Other assets	-	-	-	4,159	**4,159**
Furniture, equipment and intangibles	-	-	-	1,240	**1,240**
Total assets		**72,682**	**19,028**	**43,554**	135,264
Short-term bank borrowings	3.69%	3,385	-	-	**3,385**
Securities sold under repurchase agreements	3.20%	42,573	-	-	**42,573**
Customer accounts	-	-	-	23,135	**23,135**
Other liabilities	-	-	-	3,805	**3,805**
Payable to unit holders in consolidated funds	-	-	-	6,701	**6,701**
Total liabilities		**45,958**	**-**	**33,641**	**79,599**
Equity		-	-	55,665	**55,665**
Total liabilities and equity		45,958	-	89,306	**135,264**
Interest rate sensitivity gap		26,724	19,028	-45,752	**-**
Cumulative interest rate sensitivity gap		26,724	45,752	-	**-**

* At 31 December 2018 the effective interest rate on Bahraini Dinar call deposits is 0.75 % (2017: 0.45%) and on USD call deposits is 0.45 % (2017: 0.15%).
** At 31 December 2018, the effective interest rate of investments at amortized cost is 6.72% (2017: 6.44%).

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

6.2 (b) Interest rate risk in the banking book

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

100 bps increase	50 bps increase
709.9	354.9

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. There has been no currency sensitivity analysis provided since the Bank invests in securities in USD and/or USD-pegged currencies only.

6.3 Currency risk

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

7. Operational risk

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

Operational risk also encompasses other risks and areas like:

- Reputational risk
- Legal risk

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

	2016	2017	2018
Gross income	6,495	7,673	9,993
Average gross income (A)			8,054
Alpha (B)			15%
(C) = (A) * (B)			1,208
Risk weighted exposures (D) = (C) * 12.5)			**15,101**
Capital requirement @ 12% of (D)			**1,812**

8. Other risks

8.1 Concentration risk

Concentration risk arises when the Bank's exposure is concentrated with one or more related counterparties, asset classes, sectors or geographies. Weakness in the counterparty or assets, sector or country may place SICO under considerable risk and potential loss.

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

The Bank continues its efforts to maintain an acceptable level of concentration by adhering to the limits set by the investment guidelines.

8.2 Liquidity risk

Liquidity risk is the inability to meet contractual and contingent financial obligations, on- or off-balance sheet, as they are due as a result of the potential inability to liquidate financial assets at the required time and price to cope with a pay out of liabilities or investment obligations in assets. Such risks may arise from a depletion of cash and cash equivalents, investments turning illiquid and mismatches in the maturity pattern of assets and liabilities.

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.

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.

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-18 BD '000	Consolidated PIR data 31-Dec-18 BD '000
Assets		
Cash and cash equivalents	34,467	
of which Cash and balances at central banks		15,520
of which Placements with banks and financial institutions		18,950
Treasury bills	10,416	10,416
Securities bought under repurchase Agreement	41,927	41,936
Investments at fair value through profit and loss	23,644	23,644
Investments at fair value through other comprehensive income	6,214	6,215
Investments at Amortized Cost	9,990	9,990
Investment in Properties	1,955	1,955
Fees receivable	1,252	1,252
Other assets	4,159	
of which loans and advances (margin receivables)		866
of which interest receivable		570
of which other assets		2,730
Furniture, equipment and intangibles	1,240	1,240
Total assets	**135,264**	**135,284**
Liabilities		
Short-term bank borrowings	3,385	3,385
Securities sold under repurchase agreement	42,573	42,573
Customer Accounts	23,135	23,135
Other liabilities	3,805	
of which Interest payable		50
of which other liabilities		3,755
Payable to other unit holders (Other liabilities)	6,701	6,701
Total liabilities	**79,599**	**79,599**
Shareholders' Equity		
Share Capital - eligible for CET1	42,849	42,849
Shares under employee share incentive scheme	(1,599)	(1,599)
Treasury shares	(5,913)	(5,913)
Statutory reserve	7,362	
of which share premium		692
of which legal reserve		6,670
General reserve	3,217	3,217
Investments fair value reserve	133	
of which unrealised gains from fair valuing equities		92
of which unrealised gains from other financial instruments		41
Retained earnings	9,616	
of which retained earnings brought forward from previous year		5,915
of which net profits for the current period		3,701
Expected Credit Losses (Stages 1 & 2)		20
Total shareholder' equity	**55,665**	**55,685**
Total liabilities and equity	**135,264**	**135,284**

* 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	42,849		
2	Retained earnings	5,915		
3	Accumulated other comprehensive income (and other reserves)	133		
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**	**55,665**		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
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)	-		

	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
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	(687)		
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**	**(687)**		
29	**Common Equity Tier 1 capital (CET1)**	**54,978**		
	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)	-		

	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
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:	-		
	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)**	**54,978**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-		
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	-		
51	Tier 2 capital before regulatory adjustments	-		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
57	**Total regulatory adjustments to Tier 2 capital**	**-**		

	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
58	**Tier 2 capital (T2)**	**-**		
59	**Total capital (TC = T1 + T2)**	**54,978**		
	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**	**85,972**		
	Capital ratios			
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**63.95%**		
62	**Tier 1 (as a percentage of risk weighted assets)**	**63.95%**		
63	**Total capital (as a percentage of risk weighted assets)**	**63.97%**		
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)**	**63.95%**		
	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)	-		

	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
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-		
77	Cap on inclusion of provisions in Tier 2 under standardized approach (1.25% of Credit Risk weighted Assets)	-		
78	NA	-		
79	NA	-		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)			
80	Current cap on CET1 instruments subject to phase out arrangements	-		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		
82	Current cap on AT1 instruments subject to phase out arrangements	-		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on T2 instruments subject to phase out arrangements	-		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-		

All figures in BD'000

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 41.25 million
9	Par value of instrument	100 fils per share
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1995
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	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
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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