CELEBRATING 20 YEARS OF SICO

REGULATORY DISCLOSURES

بنك استثماري
Investment Bank sico

Contents

EXECUTIVE SUMMARY

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

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

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

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

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

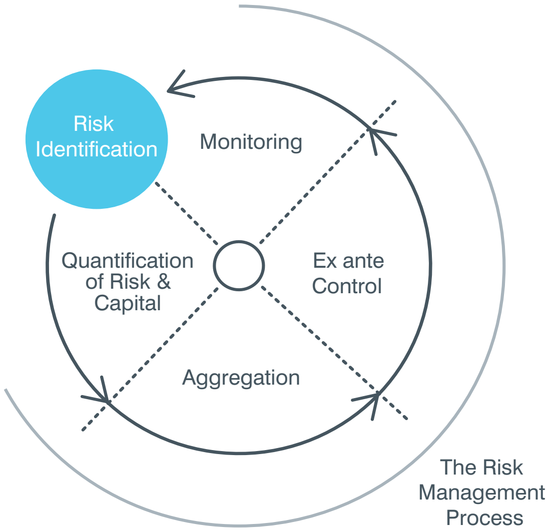
1. OVERVIEW AND STRUCTURE OF RISK MANAGEMENT

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

The major risks types to which SICO is exposed are:

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

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



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

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

2. RISK GOVERNANCE STRUCTURE

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

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

BOARD		
Board Committees		
Audit Committee	Board Investment Committee	Nominations, Remuneration & Corporate Governance Committee
Management Committees		
Assets, Liabilities and Investment Committee	Management Committee	Assets Management Committee
Control Units		
Risk Management Department	Compliance	Internal Audit

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

2. RISK GOVERNANCE STRUCTURE (continued)

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

3. CBB AND BASEL GUIDELINES

CBB Rulebook:

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

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

BASEL III Framework:

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

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

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

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

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

Pillar 1

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

Below are the approaches used for deriving the CAR.

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

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

Pillar 2

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

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

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

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

Pillar 3

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

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

Scope of Application

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

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

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

31 December 2015 Bahraini Dinars '000

4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

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

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

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

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

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

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

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

4.1 CAPITAL STRUCTURE

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

4.2 CAPITAL ADEQUACY RATIO

Consolidated & Subsidiaries above 5% of Group capital:

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

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

4.3 REGULATORY CAPITAL DISCLOSURES

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

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

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

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

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

Appendix 4 Disclosure template for main feature of regulatory capital instruments

5. CREDIT RISK

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

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

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

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

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

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

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

31 December 2015 Bahraini Dinars '000

5. CREDIT RISK (continued)

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

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

5.1 Gross credit exposures

	Gross credit exposure				
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)	TOTAL	Credit Risk Weighted Assets	Capital requirement @ 12%
Cash items	-	-	**-**	-	-
Claims on Sovereigns	14,070	-	**14,070**	-	-
Claims on Bahraini PSE	500	-	**500**	-	-
Claims on Banks	53,704	-	**53,704**	40,771	4,892
Claims on Corporates	7,945	-	**7,945**	7,659	919
Regulatory Retail Portfolios	2,568	-	**2,568**	1,926	231
Investments in Securities	17,477		**17,477**	19,828	2,379
Holdings in Real Estate	252	-	**252**	504	60
Other Assets	1,820	732	**2,552**	2,527	303
TOTAL	**98,336**	**732**	**99,068**	**73,214**	**8,786**

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

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

5.2 Maturity Profile of the Credit Portfolio

	Less than 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
Cash and cash equivalent	60,474	500	-	-	-	**60,974**
T-bills	750					**750**
Trading Debt Securities	-	-	900	6,814	1,007	**8,721**
AFS Debt Securities	-	-	-	5,151	7,366	**12,517**
Other assets	4,244	132	20	501	-	**4,897**
Total gross credit exposures	**65,468**	**632**	**900**	**12,466**	**8,371**	**87,859**
Commitments and contingencies	**678**	**407**	**378**	**-**	**-**	**1,463**

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

5.3 Sectoral distribution

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

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

5.4 Geographical distribution

	Cash & Bank balances	Treasury Bills	Held-For-Trading	AFS Investment	Other assets	On-balance sheet	Off-balance sheet
GCC	56,464	750	12,627	16,083	4,901	**90,825**	**1,356**
MENA (ex-GCC)			1,422	2,109		**3,531**	**107**
North America			-	3,470		**3,470**	
Asia			208	4,699		**4,907**	
Europe	4,510		-	1,147		**5,657**	
Other (global)			-	2,736		**2,736**	
Total	60,974	750	14,258	30,244	4,901	**111,127**	**1,463**

Note: The above table excludes prepayments and furniture & fixtures

5.5 Impairment on available-for-sale investment securities

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

5.6 Large exposure limits

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

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

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

31 December 2015 Bahraini Dinars '000

6. MARKET RISK

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

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

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

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

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

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

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

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

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

6.1 Equity Price Risk

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

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

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

Equity Positions in the Banking Book

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

6.2 Interest Rate Risk

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

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

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

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

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

31 December 2015 Bahraini Dinars '000

6.2 Interest Rate Risk (continued)

6.2(b) Interest Rate Risk in the Banking Book

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

100 bps increase	50 bps increase
- 350,237	- 178,561

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

6.3 Currency Risk

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

7. OPERATIONAL RISK

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

Operational risk also encompasses other risks and areas like:

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

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

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

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

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

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

8. OTHER RISKS

8.1 Concentration Risk

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

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

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

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

8.2 Liquidity Risk

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

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

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

8.3 Fiduciary Risks

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

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

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

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

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

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

8. OTHER RISKS (continued)

8.4 Business Continuity

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

8.5 Compliance Risk

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

APPENDIX 1

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

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

APPENDIX 2

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

BHD 000's	Published Financial Statements	Consolidated PIR data
Assets		
Cash and cash equivalents	60,974	
of which Cash and balances at central banks		20,549
of which Placements with banks and other institutions		40,425
Treasury Bills	750	
of which other assets		750
Investments at fair value through profit and loss	14,258	14,258
Available-for-sale investments	30,244	30,244
Furniture, equipment and intangibles	1,435	
of which intangibles (computer software)		1,197
of which furniture and equipment		238
Fees receivable	1,138	
of which other assets		1,138
Other assets	3,968	
of which loans and advances (margin receivables)		2,394
of which interest receivable		288
of which other assets		1,286
Total assets	**112,767**	**112,767**
Liabilities		
Short-term bank borrowings	19,777	
of which amounts relating to repo transactions		17,777
of which other short-term borrowings		2,000
Customer liabilities	28,805	
of which other liabilities		28,805
Other liabilities	2,910	
of which Interest payable		4
of which other liabilities		2,906
Payable to other unit holders (Other liabilities)	2,836	2,836
Total liabilities	**54,328**	**54,328**
Shareholders' Equity		
Share Capital - eligible for CET1	42,849	42,849
Shares under employee share incentive scheme	(1,599)	(1,599)
Statutory reserve	6,427	
of which share premium		692
of which legal reserve		5,735
General reserve	3,217	3,217
Available-for-sale fair value reserve	(567)	
of which unrealised gains from fair valuing equities		(816)
of which unrealised gains from other financial instruments		249
Retained earnings	8,112	
of which retained earnings brought forward from previous year		5,266
of which net profits for the current period		2,846
Total shareholders' equity	**58,439**	**58,439**
Total liabilities and equity	**112,767**	**112,767**

31 December 2015 Bahraini Dinars '000

APPENDIX 3

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

Common Equity Tier 1 capital: instruments and reserves	
Issued and fully paid ordinary shares	42,849
Employee share incentive program funded by the Bank (outstanding)	(1,599)
General reserves	3,217
Legal / statutory reserves	5,735
Share premium	692
Retained earnings	5,266
Current interim net income	2,846
Unrealised gains on other AFS instruments	249
Unrealised gains on AFS equities	(816)
Total CET1 capital prior to regulatory adjustments	**58,439**
Other capital (AT1 & T2)	**-**
Total capital	**58,439**

APPENDIX 3

Disclosure template for main features of regulatory capital instruments

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