بنك استثماري
Investment Bank
sico

resilient
trusted
proactive

Annual Report 2016

In a year highlighted by global economic uncertainty, increasingly volatile market conditions and unpredictable geopolitical events, SICO adopted a proactive and resilient business approach to mitigate such headwinds. During 2016, we structured and delivered a sophisticated array of innovative new investment solutions to meet the needs of our clients, while continuing to provide a haven of trust and security for our investors and shareholders.

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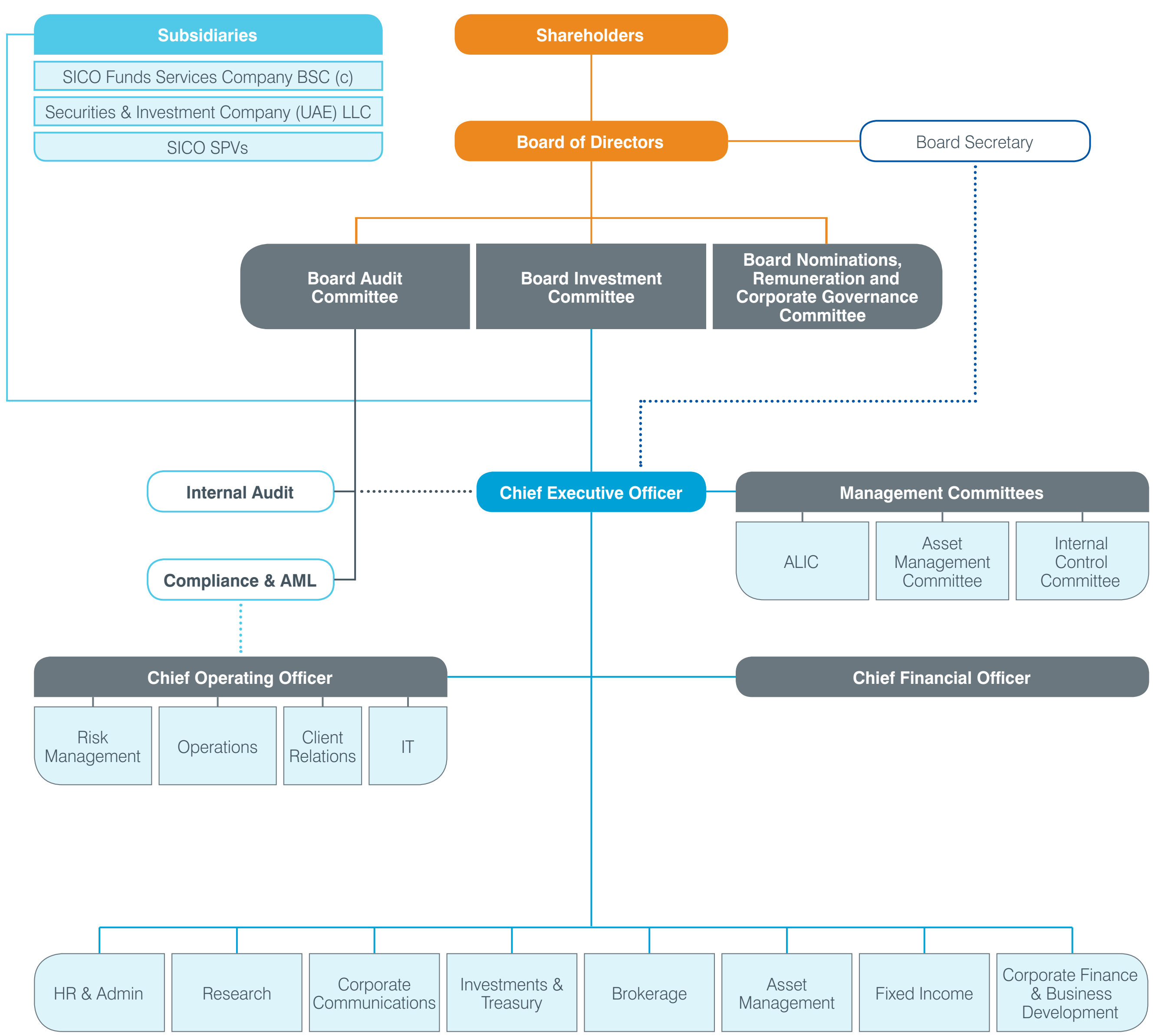
His Royal Highness Prince Khalifa bin Salman Al Khalifa
The Prime Minister of the Kingdom of Bahrain

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

Governance Structure



SICO ANNUAL REPORT 2016

Corporate Overview

Headquartered in the Kingdom of Bahrain, and with a growing regional presence and international footprint, Securities & Investment Company BSC (c) (SICO) is one of the premier wholesale banks in the MENA region.

PROFILE

SICO provides a select range of investment banking solutions covering brokerage, market making and treasury; equity, fixed income and real estate asset management; corporate finance; and custody and fund administration; which are underpinned by an independent, value-added research capability.

Established in 1995, and listed on the Bahrain Bourse in 2003 as a closed company, SICO operates under a conventional wholesale banking licence from the Central Bank of Bahrain. The Bank has two wholly-owned subsidiaries: SICO Fund Services Company (SFS) – a specialised regional custody house; and SICO UAE – an Abu Dhabi-based brokerage firm licensed by the Emirates Securities & Commodities Agency.

The Bank's strong shareholding base comprises the Social Insurance Organisation of the Kingdom of Bahrain, National Bank of Bahrain, Ahli United Bank, BBK, Bank ABC, Arab Investment Resources Company, Gulf Investment Corporation and Al Salam Bank; together with the Bank's staff through the SICO Employee Stock Ownership Plan.

MISSION

Our mission is to be one of the leading GCC securities houses, offering a selective range of investment banking services, including brokerage, asset management and corporate finance. We aim to continuously provide innovative products and services that cater to the changing investment needs of our clients, while abiding to the highest ethical and professional standards of conduct. In doing so, we are committed to maximising shareholders' value.

VALUES

SICO's business operations and corporate relationships, and the professional and personal conduct of our team members, are governed by the following values:

- Acting prudently and professionally
- Upholding transparency in all dealings
- Pioneering new products and services
- Maintaining a client-focused approach

Financial Highlights

SICO posted another positive financial performance in 2016, with a net profit of BD 2.3 million compared with BD 2.8 million for 2015. This reflects the extremely challenging and volatile economic and market conditions witnessed during the year.

0.916m

2016 Net Interest income
2015 0.469m

0.905m

2016 Brokerage income
2015 1.061m

2.634m

2016 Asset Management and other fee income
2015 3.602m

2.474m

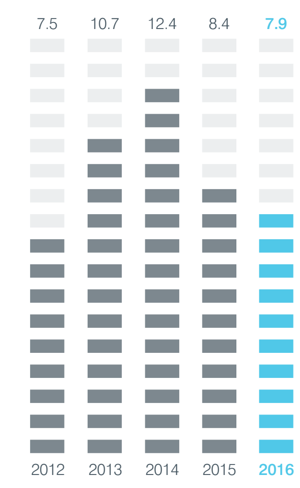
2016 Net Investment income
2015 2.532m

0.458m

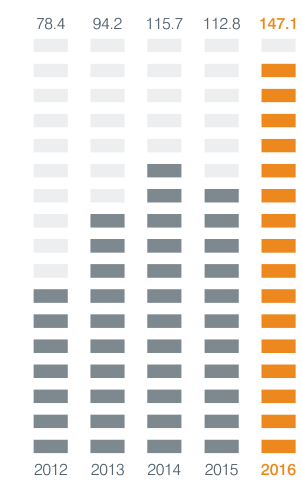
2016 Other income
2015 0.592m

0.394m

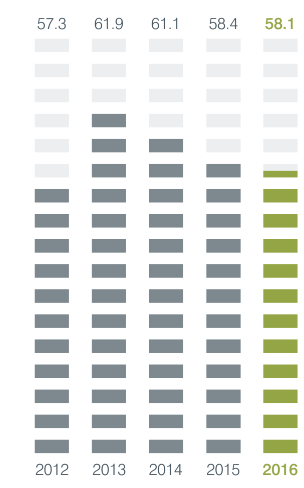
2016 Investment Banking income
2015 0.111m



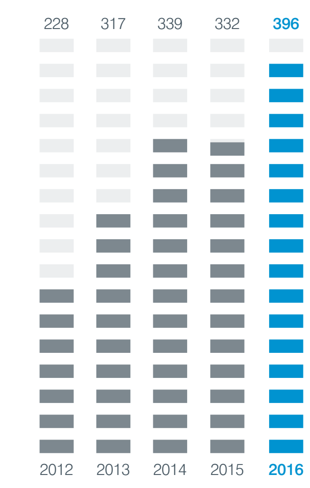
Total Revenues
BD Million



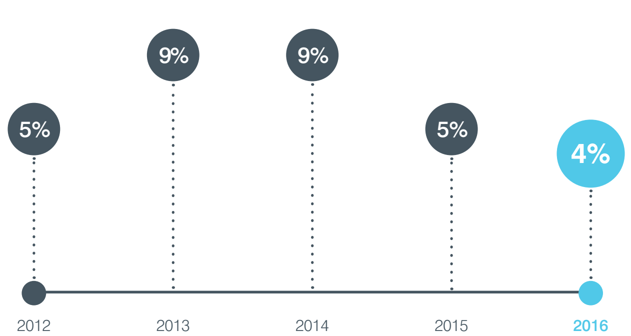
Total Assets
BD Million



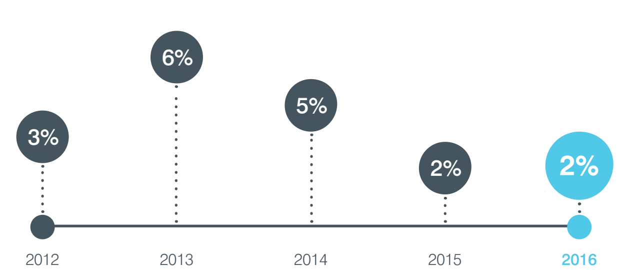
Shareholders' Equity
BD Million



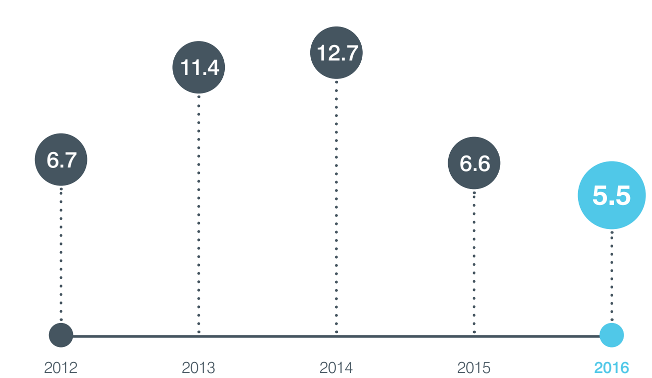
Assets Under Management
BD Million



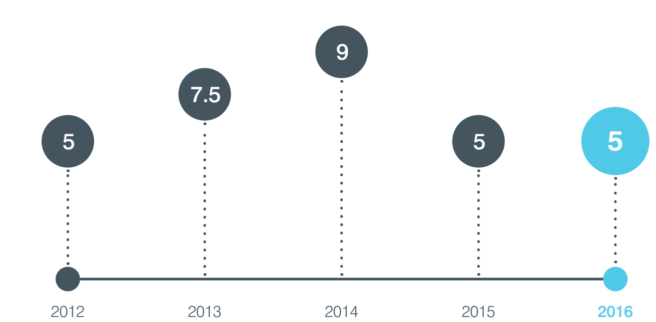
Return on average equity
Annual ratio



Return on average assets
Annual ratio



Earnings per share (Fils)
Annual ratio



Dividends per share (Fils)
Annual ratio

Board of Directors

The composition of SICO's Board of Directors represents a diverse combination of regional banking experience, and wide-ranging professional skills and expertise

1. Shaikh Abdulla bin Khalifa Al Khalifa
Chairman – Executive Director
Represents Social Insurance Organisation - Bahrain

2. Mr. Hussain Al Hussaini
Vice Chairman – Executive Director
Represents National Bank of Bahrain - Bahrain

6. Mr. Mahmoud Al Zewam Al Amari
Independent Director
Represents Bank ABC - Bahrain

7. Mr. Fahad Murad
Independent Director
Represents Arab Investment Resources Company - Bahrain

3. Mr. Anwar Abdulla Ghuloom Ahmadi
Executive Director
Represents Social Insurance Organisation - Bahrain

4. Mr. Prakash Mohan
Executive Director
Represents Ahli United Bank - Bahrain

5. Mr. Mohammed Abdulla Isa
Executive Director
Represents BBK - Bahrain

8. Mr. Waleed K. Al-Braikan
Independent Director
Represents Gulf Investment Corporation - Kuwait

9. Mr Yusuf Saleh Khalaf
Independent Director

Chairman's Statement

Shaikh Abdulla bin Khalifa Al Khalifa

In 2016, we took the strategic decision to diversify our product offering with the addition of real estate-related business activities. Our entry into alternative investments asset management will further diversify SICO's revenue streams and enhance recurring income.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2016. As predicted, this was another tough and testing twelve months, marked by continued economic and market volatility, a regional liquidity crunch, and subdued investor sentiment. It was also a year of the unexpected. Surprises such as the outcome of the Brexit referendum, results of elections in the US and Europe, and the devaluation of the Chinese currency, raised new concerns and heightened uncertainty.

Against such a challenging backdrop, SICO posted another positive financial performance. Operating income for the year was BD 7.9 million compared with BD 8.4 million in 2015, while total operating expenses amounted to BD 5.3 million against BD 5.5 million the previous year. The Bank reported a net profit of BD 2.3 million compared with BD 2.8 million in 2015, with basic earnings per share of Bahraini fils 5.5 versus 6.6 fils for the prior year. At the end of 2016, total balance sheet footings stood at BD 147.1 million compared with BD 112.8 million at the end of the previous year. SICO continued to maintain a solid capital base, with shareholders' equity of BD 58.1 million against BD 58.4 million in 2015. The Bank also maintained a very strong consolidated capital adequacy ratio of 61.4 per cent, which is substantially higher than the Central Bank of Bahrain's requirement.

Significantly, fee-based income accounted for 50 per cent of total income, while total assets under management exceeded US$ 1 billion, reflecting the resilient performance of our core business lines. Such achievements illustrate clients' continued confidence in SICO's ability to deliver a superior performance in challenging market conditions. They also reinforce the Bank's enduring commitment to actively support the development of Bahrain's banking sector, capital markets and economy.

From a strategic perspective, we further diversified our product offering during the year, with the introduction of new real estate-related business initiatives. Our entry into alternative investments asset management, which is not directly correlated to the performance of regional capital markets, will further diversify SICO's revenue generators, and provide a new source of recurring income that will help us to withstand the impact of ongoing market volatility.

During 2016, we continued to strengthen our institutional capability, with further investments in information technology and human capital. We also enhanced our corporate governance and risk management frameworks to ensure ongoing compliance with regulatory authorities in the jurisdictions in which SICO operates. At the same time, we continued to implement our corporate social responsibility programme to support the social well-being and economic prosperity of the Kingdom of Bahrain.

Looking ahead, 2017 is likely to be another highly-testing and unpredictable period. However, improved stability in oil prices, together with the economic reforms being implemented by regional governments, should have a beneficial future impact on GCC economies. The Board has every confidence in the Bank's prospects, and its ability to seize growth opportunities, irrespective of the challenges that might lie ahead.

Based on SICO's 2016 financial results and in accordance with the Bahrain Commercial Companies Law 2001, BD 234 thousand has been transferred to the Statutory Reserve.

The Board is recommending payment of a cash dividend of BD 2.142 million to shareholders, representing 5 per cent of paid-up capital; and BD 25 thousand towards supporting charitable, cultural and educational activities; for approval by the shareholders at the annual general meeting.

The Board takes this opportunity to acknowledge the continued confidence and encouragement of our shareholders; the trust and loyalty of our clients and business partners; and the commitment and professionalism of our management and staff. The Board also expresses its appreciation to the Central Bank of Bahrain and the Bahrain Bourse for their continued guidance and support. On behalf of the shareholders, management and staff of SICO, the Board conveys its best wishes and sincere gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership, visionary reform programme, and support of the Kingdom's financial sector.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

Najla M. Al Shirawi

Chief Executive's Report

SICO's successful business initiatives in 2016 illustrate our innate ability to think outside the box; and reinforce our enduring commitment to meet clients' needs for innovative investment solutions, and contribute to the continued development of Bahrain's capital markets.

Despite increasingly volatile market conditions, I am delighted to report that SICO posted a solid overall performance in 2016. We maintained profitability, strengthened the balance sheet, grew assets under management, and continued to control our cost base. Our financial performance reflects a very active year by our core business lines, which was supported by new initiatives to further enhance our institutional capability and expand our strategic focus.

Market background

GCC markets continued to witness extreme volatility during 2016, with weak oil prices during the first half of the year pushing markets to multiple-year lows. However, talks of a crude output agreement supported markets in the second six months, especially during the last quarter. The surge in Brent crude to an 18-month high of US$ 57 per barrel at the end of the year helped to pull GCC benchmark indices from a negative year-to-date performance into positive territory. By the end of 2016, all seven stock exchanges in the GCC had recovered from the yearly lows and closed the year on a positive note, with the S&P GCC Composite Index improving to a positive 4 per cent compared with a negative 18 per cent in 2015. Dubai was the leading performer, recording an annual growth of 12 per cent, while Qatar was the worst performer at 0.1 per cent.

Trading activity on the GCC exchanges declined for the second consecutive year, although the overall traded value witnessed a strong rebound during November and December, on the back of investor confidence related to the OPEC production agreement. Nevertheless, the value of shares traded in the GCC remained at a five-year low of US$ 388.2 billion, down by 26.5 per cent from 2015, with Saudi Arabia accounting for 79 per cent and Dubai 9.3 per cent of total traded value.

Business highlights

Against this challenging backdrop, our core business lines remained buoyant, reflecting our persistence in growing the business through developing inimitable investment products, originating landmark market transactions, and delivering a superior performance to our clients.

Despite trading volumes of GCC markets declining by over 26 per cent during the year, Brokerage successfully grew its client base and increased market share. SICO maintained its status as the leading broker on the Bahrain Bourse for the 18th consecutive year, and continued to be the preferred broker for large trades, executing the two largest buy-sell side block transactions on the Bourse during the year. We also finalised plans for the launch of our new online brokerage trading platform – sicolive.com. This seamless and secure multi-functional platform will provide brokerage clients with direct access to markets in the GCC, Egypt and Jordan through their desktop computers, laptops and mobile devices.

Market Making enjoyed a very eventful and successful year. In a significant development, SICO initiated the US$ 100 million Bahrain Liquidity Fund in collaboration with a number of key market participants, with the aim of boosting liquidity on the Bahrain Bourse. Since its launch, the Fund has made a significant impact on average daily traded value and turnover on the Bourse. SICO was also mandated as dedicated market maker for the Eskan Bank Realty Income Trust, which provides investors with a new highly-liquid alternative asset class backed by a diversified property portfolio. These developments illustrate SICO's support for important reforms and initiatives being introduced by the Central Bank of Bahrain and the Bahrain Bourse to enhance the liquidity, depth and competitiveness of the Kingdom's stock market.

Asset Management continued to provide a superior performance for clients even in tough market conditions, with total AUM growing by c.20 per cent to exceed US$ 1 billion for the first time. New Fixed Income products included structuring and executing SICO's first derivative transaction through a total return swap; and meeting the needs of Sharia-compliant clients by developing an Islamic repurchase agreement (repo). The Bank also strengthened its presence in the Kingdom's treasury bill market, maintaining its status as the most active fixed income broker for Bahraini dinar bonds and Sukuks, and accounting for over 95 per cent of all secondary market transactions.

In one of the most active and successful years to date for Corporate Finance-related activities, SICO was mandated as lead manager for three landmark transactions that were distinguished by their pioneering nature and innovative features. BBK's BD 100 million perpetual tier 1 convertible capital securities offering, the first to be denominated in Bahraini Dinars, incorporated a host of unique features. The BD 26 million 100 per cent share swap between Gulf Hotels Group and Bahrain Tourism Company, one of the first of its kind in Bahrain, was completed in record time; while the BD 20 million Sharia-compliant Eskan Bank Realty Income Trust is the first real estate investment trust (REIT) to be listed on the Bahrain Bourse, and the first unleveraged REIT to be listed in the GCC. In addition, SICO finalised plans for the launch of a US$ 50 million Sharia-compliant US Real Estate Fund, focused exclusively on residential income-generating properties, which marked the Bank's strategically-important entry into real estate alternative investments asset management.

The Bank's wholly-owned custody subsidiary – SICO Funds Services Company (SFS) – posted another successful performance in 2016, winning new mandates and expanding its client base, with total assets under custody increasing to BD 1.95 billion (US$ 5.2 bn). This performance was recognised during the year with SFS being named 'GCC Best Custodian' at the World Finance 'GCC Investment & Development Awards', having been selected from a final shortlist of nominees comprising leading global and regional financial institutions.

The Abu Dhabi based brokerage subsidiary SICO UAE attracted new regional institutional clients, with its value traded on both equity markets increasing by 16 per cent in contrast to the markets' decline by 14 per cent.

These collective business developments during 2016 reinforce SICO's enduring commitment to meet clients' needs for innovative investment solutions, and to contribute to the development of Bahrain's capital markets and banking sector. They also illustrate our innate ability to think outside the box even in times of unprecedented economic and market volatility and uncertainty, and regional geo-political turmoil.

Institutional capability

During the year, we continued to strengthen our human capital, information technology and governance platforms, through which to support the Bank's business activities. Underscoring the Bank's commitment to promote gender equality, we established an Equal Opportunities Charter and Committee to oversee equal employment and career development opportunities between male and female employees. Currently, women comprise 34 per cent of all employees at SICO, and 25 per cent of the Management team. Key information technology developments in 2016 included a major upgrade and migration to a hyper-convergent infrastructure, involving the latest systems and a private cloud to host critical services. The first phase of a new human resources management system went live, while implementation of a new online brokerage trading platform was finalised.

In terms of governance, SICO joined a select group of asset managers in the MENA region that are compliant with the Global Investment Performance Standards (GIPS) issued by the CFA Institute. GIPS compliance reinforces SICO's enduring commitment to adopt the highest global standards and best practice; and to protect the interests of its shareholders and clients above all else. SICO has also adopted the CFA Institute Asset Manager Code of Professional Conduct, which defines the ethical and professional responsibilities of firms that manage assets on behalf of clients.

Corporate social responsibility

We strongly believe that businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate. Accordingly, we continued to implement our corporate social responsibility (CSR) programme during the year. This is based on four main pillars: to improve the social well-being and quality of life for the local community; help young Bahrainis develop leadership and entrepreneurial skills, and enhance their career prospects; support the development of Bahrain's banking sector and regional capital markets; and actively promote the greater empowerment of women.

Future outlook

Looking ahead, 2017 is likely to be another challenging year for the GCC region, with the economic headwinds of the previous year continuing unabated. We believe that corporate earnings – which have remained resilient despite weak markets for the past two years – will remain a primary support for listed companies in the GCC; while oil prices are expected to stay range bound at US$ 50-60 per barrel. We also consider that regional economic growth rates will have bottomed out in 2016. Ongoing government policy changes and continued fiscal reforms should result in higher growth, and will be positive for regional stock markets in the near term.

Overall, this should be beneficial for SICO's business, and we therefore remain cautiously optimistic about the Bank's prospects in the immediate future. Based on our achievements in 2016 and recent years, we have the requisite core fundamentals in place to adapt to a new economic reality, seize new business opportunities, and continue to uphold the best interests of our clients and shareholders.

Acknowledgements

I take this opportunity to express my appreciation for the invaluable support and encouragement we continue to receive from our Board of Directors, shareholders, business partners and clients; and also from the Central Bank of Bahrain, Bahrain Bourse and the Bahrain Economic Development Board. I would also like to pay special tribute to the management and staff of the Bank who provide us with a key competitive edge. Their commitment, professionalism and innovation, plus their willingness to embrace change and adapt to a challenging environment, have been instrumental to SICO's ongoing success in 2016.

Najla M. Al Shirawi
Chief Executive Officer

Management Team

SICO benefits from a stable, high-calibre and well-qualified management team, with proven regional experience and specific expertise across a variety of disciplines

1. **Najla M. Al Shirawi**
Chief Executive Officer
2. **Anantha Narayanan**
Chief Operating Officer
3. **Abdulrahman Saif**
Head of Investments & Treasury
4. **K. Shyam Krishnan**
Chief Financial Officer
5. **Fadhel Makhlooq**
Head of Brokerage
6. **Shakeel Sarwar**
Head of Asset Management
7. **Ali Marshad**
Head of Fixed Income
8. **Wissam Haddad**
Head of Corporate Finance
9. **Nishit Lakhotia**
Head of Research
10. **Amal Al Nasser**
Head of Operations & Client Relations
11. **Nadia Albinkhalil**
Head of HR & Administration
12. **Nadeen Oweis**
Head of Corporate Communications
13. **Mohammed Ibrahim**
Acting Head of Information Technology
14. **Joseph Thomas**
Head of Internal Audit

SUBSIDIARIES

15. **Sreenivasan Konnat**
Acting General Manager
SICO Funds Services Company
16. **Bassam Khoury**
General Manager
SICO UAE

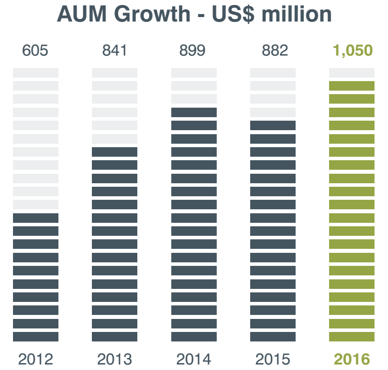
Review of Operations

This operational review covers key developments in 2016 by the Bank's business divisions and subsidiaries, support units and control functions.

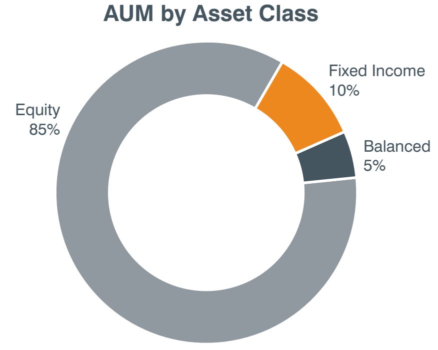
ASSET MANAGEMENT

At the end of 2016, total assets under management (AUM) with SICO stood at BD 396 million (US$ 1,050 million) compared with BD 332 million (US$ 882 mn) at the end of the previous year. This positions the Bank as one of the largest boutique investment managers in the region, outside Saudi Arabia, focused on managing conventional and Sharia-compliant GCC equities and fixed income; together with real estate, which was added as an alternative asset class in 2016.

AUM Growth - US$ million



AUM by Asset Class



EQUITIES

The Bank has three equity funds – Khaleej Equity Fund, SICO Gulf Equity Fund and SICO Kingdom Equity Fund – together with discretionary portfolio management accounts. In terms of external funds, SICO manages Dubai Islamic Bank's Al Islami GCC Equity Fund; the ex-Kuwait exposure of the Al Ahli Gulf Equity Fund on behalf of Ahli Bank of Kuwait; and the Bahraini, Qatari and Omani elements of Riyad Bank's GCC ex-Saudi Equity Fund. Focused exclusively on the GCC and MENA, the Bank possesses an in-depth understanding of the regional equity investment environment; and a unique insight into regional stock markets, key growth sectors and major listed companies, which it has developed since 1998. SICO's success stems from its disciplined investment strategy and conservative approach; one of the most stable and highly-professional asset management teams in the region; and the quality of its comprehensive buy-side research capability.

FIXED INCOME

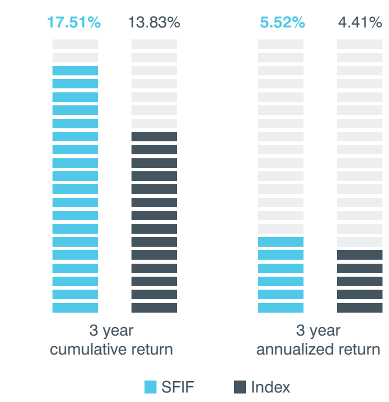
SICO's Fixed Income Asset Management business comprises one fixed income fund and a number of discretionary portfolio management accounts. Since 2012, SICO has earned a solid reputation for the quality and performance, as well as the innovativeness, of its fixed income asset management business. Focused exclusively on the GCC and MENA as well as Turkey, the Bank possesses an in-depth understanding of the fixed income market. SICO's success stems from its disciplined investment strategy, conservative approach and the quality of its comprehensive in-house research capability.

Asset Management

resilient

SICO's asset management business posted another resilient performance in 2016. At the end of the year, total AUM had increased by 19 percent to stand at US$ 1.1 billion. Since its launch five years ago, the SICO Kingdom Equity Fund has achieved an annualised return of 8.6 per cent versus 4.3 per cent by the Tadawul Index. The SICO Fixed Income Fund, now in its third year, has consistently outperformed its benchmark, with an annualised return of 5.5 per cent compared with 4.4 per cent by the index.

SICO Fixed Income Fund Growth



up	Return (January - December 2016)	Annualised Return
	5.8% versus benchmark 8.5%	*Last five years* 7.2% versus benchmark 5.4%
	0.0% versus benchmark 9.2%	*Last five years* 8.3% versus benchmark 6.9%
udi	1.6% versus benchmark 8.1%	*Last five years* 8.6% versus benchmark 4.3%
	6.0% versus benchmark 4.8%	*Last three years* 5.52% versus benchmark 4.41%

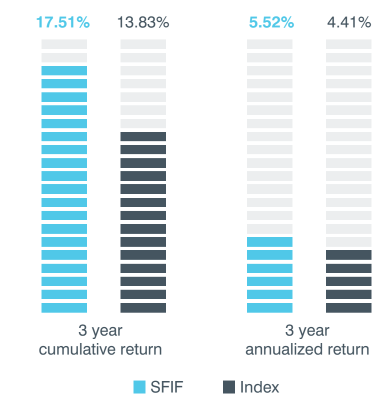
This operational review covers key developments in 2016 by the Bank's business divisions and subsidiaries, support units and control functions.

2016 Highlights

In a second consecutive challenging year, assets under management with SICO increased by over 19% representing net additional AUM under the Equities and Fixed Income strategies. During 2016, the SICO Gulf Equity Fund (SGEF) and SICO Kingdom Equity Fund (SKEF) celebrated the completion of 10 and 5 years, respectively. Since inception, both funds have outperformed their benchmarks by a considerable margin, despite volatile market conditions. This is a testimony to SICO's active investment management, characterised by robust research driven process and a bottom-up investment approach, which has enabled the funds to consistently generate alpha.

In another active and successful year, the SICO Fixed Income Fund returned 6.0 per cent versus 4.8 per cent by the Barclays GCC USD Bond Index, marking the third consecutive year of positive performance. During this period, the fund has also continued to outperform its benchmark despite defensive positioning, and targeting consistent and sustainable returns, whilst offering liquidity and preserving capital.

SICO Fixed Income Fund Growth



SICO FUNDS PERFORMANCE 2016

Fund Name	Launch Date	Principal Investment Focus	Benchmark	Peer Group	Return (January - December 2016)	Annualised Return
Khaleej Equity Fund	March 2004	Equity securities listed on stock markets of GCC countries	S&P GCC Index	GCC	5.8% versus benchmark 8.5%	*Last five years* 7.2% versus benchmark 5.4%
SICO Gulf Equity Fund	March 2006	Equity securities listed on stock markets of GCC countries, excluding Saudi Arabia	S&P GCC Ex-Saudi Index	GCC	0.0% versus benchmark 9.2%	*Last five years* 8.3% versus benchmark 6.9%
SICO Kingdom Equity Fund	February 2011	Equity securities listed in Kingdom of Saudi Arabia	Tadawul	Equity Saudi	1.6% versus benchmark 8.1%	*Last five years* 8.6% versus benchmark 4.3%
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	6.0% versus benchmark 4.8%	*Last three years* 5.52% versus benchmark 4.41%

Review of Operations
continued

BROKERAGE

The leading broker on the Bahrain Bourse for the 18th consecutive year, SICO executed the two largest block transactions during 2016. The Bank also remained the leading broker for fixed income, handling over 95 per cent of all secondary market trades.

SICO offers direct securities (equities, bonds and Sukuks) brokerage services out of Bahrain, where it was licensed by the Bahrain Stock Exchange (now Bahrain Bourse) in 1995. The Bank's wholly-owned subsidiary, SICO UAE, based out of Abu Dhabi and licensed by the Emirates Securities & Commodities Authority (ESCA) in 2012, offers equities brokerage with access to Dubai Financial Market and Abu Dhabi Stock Exchange, while currently in the process of adding a Nasdaq Dubai licence. The Fixed Income Trading Desk commenced operations in 2011. Since then, SICO has developed into a full-fledged regional fixed income player, with distinctive capabilities in developed and emerging market issues, and having established a significant share of overall GCC market trades on the Bahrain Bourse and in the OTC market.

Other services offered out of Bahrain include single account brokerage services across the GCC and other MENA markets, margin trading facilities for equities, and repurchase agreements (repos) for fixed income. The Agency Brokerage Desk, established in 2010 as the first of its kind in Bahrain, is an additional service that enables clients to have a single broker for transactions execution, while having their own disclosed accounts in various GCC and other MENA stock exchanges where they are required to have a nominated custodian.

SICO is placed among the leading brokers in the region, supported by a highly-professional, ethical and experienced team, and underpinned by an in-depth sell-side research capability, which provides comprehensive coverage and analysis of regional companies, sectors, markets and economic trends.

SICO Performance on Bahrain Bourse 2016

	Amount	Market share	Ranking
Total value of shares traded	BD136.22 million	54.73%	1
Total volume of shares traded	755.14 million	51.41%	1
Total number of transactions	7,131	33.66%	1

Source: Bahrain Bourse 2016 Annual Trading Bulletin

2016 Highlights

Despite trading volumes of MENA markets declining by an even greater level than 2015, and the majority of institutional investors remaining on the sidelines, Brokerage grew its overall client base and increased its market share in 2016. Through its focus on serving active institutional investors with large trading books, SICO maintained its status as the leading broker on the Bahrain Bourse for the 18th consecutive year since 1999. The Bank handled 7,131 transactions involving 755.14 million shares with a total value of BD 136.22 million, constituting a market share of 54.73 per cent on the Bourse in 2016.

The Bank continued to be the preferred broker for large trades, and executed the two largest block transactions on the Bourse during the year. In the first, SICO managed the purchase by Solidarity Group of 42.2 million shares in Al Ahlia Insurance Company for BD 10.7 million (US$ 28.4 mn), representing 71.5 per cent of the company's equity. The second deal, for which SICO managed both sides of the trade, involved Dubai-based Shuaa Capital purchasing 147.1 million shares held by Kuwait-based Al Imtiaz Investment Group Company in Bahrain's Khaleeji Commercial Bank for BD 9.6 million (US$ 25.4 mn), equating to a 14 per cent stake of the bank's total capital.

SICO UAE made good progress in implementing its new institutionally-focused strategy during the year. The Company attracted new regional institutional clients and opened new relationships across the MENA region. SICO UAE's value traded on the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM) in 2016 increased by 15.95 per cent over 2015, compared with both markets' total value traded dropping by 13.75 per cent.

SICO's Fixed Income Trading Desk enjoyed record volumes in 2016, with US$ 1.28 billion exchanging hands during the year. A dedicated fixed income dealer, backed by a sales force, was appointed; while repo facilities were provided to clients, enabling them to borrow at low rates and invest in higher-yielding securities in the regional fixed income market, thereby spurring secondary market transactions. The Bank further strengthened its presence in the Kingdom's treasury bill market, maintaining its status as the most active fixed income broker for Bahraini dinar bonds and Sukuks, and accounting for over 95 per cent of all secondary market transactions on the Bahrain Bourse. New fixed income products introduced during 2016 included an Islamic repurchase agreement (repo) featuring a security swap to create cash, which was specially developed to meet the needs of Sharia-compliant clients.

Corporate Finance

trusted

During 2016, SICO maintained its track record as a trusted provider of corporate finance solutions, with the successful execution of three landmark transactions in the Kingdom of Bahrain. First, the BD 26 million share swap between Gulf Hotels Group and Bahrain Tourism Company. Second, BBK's BD 100 million perpetual tier 1 convertible capital securities offering, was the first to be denominated in Bahraini dinars. And third, the BD 20 million Sharia-compliant Eskan Bank Realty Income Trust was the first public real estate investment trust (REIT) in Bahrain.

offering, and exceeding the issuer's minimum threshold by a considerable margin. This first-ever Bahrain Dinar-denominated tier 1 perpetual securities issuance incorporated unique features including a conversion to equity only option, no contractual write-down, and tradability on the Bahrain Bourse.

GHG / BTC Share Swap

SICO acted as Issue Adviser and Lead Manager for the BD 26 million share swap for Gulf Hotels Group (GHG) and Bahrain Tourism Company (BTC), which was finalised on the Bahrain Bourse in June 2016. One of the first of its kind in Bahrain, and featuring an innovative streamlined process, the share swap was completed smoothly and efficiently in record time, setting a new benchmark for such a transaction. It was managed in full compliance with the Takeovers, Mergers & Acquisition (TMA) Module of Rule Book Volume 6 of the Central Bank of Bahrain, and with the regulatory requirements of the Bahrain Bourse.

Bahrain's First Listed REIT

SICO was mandated as Lead Manager, Sub-Investment Manager and dedicated Market Maker for the BD 20 million Eskan Bank Realty Income Trust, which is Bahrain's first Sharia-compliant real estate investment trust (REIT) and the first to be listed on the Bahrain Bourse, and open to retail and institutional investors. The REIT has an attractive unleveraged target of 6.5 per cent in net distributable income payable semi-annually. It is expected to offer lower risk and volatility than stocks and bonds due to long-term rents, prime-asset backing, and no current leverage. The REIT offers investors a new alternative asset class with the opportunity to share in a stable diversified property portfolio, plus liquidity by being able to easily sell units on the Bahrain Bourse.

Review of Operations
continued

BROKERAGE

The leading broker on the Bahrain Bourse for the 18th consecutive year, SICO executed the two largest block transactions during 2016. The Bank also remained the leading broker for fixed income, handling over 95 per cent of all secondary market trades.

SICO offers direct securities (equities, bonds and Sukuks) brokerage services out of Bahrain, where it was licensed by the Bahrain Stock Exchange (now Bahrain Bourse) in 1995. The Bank's wholly-owned subsidiary, SICO UAE, based out of Abu Dhabi and licensed by the Emirates Securities & Commodities Authority (ESCA) in 2012, offers equities brokerage with access to Dubai Financial Market and Abu Dhabi Stock Exchange, while currently in the process of adding a Nasdaq Dubai licence. The Fixed Income Trading Desk commenced operations in 2011. Since then, SICO has developed into a full-fledged regional fixed income player, with distinctive capabilities in developed and emerging market issues, and having established a significant share of overall GCC market trades on the Bahrain Bourse and in the OTC market.

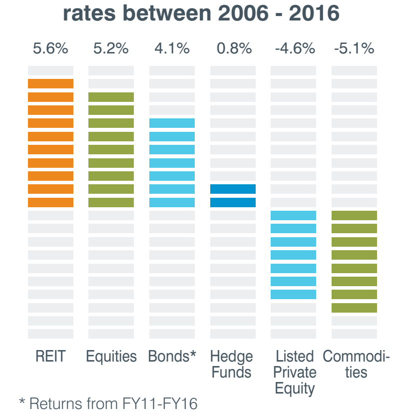
Other services offered out of Bahrain include single account brokerage services across the GCC and other MENA markets, margin trading facilities for equities, and repurchase agreements (repos) for fixed income. The Agency Brokerage Desk, established in 2010 as the first of its kind in Bahrain, is an additional service that enables clients to have a single broker for transactions execution, while having their own disclosed accounts in various GCC and other MENA stock exchanges where they are required to have a nominated custodian.

SICO is placed among the leading brokers in the region, supported by a highly-professional, ethical and experienced

CORPORATE FINANCE

With a successful track record spanning nearly two decades, SICO is a leading provider of both conventional and Sharia-compliant corporate finance solutions in the Kingdom of Bahrain. SICO ranks among the very few regional wholesale banks that cover the entire spectrum of corporate finance-related products and services. These include managing and advising on primary and secondary issuances of equity and debt capital; mergers and acquisitions; privatisations; listings and cross-listings; real estate investment trusts (REITs) and real estate asset management; and fairness opinions. SICO also advises companies and family businesses on strategic initiatives such as financing, capital restructuring, expansion, consolidation and going public. Corporate Finance adds value by partnering with clients to fully understand their needs, providing them with unbiased professional advice, and creating the most effective and innovative solutions to help them achieve their objectives. Integrating idea origination with research and distribution, SICO is capable of addressing clients' capital requirements by providing optimum sources of funding.

Comparative asset class growth rates between 2006 - 2016



* Returns from FY11-FY16 (Bloomberg US Corporate Bond Index).

Source: Bloomberg

Focused on the GCC and MENA, SICO possesses an in-depth understanding of the regional banking and investment environment, and a unique insight into the activities of regional capital markets. The Bank's corporate finance clients in the public sector include government ministries and government-related entities (GREs). Private sector clients are active in banking, insurance and consumer finance; contracting, construction and engineering; industry and commerce; hotels, restaurants and leisure; and real estate, retail and telecommunications.

2016 Highlights

Corporate Finance enjoyed one of its busiest and most successful years to date in 2016, winning a number of new mandates and developing a healthy pipeline of deals. The division also made good progress in supporting SICO's strategic initiative to broaden its product offering and diversifying revenue streams by entering into real estate as a new alternative investment asset management business line. In this respect, the Bank was mandated as Sub-Investment Manager for the Eskan Bank Realty Income Trust (detailed below); and is targeting to launch a US$ 50 million Sharia-compliant US-based real estate fund, focused exclusively on residential income-generating properties, in 2017. SICO was mandated as lead manager for three landmark transactions in 2016 that continued to set new benchmarks for the regional investment banking industry.

BBK Securities Offering

SICO was mandated as Lead Manager for BBK's BD 100 million perpetual tier 1 convertible capital securities offering on a privileged basis to shareholders, which were listed on the Bahrain Bourse in May 2016. The subscribed capital securities totalled BHD 86.1 million, representing over 86 per cent of the total subscription offering, and exceeding the issuer's minimum threshold by a considerable margin. This first-ever Bahrain Dinar-denominated tier 1 perpetual securities issuance incorporated unique features including a conversion to equity only option, no contractual write-down, and tradability on the Bahrain Bourse.

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Review of Operations
continued

MARKET MAKING

The Bank's market making activities are conducted strictly on an arm's length basis from the Brokerage and Asset Management divisions. SICO makes a market for selected stocks on the Bahrain Bourse, post-IPO listings, cross listings, matured listings, and global depository receipts (GDRs). The Bank has also developed considerable expertise in managing, placing and advising on fixed income issues – both sovereign and corporate – and is active in Bahrain and across the region. Since pioneering the market making concept on the Bahrain Stock Exchange (now Bahrain Bourse) in 1995, SICO has maintained its status as the sole official market maker on the Bourse, and one of the GCC's premier market makers, for the past 21 consecutive years.

2016 Highlights

Despite volatile market conditions, SICO's market making business witnessed a very eventful and successful year in 2016, highlighted by a number of significant achievements.

In a notable development, the Bank initiated and co-seeded the BD 41 million Bahrain Liquidity Fund, as well as acting as the Fund Investment Manager. The other initial seed investors, who are prominent Bahrain-based financial institutions, namely – Osool, BBK, Bahrain Mumtalakat Holding Company (Mumtalakat) and NBB – have aligned interests in enhancing the vibrancy and depth of the Bahrain Bourse. They have supported the initiative from its initial stages, and invested equally in the Fund either by cash, shares in kind or a combination. The Fund has the objective of improving liquidity, and enhancing and deepening the Kingdom's stock exchange. Immediately following its launch in June 2016, the Fund made a significant impact, with average daily traded value on the Bourse improving by 67 per cent over the first five months of 2016. Since its launch the Fund's total contribution to the Bourse's turnover was 65 per cent. The turnover value of the Bahrain Bourse grew by 2 per cent in 2016, in sharp contrast to the decline posted by all other GCC markets, with the majority witnessing a reduction of between 20 and 30 per cent.

SICO was also mandated as the dedicated market maker for the first retail real estate investment trust (REIT) to be listed on the Bahrain Bourse – the BD 20 million Eskan Bank Realty Income Trust – providing investors with a new highly-liquid alternative asset class backed by a diversified property portfolio. In addition, SICO was appointed the first qualified market maker on the Bahrain Bourse following the introduction of new market making rules and guidelines in 2016.

TREASURY AND INVESTMENTS

Treasury

SICO's Treasury function is responsible for managing the Bank's liquidity as well as providing value-added services to clients. Treasury services for clients include money market and foreign exchange (FX); together with collateralised lending through margin facilities for equities and repurchase agreements (repos) for fixed income to provide clients with attractive funding sources to pursue market opportunities. FX services cover the diverse currency requirements of clients, with SICO acting as the settlement agent for all their transactions across the GCC and other MENA markets, providing cost-efficient trading.

Treasury posted another profitable performance in 2016, maintaining a very defensive position aimed at generating returns uncorrelated to regional markets. Interbank business was further enhanced through strengthening existing counterparty relationships, and establishing new lines with additional Islamic banks as well as regional financial institutions. This resulted in improved rates on foreign exchange and money market trades. On the other hand, the Bank seized opportunities in the fixed income market through active management of short-term financial instruments, and increased exposure to regional sovereign and corporate attractive issuances that benefited the overall investment net interest income, which increased to BD 916 thousand from BD 469 thousand in 2015. SICO maintained a sound and liquid balance sheet, with a capital adequacy ratio of 61.4 per cent, which is considerably higher than the minimum requirements of the Central Bank of Bahrain.

Investments

It proved to be a very challenging scenario for investments during 2016, marked by continued volatility with contrasting market performance on a quarter-by-quarter basis. A sharp selloff in global equities market at the beginning of the year triggered an extended market correction that lasted for the majority of the year, with defensive investments recovering versus those of a growth-oriented, commodity-based nature. The subsequent improvement in the second quarter was short-lived, until the Brexit result, which heightened the uncertainty affecting developed markets. During the third quarter, in contrast to the global markets, within GCC, Saudi Arabia's benchmark index lost 13.5% triggered mainly by a liquidity crunch. The fourth quarter saw a strong rally across global equity markets, including US and Europe, particularly in the final two months of the year. Even Saudi Arabia's benchmark recovered its 3Q losses following a successful bond issue by the government – the largest emerging markets issue to date – alleviating liquidity concerns.

Market Making

proactive

Illustrating its proactive market making approach, SICO initiated the development and launch of the BD 41 million Bahrain Liquidity Fund in 2016, supported by a number of prominent market participants. The aim of the Fund is to improve liquidity, and enhance and deepen the Kingdom's stock exchange. Immediately following its launch in June 2016, the Fund made a significant impact, with average daily traded value on the Bahrain Bourse improving by 67 per cent over the first five months of 2016. Since its launch, the Fund's total contribution to the Bourse's turnover was 65 per cent.

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

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

GCC Strategic Outlook Reports
Published periodically, provide SICO's views and outlook on the GCC markets.

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

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

GCC Equities – Quarterly Profit Consensus
Provides profit consensus estimates for GCC-listed companies covered by SICO.

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

2016 Highlights

Research initiated coverage on seven new companies in 2016, bringing its total coverage universe to around 70 listed companies across the GCC.

A total of 864 reports were published during the year covering markets, sectors and companies; as well as strategic economic and market outlooks, profit consensus estimates and stock recommendations. SICO Research also continued to act as the official research partner for the Oxford Business Group's 'Bahrain – The Report' annual publication – with particular focus on the Capital Markets section; and hosted a number of investor / analyst conference calls for regional institutions.

Review of Operations
continued

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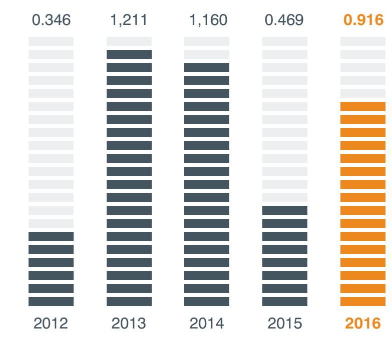
In

Net Interest Income 2012-2016
BD '000



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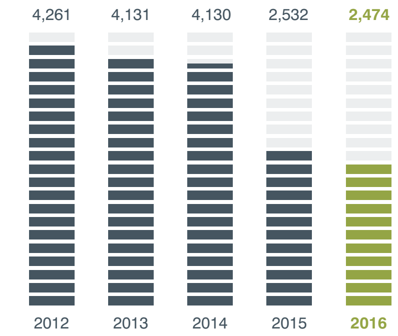

The rally was also helped by OPEC's November-end deal of production output cut by 1.2mn bpd beginning January 2017 which was followed by a similar agreement in December 2016 by certain non-OPEC producers to cut output, leading to a recovery in oil price and improvement in regional sentiments.

Given the challenging market environment of 2016, SICO opted for a 'risk-off' strategy, focusing on capital preservation and diversification to limit downside risks. The Bank positioned its investment portfolio defensively by increasing the fixed income allocation and diversifying across other assets classes, such as alternatives and real estate, while reducing the equity exposure. Well-diversified asset allocation enabled the Bank to achieve its objective of generating positive returns while minimising the correlation to GCC markets and maintaining low levels of volatility. Significantly, net investment income in 2016 of BD 2.47 million remained largely on par with the previous year (2015: BD 2.53 mn). The proprietary book maintained a low correlation of 0.3 to the S&P GCC Index, with a volatility of 3.6 per cent compared with 14.1 per cent by the Index.

RESEARCH

Since pioneering sell-side research in the GCC in 1995, SICO has continuously enhanced the quality and scope of its in-depth proprietary research and analysis, providing clients with independent insights as part of its value-added services. A state-of-the-art research portal offers convenient, flexible and interactive access to one of the most comprehensive research databases in the MENA region. The database covers over 90 per cent of major listed GCC companies, of which approximately half are blue-chip, top-tier entities. SICO's coverage universe currently totals around 70 companies across 10 key regional sectors.

Reports published

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

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

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

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

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

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

Company & Sector Reports
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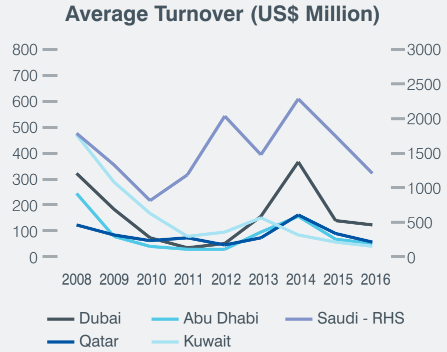
GCC MARKET SNAPSHOT 2016

Overview

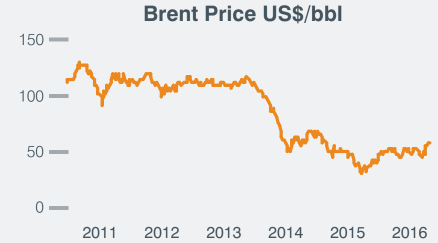
GCC equity markets witnessed a relatively volatile year in 2016, led by considerable swings in the oil price. Brent crude, which touched US$ 27 per barrel in early January 2016, recovered to end the year at US$ 57 per barrel. All GCC markets ended in positive territory at the end of 2016, in stark contrast to the previous year when all markets produced a negative performance. Dubai remained the out-performer, recording a growth of 12% versus a negative 17% in 2015, with the recovery being led by the relative stability of the Emirate's macros, with real estate remaining resilient.

Saudi Arabia, on the other hand, displayed unusual volatility, underperforming in the first and third quarters, while considerably outperforming in the final three months of 2016. The Tadawul posted a positive performance of 4% for the year compared with a negative 17% in 2015. Qatar was the worst performer, remaining broadly flat (0.1% vs -15% in 2015) except for a rally during the third quarter, led by inflows following inclusion in FTSE's secondary emerging markets index. The S&P GCC Composite Index recorded a growth of 4% in 2016 compared with minus 18% in 2015.

Average Turnover (US$ Million)

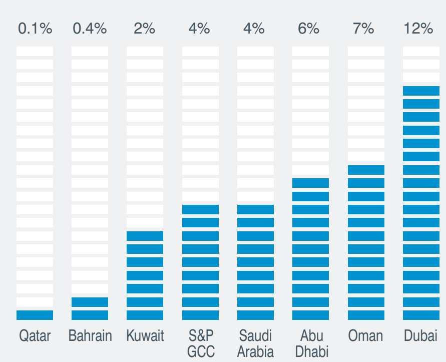


Brent Price US$/bbl

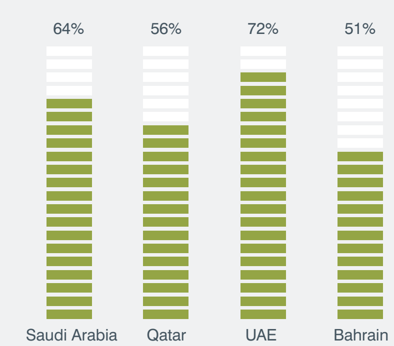


Source: Bloomberg, SICO Research

Index Returns - 2016

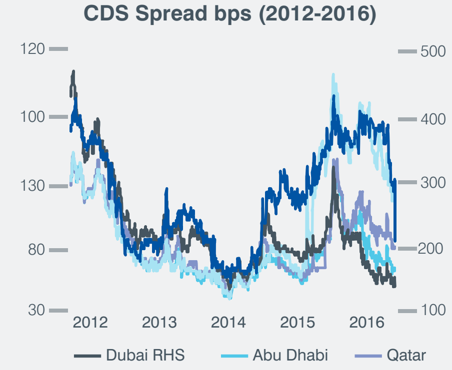


SICO Research Coverage - Key GCC Countries

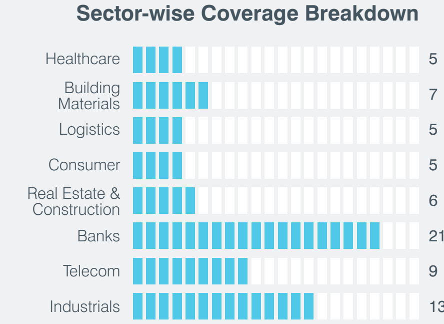


Note: As at 31 December 2016

CDS Spread bps (2012-2016)



Sector-wise Coverage Breakdown



Review of Operations
continued

SICO FUNDS SERVICES COMPANY (SFS)

SICO Funds Services Company (SFS) was established in 2004 as a wholly-owned subsidiary of the Bank. Its operations and services are totally independent and fully segregated from its parent company; while its relationship with SICO's brokerage and asset management businesses is conducted strictly on an arm's length basis. With a key fiduciary responsibility for safeguarding clients' assets, the main activities of SFS comprise settlement of securities transactions; safekeeping of custody assets and securities servicing (such as corporate actions); and comprehensive administration services including valuations and reporting. The utilisation of advanced technology tools, processes and delivery platforms enables SFS to offer clients a seamless and flexible service.

2016 Highlights

SFS posted another successful performance in 2016, maintaining its focus on quality and client service, and further expanding its client base. The winning of new regional mandates, together with stock market appreciation, resulted in total Assets under Custody increasing by 11.8 per cent to BD 1.95 billion (US$ 5.2 bn) at the year-end from BD 1.7 billion (US$ 4.5 bn) at the end of 2015.

INDUSTRY RECOGNITION

BBK Securities Offering

BBK's offering of BD 100 million perpetual tier 1 convertible capital securities on a privileged basis to shareholders, for which SICO was Mandated Lead Manager, was recognised as one of the top three 'Financial Institution Financing Deals of the Year' at the Bonds, Loans & Sukuks Middle East Awards 2016. The subscribed capital securities totalled BD 86.1 million, exceeding the issuer's minimum threshold of BD 60 million by a considerable margin. This first-ever BD-denominated tier 1 perpetual securities issuance incorporates unique features including a conversion to equity only option, no contractual write-down, and tradability on the Bahrain Bourse.

Investment Banking

SICO was selected as the 'Best Investment Bank in Bahrain' for 2016 by the Global Finance 18th Annual World's Best Investment Banks awards. According to this prestigious global publication: "These awards recognise banks that have the greatest depth of knowledge, and the skills and knowhow to deploy that knowledge to serve their clients." Criteria including market share, number and size of deals, service and advice, structuring capabilities, innovation and market reputation, were used to score and select winners based on a proprietary algorithm.

Brokerage Trading Performance

At the 2016 AFE Equities Summit in Jordan, SICO's Brokerage business received the award for the 'Highest Traded Shares on the Bahrain Bourse' for the third consecutive year. This highly-regarded annual conference, which is hosted by the Arab Federation of Exchanges (AFE), brings together leaders of Arab financial markets, and regional and international experts.

Custody and Administration

The Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – was named 'GCC Best Custodian' by the World Finance GCC Investment & Development Awards 2016. SFS was selected from a final shortlist of nominees comprising four global and regional financial institutions. The annual World Finance Awards were introduced in 2010 to recognise leading GCC financial institutions who are driving development and prosperity. Since then they have become known internationally as the pinnacle of recognition. Selection criteria include leadership and innovation; a forward-looking competitive strategy, quality of service and delivery; corporate governance; and transparency and disclosure.

Forbes ME Power List

In 2016, Ms. Najla Al Shirawi, SICO Chief Executive Officer, was included in the Forbes 'Middle East 100 Most Powerful Arab Businesswomen List' for the second consecutive year. The final 100 were selected from an initial group of over 300 women from 13 countries across the Arab world. Selection criteria for inclusion in this prestigious list cover the size of institution, market position, sphere of impact, and media presence.

MENA FM Power 50

Head of SICO Asset Management, Mr. Shakeel Sarwar, was included in the 2016 Mena Fund Manager 'Power 50 List', which recognises 'the most influential and powerful figures in the region's asset management community', according to annual research conducted by this prestigious financial publication. Since 2004, Shakeel has led the development of SICO into one of the largest boutique investment managers in the region outside Saudi Arabia.

Review of Operations
continued

SUPPORT FUNCTIONS

Client Relations

Client Relations is the key point of contact for existing and potential clients. A dedicated team deals promptly and responsively with queries and complaints in all non-trading issues; and acts as a conduit for passing on suggestions, requests and ideas from clients to the business divisions. The scope of activities includes opening new accounts, negotiating agreements with clients and partners, and handling various on-going requests and queries by clients. Significantly, no formal complaints were received during 2016, reflecting the Bank's commitment to continuously improve its customer service and satisfaction standards.

Human Resources

SICO continued to strengthen its human capital framework during the year. The total headcount of SICO numbered 95 at the end of 2016; while the strength of the Bank's succession planning was further validated by the filling of a vacancy on the Management team from within the organisation. Comprehensive training and development opportunities continued to be provided, including technical training at the Bahrain Institute of Banking & Finance, selected external development courses and mandatory CBB-related training.

The Bank also encourages staff to achieve professional qualifications: six employees are currently studying for CFA accreditation, while nine are CFA Charter Holders. During the year, two members of the SICO Executive Training Programme took up permanent positions within the Bank, while an additional two university graduates joined the programme.

Information Technology

During 2016, SICO continued to strengthen its Information and Communications Technology (ICT) infrastructure. Key developments included a major revamp and migration to a hyper-convergent infrastructure, implementing a state-of-the-art enterprise clouding solution involving the latest technologies and platforms to host the core infrastructure services. Additionally, a new human resources management system (HRMS) was implemented. A notable achievement was finalising implementation of a new brokerage online trading platform – sicolive.com – in readiness for launching in early 2017. A business continuity planning (BCP) exercise, and vulnerability assessment and penetration testing (VAPT), were conducted during the year, in line with regulatory requirements for data recovery and cybercrime prevention.

Operations

Operations is responsible for processing all transactions by the Bank's business lines. Its main activities comprise opening accounts and booking cash for clients; managing daily transactions 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, resulting in improved efficiency and accuracy, and more timely reporting.

Corporate Communications

SICO conducts all communications with stakeholders in a professional, transparent and timely manner. Main communications channels include an annual report and website, public relations and social media, sponsorship and events, and corporate social responsibility programme. Key developments in 2016 included managing public relations campaigns for the BBK Securities and Eskan Bank REIT offerings and results; and the launch of the Bahrain Liquidity Fund on the Bahrain Bourse. In addition, a major rebranding project for SICO was initiated.

CONTROL FUNCTIONS

Compliance & Anti-Money Laundering

As a licensed conventional wholesale bank and listed company, 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 2016, SICO maintained compliance with the latest regulatory requirements of the Central Bank of Bahrain and the Emirates Securities & Commodities Authority (ESCA). An overview of SICO's corporate governance framework, plus a report of key developments during the year, are covered by the Corporate Governance Review in 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 organisation. 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 2016, Risk Management continued to play a pivotal role in ensuring that SICO remains strong, methodical and consistent in the face of increasingly volatile economic and market conditions. An overview of SICO's risk management framework, plus a report of key developments during the year, are covered in the Risk & Capital Management section of this annual report.

Internal Audit

SICO has a well-established independent Internal Audit function which 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 2016, the department met quarterly with the Audit Committee, and presented the results of internal audits performed in line with the Board-approved risk-based internal audit plan. Internal Audit also carried out a number of spot checks and reviews on an ad hoc basis covering various areas based on Management's request, with the results being presented to Senior Management and the Audit Committee. All key operational, business and management processes and divisions, including the subsidiaries SICO UAE and SFS, were audited in line with the audit plan. During the year, the department assisted Management with inputs and reviews at various stages for major projects such as the policies and procedures update, and implementation of the new brokerage online trading platform - sicolive.com; and also supported the Bank on various reviews for other departments.

Financial Control

The Financial Control department, which comprises the Accounting & Reporting Unit (ARU) and the Internal Control Unit (ICU), is responsible for all aspects of accounting and Internal controls at SICO. During 2016, the ARU produced MIS reports and regulatory reports, prepared financial statements in accordance with international accounting standards and in compliance with regulations of the Central Bank of Bahrain. A significant exercise during the year involved the detailed analysis, planning and early adoption of the requirements of the new accounting standard – Financial Instruments: Recognition and Measurement (IFRS 9).

The Internal Control Unit (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 Business lines. During 2016, ICU was closely involved in a number of new project developments, including the revision of SICO's policies and procedures, Compliance & AML Manual, and ICAAP; implementation of sicolive.com.

Corporate Social Responsibility Review

SICO strongly believes that businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate.

The Bank has long recognised its responsibility to contribute to the social well-being and economic prosperity of the Kingdom of Bahrain; and to support the less privileged and challenged sections of society. Accordingly, the Bank implements an annual Corporate Social Responsibility programme that is based on four core pillars:

1. Improve the social well-being and quality of life for the local community, with a particular focus on education, healthcare and social welfare.
2. Help young Bahrainis develop leadership and entrepreneurial skills and enhance their career prospects; and provide employment opportunities for high-calibre university graduates with SICO.
3. Support the development of Bahrain's banking sector, and contribute to the Kingdom's development of the GCC region's capital markets.
4. Actively promote the greater empowerment of women in Bahrain's banking sector.

IMPROVING THE QUALITY OF LIFE FOR THE LOCAL COMMUNITY

During 2016, SICO continued to support a variety of charitable institutions and events engaged in improving the healthcare, education and social welfare of citizens, including the following:

- Al Noor Charity Welfare
- Bahrain Child Care Home
- Bahrain Down Syndrome Society
- Children and Mothers Welfare Society
- UCO Parents Care Centre for Elderly Patients
- 18th Bahrain Annual Six-a-Side Charity Football Tournament
- Sri Lanka Club Bahrain Annual Celebration
- Anti-drug Awareness Session at Busaiteen Sports & Cultural Club
- Special day out for 250 children suffering from autism

DEVELOPING BAHRAIN'S BANKING SECTOR AND REGIONAL CAPITAL MARKETS

During 2016, SICO either sponsored or participated in a number of financial industry conferences and high-level events, and related activities, including the following:

- AFE Equities Summit
- CFA Institute Middle East Investment Conference
- Middle East Asset Management Forum
- CFA Bahrain Annual Forecast Dinner & Charter Award Ceremony
- Official Research Partner for Oxford Business Group's 'The Report - Bahrain'

SUPPORTING THE DEVELOPMENT OF YOUNG BAHRAINIS

In 2016, SICO's support for developing young Bahrainis included the following:

- Supported a participating school in the annual TradeQuest - The Trading Challenge
- Sponsored a Model United Nation event by the Everyone Counts Society - Bahrain
- Sponsored a second BIBF simulation training programme for 13 university students
- Supported a young female Bahraini photographer by purchasing her calendars
- Employed two graduates from the SICO Executive Training Programme
- Provided two-month summer internships for Bahraini university students
- Supported educational support initiatives of Almabarrah Alkhalifia Foundation

PROMOTING WOMEN'S EMPOWERMENT IN BAHRAIN'S BANKING SECTOR

The Bank's activities during 2016 to promote women's empowerment in the banking sector of the Kingdom of Bahrain, included the following:

- **CBB / BIBF Mentorship Programme for Bahraini Students**
  SICO has nominated three female members of staff as mentors in support of the second tranche of the Mentorship Programme for Bahraini Students, which is a collaborative initiative by the Central Bank of Bahrain and the Bahrain Institute of Banking & Finance. The programme aims to inspire Bahraini undergraduate students and raise their awareness of different career options in the Kingdom's financial industry, through the exchange of knowledge and expertise with assigned mentors and tailored training.
- **SICO Charter on Equal Opportunities**
  SICO established a new Bank Charter on Equal Opportunities. This falls under the auspices of the Supreme Council for Women and the guidance of HRH Princess Sabeeka Bint Ibrahim Al-Khalifa; supports the Council's strategies and plans to empower women and consolidate the principle of equal opportunity; and recognises the fact that promoting diversity and inclusion practices in the workplace contributes to the success and competitiveness of companies. The charter also takes into consideration key women's empowerment principles as issued by 'UN Women' and the 'United Nations Global Compact'.
- **SICO Equal Opportunities Committee**
  In line with this new Charter, SICO established a management-level Equal Opportunities Committee, which will be responsible for overseeing equal employment opportunities between male and female employees of the Bank.

Women at SICO*	34%
Women in Managerial and Supervisory Positions*	27%

* Number and percentage of women out of total SICO headcount

- **Speaking Engagements**
  SICO Chief Executive Officer, Ms. Najla Al Shirawi, was invited as a keynote speaker for three women's empowerment-related events during 2016:
  - Saudi Aramco's Women in Leadership Program, at which she shared her career experience and journey to becoming a leader, and offered advice to senior female executives to strengthen their leadership style and skills to develop as leaders of influence.
  - 'Women in the Corporate World: Beyond the Glass Ceiling' conference organised by Alghanim Industries and Gulf Bank in Kuwait, which brought together some of the most influential women in the GCC who have reached the highest levels in their respective fields.
  - 'Smashing the Glass Ceiling - Challenges and Opportunities' seminar organised by the Bahrain Chapter of the Institute of Chartered Accountants of India, in celebration of International Women's Day.

REGULATORY DISCLOSURES

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Independent Auditors' Report to the Shareholders

KPMG

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

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of Securities and Investment Company BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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 2016. 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.

Early adoption of IFRS 9 (refer to note 2(d) to the consolidated financial statements)

Description	How the matter was addressed in our audit
The Group has early adopted IFRS 9: Financial Instruments effective 1 January 2016. In accordance with the standard, prior period consolidated financial statements have not been restated. The impact of adoption of the new accounting standard is significant due to change in classification and measurement of certain financial assets and new accounting policies for measurement of expected credit losses. Due to the judgment involved in determining appropriate parameters and assumptions used in implementation of the standard, this is one of the key areas that our audit was focused on.	*Classification and measurement:* • We have evaluated management classification of its investments based on its business model and the principles of relevant accounting standards. *Expected credit losses (ECL):* • With the assistant of our specialist, we have checked the appropriateness of the new accounting policies in line with our understanding of the current exposures and risk profile of the Group's investments in debt instruments and other financial assets. • We challenged the expected credit loss calculations for such instruments including use of appropriate methodology and inputs for calculations of expected credit losses. *Disclosures:* • We have tested the adjustments made to the opening retained earnings as well as current period adjustments for application of the revised accounting policies. We also assessed the adequacy of the Group's disclosure in relation to early adoption of IFRS 9 by reference to the requirements of relevant accounting standards.

Independent Auditors' Report to the Shareholders
continued

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

Description	How the matter was addressed in our audit
The Group's portfolio of quoted equity, debt and fund investments at fair value make up 18% of the Group's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they comprise liquid, quoted investments. However, due to the materiality in the context of the consolidated financial statements as a whole, they are considered to be one of the areas which had the greatest impact on our overall audit strategy and location of resources in planning and completing our audit.	*Our procedures included:* • Agreeing the valuation of investments in the portfolio to externally quoted prices; • Agreeing investments holdings in the portfolio to independently received third party confirmations; and • Assessing the Group's adequacy of disclosures.

Other information
The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Board of directors' report set out on page 1.

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 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Rule Book issued by the Central Bank of Bahrain (CBB), we report that:
a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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

KPMG

KPMG Fakhro
Partner registration number 137
16 February 2017

Consolidated Statement of Financial Position

as at 31 December 2016

Bahraini Dinars '000

	Note	2016[1]	2015
Assets			
Cash and cash equivalents	7	**80,900**	60,974
Treasury bills		**16,256**	750
Investments at fair value through profit or loss	8	**28,040**	14,258
Investments at fair value through other comprehensive income	9(a)	**4,793**	-
Available-for-sale investments	9(b)	**-**	30,244
Investments at amortized cost		**8,923**	-
Fees receivable	10	**1,164**	1,138
Other assets	11	**5,481**	3,968
Furniture, equipment and intangibles	12	**1,507**	1,435
Total assets		**147,064**	112,767
Liabilities and equity			
Liabilities			
Short-term bank borrowings	13	**39,255**	19,777
Customer accounts	14	**42,994**	28,805
Other liabilities	15	**3,903**	2,910
Payable to other unit holders in consolidated funds	6	**2,830**	2,836
Total liabilities		**88,982**	54,328
Equity			
Share capital	16	**42,849**	42,849
Shares under employee share incentive scheme		**(1,599)**	(1,599)
Statutory reserve	17	**6,661**	6,427
General reserve	18	**3,217**	3,217
Investments fair value reserve		**(251)**	(567)
Retained earnings		**7,205**	8,112
Total equity		**58,082**	58,439
Total liabilities and equity		**147,064**	112,767

[1] December 2016 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.

The consolidated financial statements were approved by the board of directors on 16 February 2017 and signed on its behalf by:

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

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

Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

Bahraini Dinars '000

	Note	2016[1]	2015
Net investment income	19	**2,474**	2,532
Net fee and commission income	20	**2,634**	3,602
Brokerage and other income	21	**1,757**	1,764
Other interest income	22	**1,023**	524
Total income		**7,888**	8,422
Staff and related expenses	23	**(3,581)**	(3,760)
Interest expense	22	**(107)**	(55)
Other operating expenses	24	**(1,752)**	(1,715)
Impairment		**-**	(140)
Share of (profit) / loss of other unit holders in consolidated funds	6	**(103)**	94
Profit for the year		**2,345**	2,846
Basic and diluted earnings per share (fils)	30	**5.47**	6.64

[1] December 2016 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

Bahraini Dinars '000

	2016	2015
Profit for the year	**2,345**	2,846
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve (through other comprehensive income investments):		
- Net amount transferred to statement of profit or loss	**(215)**	(1,787)
Items that will not be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve (through other comprehensive income investments):		
- Net change in fair value transferred to retained earnings	**880**	-
- Net change in fair value	**(345)**	102
Total other comprehensive income for the year	**320**	(1,685)
Total comprehensive income for the year	**2,665**	1,161

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

Bahraini Dinars '000

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

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

Consolidated Statement of Changes in Equity continued

for the year ended 31 December 2016

Bahraini Dinars '000

2015	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2015	42,849	(1,599)	6,142	2,642	1,118	9,946	61,098
Comprehensive income for the year:							
Profit for the year	-	-	-	-	-	2,846	2,846
Other comprehensive income:							
Fair value reserve (Investments at fair value through other comprehensive income):							
Net change in fair value	-	-	-	-	102	-	102
Net amount transferred to profit or loss on sale / impairment	-	-	-	-	(1,787)	-	(1,787)
Unrealized gain on consolidated funds transferred to retained earnings	-	-	-	-	-	36	36
Total other comprehensive income	-	-	-	-	(1,685)	-	(1,685)
Total comprehensive income for the year	-	-	-	-	(1,685)	2,882	1,197
- Transfer to general reserve	-	-	-	575	-	(575)	-
- Transfer to statutory reserve	-	-	285	-	-	(285)	-
Transaction with owners recognized directly in equity:							
- Dividends declared for 2014	-	-	-	-	-	(3,856)	(3,856)
Balance at 31 December 2015	42,849	(1,599)	6,427	3,217	(567)	8,112	58,439

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

Bahraini Dinars '000

	Note	2016	2015
Operating activities			
Net interest received		**1,981**	1,540
Sale of investments at fair value through profit or loss		**22,835**	40,999
Purchase of investments at fair value through profit or loss		**(36,122)**	(39,062)
Sale of Investments at fair value through other comprehensive income		**34,973**	31,728
Purchase of Investments at fair value through other comprehensive income		**(14,902)**	(33,063)
Purchase of amortized cost investments		**(3,860)**	-
Net increase / (decrease) in customer accounts		**14,189**	(4,073)
Dividends received		**544**	701
Brokerage and other fees received		**3,080**	6,892
Payments for staff and related expenses		**(3,618)**	(4,292)
Payments for other operating expenses		**(583)**	(1,361)
Net cash from operating activities		**18,517**	9
Investing activities			
Net capital expenditure on furniture and equipment		**(284)**	(213)
Net cash used in investing activities		**(284)**	(213)
Financing activities			
Net proceeds from short-term bank borrowings		**19,478**	3,557
Net (payments) / proceeds from issue / (redemption) of units		**(169)**	828
Proceeds / (Distribution) to other unit holders in consolidated funds		**32**	(28)
Dividends paid		**(2,142)**	(3,856)
Net cash from financing activities		**17,199**	501
Net increase in cash and cash equivalents during the year		**35,432**	297
Cash and cash equivalents at the beginning of the year		**61,724**	61,427
Cash and cash equivalents at the end of the year	7	**97,156**	61,724

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

Notes to the 31 December 2016 Consolidated Financial Statements

Bahraini Dinars '000

1. Reporting entity

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

The primary objectives of the Bank are:

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

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgments

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

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

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

(d) Early adoption of standards

IFRS 9 – Financial Instruments: Recognition and Measurement

The Group has adopted IFRS 9 Financial Instruments: Recognition and Measurement (IFRS 9) in advance of its compulsory effective date. The Group has chosen 1 January 2016 as the date of initial application, i.e. the date on which the Group has assessed the classification and measurement of its existing financial assets and financial liabilities. The Group has voluntarily early adopted this standard, as it is considered to result in the recognition and measurement of financial instruments on a basis that more appropriately reflects the operations and performance of the Group.

The standard has been applied retrospectively and, as permitted by IFRS 9, comparative figures have not been restated. The impact of the early adoption of IFRS as at 1 January 2016 has been recognized in retained earnings and investments fair value reserve at that date.

IFRS 9 specifies how an entity should classify and measure its financial assets and financial liabilities. IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. It eliminates the existing IAS 39 categories of fair value through profit or loss, available-for-sale, held to maturity loans and receivables.

Financial assets, including debt instruments, are measured at amortized cost using the effective interest rate method if:

(i) The assets are held within a business model whose objectives is to hold assets in order to collect contractual cash flows, and
(ii) 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

If either of these two criteria is not met, the financial assets are classified and measured at fair value, either through the profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"). Additionally, even if a financial asset meets the amortized cost criteria the entity may choose at initial recognition to designate the financial asset at FVTPL.

Investments in equity instruments are classified as FVTPL, unless the Group designates an equity investment that is not held for trading as FVTOCI on initial recognition. At initial recognition, the Group can make an irrevocable election on an instrument-by instrument basis to designate equity investments as FVTOCI. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in profit or loss.

A financial asset is held for trading if:

(i) it has been acquired principally for the purpose of selling in the near term;
(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short term profitability; or
(iii) it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

Only financial assets that are measured at amortized cost and debt instruments classified as FVTOCI are tested for impairment.

The Group's existing financial assets at the date of the initial application of IFRS 9 on 1 January 2016 have been reviewed and assessed, and as a result:

- the Group's investments in debt instruments meeting the required criteria have been classified as financial assets at amortized cost;
- the Group's equity investments not held for trading have been designated as FVTOCI; and
- the Group's remaining investments in equity have been designated as FVTPL.

The Group currently has certain debt securities measured at FVTOCI and equity investments designated as at FVTOCI.

For debt securities measured at FVTOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method;
- Expected credit losses (ECL) and reversals; and
- Foreign exchange gains and losses.

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2. Basis of preparation (continued)

(d) Early adoption of standards (continued)

When debt security measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

The impact of this change in accounting policy at the beginning of the current period on 1 January 2016 has been to increase retained earnings by BD 4, and to decrease the investment fair value reserve by BD 4.

The following table summarises the impact of transition to IFRS 9 on reserves and retained earnings:

	Retained earnings	Fair value reserve
Balance at 31 December 2015 under IAS 39	**8,112**	**(567)**
Impact on reclassification and re-measurments:		
Investment securities from FVTPL to FVTOCI	67	(67)
Investment securities from AFS to FVTPL	(62)	62
Impact on recognition of Expected Credit Losses:		
Expected credit losses under IFRS 9	(1)	1
Opening balance under IFRS 9 on date of initial application of 1 January 2016	**8,116**	(571)

If IFRS 9 had not been adopted during the current period, the profit for the period would have been lower by BD 1,347 resulting principally from the recognition of impairment losses on certain securities classified as AFS under IAS 39 and fair value gains on securities classified as FVTPL but earlier classified as AFS under IAS 39. The following table shows the impact of early adopting IFRS 9:

	Post implementation	Pre implementation	Net effect
Net investment income	2,474	2,229	245
Impairment on investments	-	(1,102)	1,102
Total			**1,347**

The following tables is reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2016.

i) Investments that has been reclassified from IAS 39 to IFRS 9:

	FVTPL	FVTOCI	Amortized cost	Total
Fair value through profit or loss	-	195	-	195
Available-for-sale investments	16,812	10,280	3,152	30,244
Total investments reclassified	**16,812**	**10,475**	**3,152**	**30,439**
Fair value through profit or loss	14,063	-	-	14,063
Total investments not reclassified	14,063	-	-	14,063
Total investments	**30,875**	**10,475**	**3,152**	**44,502**

ii) Total investments held in books as at 31 December:

	2016	2015
Fair value through profit or loss	**28,040**	14,258
Fair value through other comprehensive income	**4,793**	-
Available-for-sale investments	**-**	30,244
Amortized cost	**8,923**	-
Total investments	**41,756**	44,502

(e) New standards, amendments and interpretations effective from 1 January 2016

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Group:

Disclosure Initiative (Amendments to IAS 1)
The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

Materiality - an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

Disaggregation and subtotals - line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

Notes - confirmation that the notes do not need to be presented in a particular order.

OCI arising from investments accounted for under the equity method - the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

The adoption of this amendment had no significant impact on the (consolidated financial statements).

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2. Basis of preparation (continued)

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

IFRS 15 – Revenue from Contracts with Customers

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

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

The above amendments are not expected to have a significant impact on the consolidated financial statements of the Group.

Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle

The annual improvements to IFRSs to 2010-2012 and 2011-2013 include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2015; earlier application are permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The amendments are not expected to have a significant impact on the consolidated financial statements of the Group.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements.

(a) Consolidation

(i) Subsidiaries

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

(ii) Non-controlling interests (NCI)

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(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.

(ii) Transactions and balances

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

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

A. Under IFRS 9 (effective from 1 January 2016)

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.

B. Under IAS 39 (effective upto December 2015)

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, held-to-maturity or available-for-sale. 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.

Estimations

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments is impaired when there is objective evidence of impairment. A significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. This determination of what is significant or prolonged requires judgment. The Group considers a decline of more than 30% in the fair value below cost as significant and considers a decline below cost which persists for more than 9 months as prolonged. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Group evaluates among other factors, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Notes to the 31 December 2016
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3. Significant accounting policies (continued)

(d) Investment securities

A. Under IFRS 9 (effective from 1 January 2016)

(i) Classification

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

Investments at amortized costs are the assets where the group's model objectives is to hold assets in order to collect contractual cash flows, and the contractual cash flows of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal Investments at fair value through other comprehensive income are non-derivative investments that are not designated as another category of financial assets. These include investments in quoted and unquoted equity securities, and debt securities.

(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

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

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

Key changes in the Group's accounting policy for impairment of financial assets are listed below:

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance). As this uses the same criteria as under IAS 39, the Groups methodology for specific provisions remains largely unchanged.

B. Under IAS 39 (effective upto 31 December 2015)

(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 taking. The Group designates investments at fair value through profit or loss when the investments are managed, evaluated and reported internally on a fair value basis.

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. These include investments in quoted and unquoted equity securities, floating rate bonds and certain managed funds.

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3. Significant accounting policies (continued)

(d) Investment securities (continued)

(ii) Measurement

Investments at fair value through profit or loss are initially recongnized 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.

Available-for-sale investments (AFS investments) are initially recognized at fair value, with transaction costs recognized directly in the statement of profit or loss. Unrealised gains and losses arising from changes in the fair values of AFS investments are recognized in the statement of comprehensive income. In the event of sale, disposal, collection or impairment, the cumulative gains and losses recognized in other comprehensive income are transferred to the profit or loss. Unquoted AFS equity investments whose fair value cannot be reliably measured are carried at cost less impairment.

(iii) Impairment

The carrying amount of the Group's financial assets, except investment at fair value through profit or loss, is reviewed at each reporting period to determine whether there is objective evidence that a specific asset may be impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that the financial assets are impaired includes significant financial difficulty of the issuer, default of the issuer, indicators that the issuer will enter bankruptcy and the disappearance of an active market for a security.

Available-for-sale investments

In the case of investments in equity securities and managed funds classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from fair value reserve to profit or loss. Impairment losses recognized in profit or loss on AFS equity instruments are subsequently reversed through other comprehensive income. For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognized if the estimated recoverable amount is assessed to be below the cost of the investment.

In case of debt securities classified as available-for-sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principle repayment and amortization, and the current fair value, less impairment loss previously recognized in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

(e) De-recognition of financial liabilities

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

(f) Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, placements with banks that have an original maturity of three months or less when acquired and which are subject to insignificant risk of changes in their fair value.

(g) Amortized cost measurement

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

(h) Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

(i) Furniture, equipment and core banking software

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

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

Core banking software	10 years
Furniture and equipment	3 years

(j) Bank borrowings

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

(m) Employee benefits

(i) Bahraini employees

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

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3. Significant accounting policies (continued)

(m) Employee benefits (continued)

(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 of five years and is determined by reference to the fair value of the shares at the grant date and re-measured at every year end over the vesting period.

(n) Dividends

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

(o) Provisions

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

(p) Fiduciary activities

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

(q) Settlement date accounting

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

(r) Offsetting

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

(s) Earnings per share

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

(t) Interest income and expense

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

Interest income and expense presented in the statement of profit or loss include interest on financial assets and financial liabilities at amortized cost, fair value through other comprehensive income debt securities and debt securities at fair value through profit or loss calculated on an effective interest rate basis.

(u) Fee and commission

Fee and commission income comprises custody fee, investment management fee and performance fee earned from Discretionary Portfolio Management Activity (DPMA) services offered by the Group. Custody and investment management fees are recognized as the related services are performed and the Group becomes entitles 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 investment at fair value through other comprehensive and the related dividend.

(w) Dividend income

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

(x) Brokerage and other income

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

(y) Operating segments

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

4. Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

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

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

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4. Financial risk management (continued)

(a) Introduction and overview (continued)

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

(b) Credit risk

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

Investments in debt securities

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

The Group establishes an allowance for impairment that represents its estimate of life time expected losses in respect of debt securities classified as FVTOCI or at amortized cost (2015: Incurred losses). The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets

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

Management of credit risk

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

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

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

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

Exposure to credit risk

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

	2016	2015
Cash and cash equivalents	**80,900**	60,974
Treasury bills	**16,256**	750
Debt securities at fair value through profit or loss	**2,231**	8,721
Fair value through other comprehensive income debt securities	**11,650**	-
Available-for-sale investments	**-**	12,517
Fee receivable	**1,164**	1,138
Other receivables	**5,236**	3,759
	117,437	87,859

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 2016 was BD 8,856 (2015: BD 10,018), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income".

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4. Financial risk management (continued)

(b) Credit risk (continued)

Geographical Exposure Distribution

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

2016	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	**80,078**	**-**	**822**	**80,900**
Treasury bills	**16,256**	**-**	**-**	**16,256**
Investments at fair value through profit or loss	**16,093**	**4,031**	**7,915**	**28,040**
Investments at fair value through other comprehensive income	**4,793**	**-**	**-**	**4,793**
Investments at amortized cost	**8,923**	**-**	**-**	**8,923**
Fees receivable	**1,164**	**-**	**-**	**1,164**
Other assets	**6,923**	**-**	**65**	**6,988**
Total assets	**134,230**	**4,031**	**8,802**	**147,064**
Liabilities				
Short-term bank borrowings	**26,082**	**-**	**13,173**	**39,255**
Customer accounts	**40,014**	**1,669**	**1,311**	**42,994**
Other liabilities	**3,903**	**-**	**-**	**3,903**
Payable to unit holders	**2,830**	**-**	**-**	**2,830**
Total liabilities	**72,829**	**1,669**	**14,485**	**88,982**

2015	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	53,706	-	7,268	60,974
Treasury bills	750	-	-	750
Investments at fair value through profit or loss	12,834	-	1,424	14,258
Available-for-sale investments	17,866	4,003	8,375	30,244
Fees receivable	1,118	-	20	1,138
Other assets	5,364	-	39	5,403
Total assets	91,638	4,003	17,126	112,767
Liabilities				
Short-term bank borrowings	12,083	-	7,694	19,777
Customer accounts	27,975	4	826	28,805
Other liabilities	2,910	-	-	2,910
Payable to unit holders	2,836	-	-	2,836
Total liabilities	53,498	4	826	54,328

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

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

2015	Financial services	Others	Total
Total assets	82,219	30,548	112,767
Total liabilities	35,571	16,757	54,328

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

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

Investments in debt securities classified as FVTOCI and amortized cost and amounting to BD 20,010 are entirely in investment grade debt instruments i.e. credit grade A to BBB.

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

Settlement risk

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

(c) Liquidity risk

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

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 Bank.

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4. **Financial risk management** (continued)

(c) **Liquidity risk** (continued)

At present, the Group's liquidity risk exposure is minimal because a high proportion of funds is placed with banks as short-term deposits and, on maturity, deposits are transferred to current accounts based on expected requirements.

The Bank faces three types of liquidity risks as follows:

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

Management of liquidity risk

Liquidity risk is currently managed by the Treasury unit monitoring the cash flow and funding requirements on a daily basis. Credit Lines have been established with a few banks and 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:

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

2015	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	19,777	19,794	19,794
Customer accounts	28,805	28,805	28,805
Other liabilities	2,910	2,910	2,910
Payable to unit holders in consolidated funds	2,836	2,836	2,836
	54,328	54,345	54,345

(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 trading 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 Trading as well as Available-for-Sale 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 on a monthly 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**	
	2016	2015	**2016**	2015
Increase of 1%	**280**	143	**48**	302
Decrease of 1%	**(280)**	(143)	**(48)**	(302)

(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. There is no ready market for selling some of these instruments and these can only be traded Over-The-Counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. Some debt instruments are unrated.

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

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4. Financial risk management (continued)

(d) Market risk (continued)

Interest rate re-pricing profile

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

Interest rate re-pricing profile

2015	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
Investments at fair value through profit or loss	6.50%	899	7,820	5,539	14,258
Investments at fair value through other comprehensive income	-	-	-	-	
Available-for-sale investments	5.09%	-	12,517	17,727	30,244
Fees receivable		-	-	1,138	1,138
Other assets		-	-	3,968	3,968
Furniture, equipment and intangibles		-	-	1,435	1,435
Total assets		44,974	20,337	47,456	112,767
Short-term bank borrowings	0.84%	19,777	-	-	19,777
Customer accounts		-	-	28,805	28,805
Other liabilities		-	-	2,910	2,910
Payable to unit holders in consolidated funds		-	-	2,836	2,836
Total liabilities		19,777	-	34,551	54,328
Equity		-	-	58,439	58,439
Total liabilities 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	-	-

* At 31 December 2016 the effective interest rate on Bahraini Dinar call deposits is 0.425% (2015: 0.425%) and on USD call deposits is 0.15% (2015: 0.15%).
** At 31 December 2016 the effective interest rate of Investments at amortized cost is 6.43%

(iii) *Exchange risk*

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

(e) Operational risk

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

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4. Financial risk management (continued)

(e) Operational risk (continued)

The Bank has a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organizational structure, policies and procedures guidelines, 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	**2016**	2015
Risk weighted exposure		
Credit risk	**51,728**	73,214
Market risk	**26,588**	19,673
Operational risk	**16,263**	16,108
Total risk weighted assets	**94,579**	108,995
Common Equity (CET 1)	**58,082**	58,438
Additional Tier 1	**-**	-
Total regulatory capital	**58,082**	58,438
Capital adequacy ratio	**61.41%**	53.62%

Based on full year average balances	**2016**	2015
Risk weighted exposure		
Credit risk	**70,500**	68,389
Market risk	**21,320**	25,065
Operational risk	**16,262**	16,108
Total risk weighted assets	**108,082**	109,562
Common Equity (CET 1)	**56,394**	59,016
Additional Tier 1	**-**	-
Total regulatory capital	**56,394**	59,016
Capital adequacy ratio	**52.18%**	53.87%

The capital adequacy ratio as at 31 December 2016 has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

Capital allocation

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

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5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2016. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund.

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

Subsidiary	Percentage ownership	Year of incorporation /	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company VII BSC (c)	100%	2010	Bahrain	Umbrella company for SICO mutual funds
7. SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
8. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO.
9. Securities and Investment Company(UAE) LLC	100%	2011	UAE	Brokerage services
10. SICO Kingdom Equity Fund	59%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
11. SICO Fixed Income Fund	63%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks.

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	2016	2015
Other unit holders' share	41%	43%
Cash and cash equivalents	841	534
Investment at fair value through profit or loss	2,638	3,051
Other assets	-	-
Other liabilities	18	49
Net assets	**3,461**	3,536
Carrying amount of payable to other unit holders	**1,417**	1,531
Investment income	120	(202)
Profit / (loss)	52	(272)
Total comprehensive income	**52**	(272)
Profit / (loss) allocated to other unit holders	**21**	(118)
Cash flows from operating activities	463	76
Cash flows from financing activities	(156)	429
Net increase in cash and cash equivalents	**307**	505

SICO Fixed Income Fund	2016	2015
Other unit holders' share	37%	35%
Cash and cash equivalents	925	915
Investment at fair value through profit or loss	3,514	3,422
Other assets	51	46
Short-term bank borrowings	682	696
Other liabilities	11	10
Net assets	**3,797**	3,677
Carrying amount of payable to other unit holders	**1,413**	1,305
Investment income	54	(97)
Interest income	220	210
Profit	219	66
Total comprehensive income	**219**	66
Profit allocated to other unit holders	**82**	24
Cash flows from operating activities	110	(138)
Cash flows from financing activities	(99)	303
Net increase in cash and cash equivalents	**10**	165

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7. Cash and cash equivalents

	2016	2015
Cash and bank balances	24,737	17,649
Call deposits	1,203	2,900
Short-term placements	37,991	25,472
Due from other institutions	16,969	14,953
Total cash and cash equivalent as per balance sheet	**80,900**	60,974
Treasury bills	16,256	750
Total cash and cash equivalent as per cash flow	**97,156**	61,724

Cash and cash equivalents include bank balances amounting to BD 12,394 (2015: BD 6,582) held on behalf of discretionary customer accounts.

Due from other institutions of BD 16,969 (2015: BD 14,953) represent repurchase agreements transactions.

8. Investments at fair value through profit or loss

	2016	2015
Quoted equity securities – (listed)		
- Consolidated funds	2,638	3,050
- Parent	3,215	2,201
Funds		
- Quoted	3,710	286
- Unquoted	6,827	-
Quoted debt securities		
- Parent	8,136	5,299
- Consolidated funds	3,514	3,422
	28,040	14,258

Investments at fair value through profit or loss as at 31 December 2016 include securities amounting to BD 4,108 (31 December 2016: BD 5,297), sold under agreement to repurchase (note 13).

* December 2016 results reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.

9. (a) Investments at fair value through other comprehensive income

	2016	2015
Equity securities		
- Quoted	2,185	-
- Unquoted	377	-
	2,562	-
Debt securities		
- Quoted	112	-
- Unquoted	2,119	-
	2,231	-
	4,793	-

* December 2016 results reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.

9. (b) Available-for-sale investments

	2016	2015
Equity securities		
- Quoted	-	5,356
- Unquoted	-	322
	-	5,678
Funds		
- Quoted	-	7,417
- Unquoted	-	4,632
	-	12,049
Debt securities		
- Quoted	-	11,357
- Unquoted	-	1,160
	-	12,517
	-	30,244

* December 2015 reflect results as per IAS 39 and prior to the adoption of IFRS 9.

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10. Fees receivable

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

	2016	2015
Management and administration fees	**1,086**	651
Performance fee	**61**	459
Custody fee	**17**	28
	1,164	1,138

11. Other assets

	2016	2015
Receivables from clients and brokers	**3,526**	2,568
Guarantee deposit with the Bahrain Stock Exchange	**500**	500
Prepaid expenses	**245**	209
Interest receivable	**480**	288
Other receivables	**730**	403
	5,481	3,968

12. Furniture, equipment and intangibles

	Software	Furniture and Equipment & Others	Capital work in progress	2016 Total	2015 Total
Cost					
At 1 January	**2,100**	**905**	**205**	**3,210**	3,001
Additions	**23**	**28**	**234**	**285**	213
Disposals	**-**	**(39)**	**-**	**(39)**	(4)
At 31 December	**2,123**	**894**	**439**	**3,456**	3,210
Depreciation					
At 1 January	**899**	**876**	**-**	**1,775**	1,501
Charge for the year	**184**	**28**	**-**	**212**	278
Disposals	**-**	**(39)**	**-**	**(39)**	(4)
At 31 December	**1,083**	**865**	**-**	**1,948**	1,775
Net book value at 31 December 2016	**1,040**	**29**	**439**	**1,508**	-
Net book value at 31 December 2015	1,201	29	205	-	1,435
Cost of fully depreciated assets in use	**-**	**-**	**-**	**1,280**	1,091

13. Short-term bank borrowings

Short-term bank borrowings include borrowings under repurchase agreements of BD 34,354 (2015: BD 17,777) and time deposits of BD 4,901 (2015: 2,000). The fair value of the investments at fair value through profit or loss and Investments at fair value through other comprehensive income pledged as collateral amounts to BD 4,108 (2015: BD 5,297) (refer to note 8 and 9). Additionally repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 25,088 (2015: BD 15,649) are pledged as collateral.

14. Customer accounts

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

15. Other liabilities

	2016	2015
Accrued expenses	**262**	189
Provision for employee indemnities	**485**	448
Employee share incentive scheme liability	**1,348**	1,435
Other payables	**1,808**	838
	3,903	2,910

16. Share capital

	2016	2015
Authorized share capital		
1,000,000,000 (2015: 1,000,000,000) shares of 100 fils each	**100,000**	100,000

	2016	2015
Issued and fully paid		
At 1 January 2016: 428,487,741 ordinary shares of 100 fils each (2015: 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 2016: 428,487,741 ordinary shares of 100 fils each (2015: 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.

Appropriations	2016	2015
Proposed dividend 5% (2015: 5%)	**2,142**	2,142
General reserve	**-**	-

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16. Share capital (continued)

The shareholders are:	Nationality	2016 Capital	2016 % holding	2015 Capital	2015 % holding
Pension Fund Commission	Bahrain	**9,322.5**	**21.76**	9,322.5	21.76
Social Insurance Organization	Bahrain	**6,600**	**15.40**	6,600	15.40
National Bank of Bahrain BSC	Bahrain	**5,362.5**	**12.51**	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	**5,115**	**11.94**	5,115	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	**4,125**	**9.63**	4,125	9.63
Arab Investment Resources Co EC	Bahrain	**3,300**	**7.70**	3,300	7.70
Bank ABC	Bahrain	**3,300**	**7.70**	3,300	7.70
Gulf Investment Corporation GSC	Kuwait	**3,300**	**7.70**	3,300	7.70
Al Salam Bank – Bahrain BSC	Bahrain	**825**	**1.93**	825	1.93
Volaw Trust & Corp Service Ltd.	Jersey	**1,599**	**3.73**	1,599	3.73
		42,849	**100**	42,849	100

Based on these consolidated financial statements, the Net Asset Value per share is BD 0.136 (2015: BD 0.136).

17. Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 234 (2015: BD 285).

18. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2016, no appropriations to general reserve are recommended.

19. Net investment income

	2016	2015
Net gain / (loss) on investments carried at fair value through profit or loss	**458**	(1,202)
Gain on sale of Investments at fair value through other comprehensive income	**215**	-
Gain on sale of available-for-sale investments	**-**	1,927
Interest income from debt instruments	**1,257**	1,106
Dividend income	**544**	701
	2,474	2,532

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

	2016	2015
Realized loss on sale	**(484)**	(210)
Unrealized fair value gain / (loss)	**942**	(992)
	458	(1,202)

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

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

20. Fee and commission income/ expense

	2016	2015
Fee and commission income from trust or other fiduciary activities		
- Management fee	**2,279**	2,592
- Performance fee	**61**	625
- Custody fee	**314**	411
	2,654	3,628
Fee and commission expense		
- Custody fee	**(20)**	(26)
Net fee and commission income	**2,634**	3,602

21. Brokerage and other income

	2016	2015
Brokerage income	**905**	1,061
Investment banking income	**394**	111
Foreign exchange gain	**229**	433
Other income	**229**	159
	1,757	1,764

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22. Other interest income/ expense

	2016	2015
Interest income from:		
Placements and call deposits	**873**	361
Margin lending	**150**	163
	1,023	524
Interest expense on:		
Bank borrowings	**(107)**	(55)
Net other interest income	**916**	469

23. Staff and related expenses

	2016	2015
Salaries, allowances and bonus	**3,321**	3,498
Social security costs	**160**	157
Other costs	**100**	105
	3,581	3,760

As at 31 December 2016, the Group employed 59 (2015: 66) Bahrainis and 36 (2015: 33) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 160 (2015: BD 157).

24. Other operating expenses

	2016	2015
Rent	**219**	206
Communication expenses	**382**	342
Marketing expenses	**139**	148
Professional fees	**144**	133
Other operating expenses	**656**	608
Depreciation	**212**	278
	1,752	1,715

25. Related party transactions

Transactions with funds owned by the Subsidiary Companies

The Group provides management services to the funds owned by the subsidiary companies namely SICO Funds Company BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC, SICO Funds Company VI BSC (c), SICO Funds Company VII 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.

	2016	2015
Fee and commission income	**316**	600
Fee receivable	**200**	120
Investments:		
Available-for-sale investments		
- Khaleej equity fund	**-**	979
- SICO selected securities funds	**-**	171
Investments at fair value through profit or loss		
- Khaleej equity fund	**1,036**	-
- SICO selected securities funds	**-**	-
- Bahrain liquidity fund company	**1,209**	-

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

Transactions with shareholders

The Group obtained short term borrowings from its bank shareholders for a total of BD 3,770 (2015: BD 2,000). 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.

	2016	2015
Fee and commission income	**395**	505
Fee receivable	**115**	105
Funds under management	**55,429**	55,361
Placements	**11,056**	1,000
Borrowings as at 31 December	**3,770**	2,000

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25. Related party transactions (continued)

Key Management Personnel
Key Management Personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The key management personnel comprise of the members of the board of directors, chief executive officer, chief operating officer and head of departments.

Compensation to key management personnel is as follows:

	2016	2015
Salaries and short term benefits	965	868
Post employment benefits	42	40
Equity compensation benefits	91	98
	1,098	1,006

Other operating expenses include BD 48 (2015: BD 93) towards attendance fees, remuneration and other related expenses for members of the Board and Investment Committee.

26. Employee Share Ownership Plan

The Group has established an Employee Share Incentive scheme ("the Scheme") which is operated through a Trustee. The Trustee 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.

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme advance account classified under other assets. The employee share incentive scheme share advance account as at 31 December 2016 amounted to BD 1,559 (2015: BD 1,559).

The Group has recognized an employee liability of BD 1,348 (2015: BD 1,435) on the shares granted till date. This liability has been determined on the fair value of the Group's net assets as at 31 December 2016 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

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

	2016		2015	
	No. of shares issued	Value	No. of shares issued	Value
As at 1 January	15,987,741	1,559	15,987,741	1,559
Shares issued during the year *	-	-	-	-
	15,987,741	1,559	15,987,741	1,559

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

27. Involvement in unconsolidated structured entities

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

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

	2016	2015
Investments in funds		
SICO selected securities fund	-	171
Khaleej equity fund	1,036	979
Bahrain liquidity fund	1,209	-
	2,245	1,150

28. Contingencies, commitments and memorandum accounts

Investment commitment
The Group has committed to invest in SICO Selected Securities Fund a minimum of 5% of the fund's net asset value and 10% of the net assets value of the Khaleej Equity Fund at any time throughout its life. The Group has other investment commitments of BD 106 (2015: BD 106) and margin lending drawdown commitments of BD 1,516 (2015: BD 1,356).

	2016	2015
Funds under management (net asset value)		
SICO Selected Securities Fund	-	1,773
Khaleej Equity Fund	17,432	17,184
SICO Gulf Equity Fund	2,939	9,663
Bahrain Liquidity Fund	41,517	-
SICO Kingdom Equity Fund	3,462	3,536
SICO Fixed Income Fund	3,796	3,677
Discretionary portfolio management account	326,758	296,506

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.

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28. Contingencies, commitments and memorandum accounts (continued)

	2016	2015
Assets under custody	**1,947,789**	1,696,650

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2016, assets amounting to BD 1,947,789 (2015: BD 1,696,650) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 277,555 (2015: BD 290,895) 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.

At this stage of the action, the Group's lawyers believe the subsidiary is in a strong position to defend itself and no liability is likely to arise from this claim.

Contingencies
The Company has letters of guarantee in the amount of BD 5.1 million (31 December 2015: BD 5.1 million) in favour of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

29. Significant net open foreign currency positions

	2016	2015
QAR	**7,212**	11,932
US Dollar	**25,718**	49,652
JOD	**45**	32
KWD	**(348)**	73
SAR	**13,620**	4,088
GBP	**14**	2
AED	**5,372**	11,698
OMR	**(186)**	(26)
EUR	**3**	25
EGP	**241**	6

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

30. Basic earnings per share

	2016	2015
Profit for the year	**2,345**	2,846
Weighted average number of equity shares (In 000's)	**428,487**	428,487
Earnings per share (in fils)	**5.47**	6.64

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

31. Maturity profile of assets and liabilities

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

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31. Maturity profile of assets and liabilities (continued)

31 December 2015	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	60,974	-	-	60,974
Treasury bills	750	-	-	750
Investments at fair value through profit or loss	6,438	6,079	1,741	14,258
Investments at fair value through other comprehensive income	-	-	-	-
Available-for-sale investments	-	5,151	25,093	30,244
Furniture, equipment and intangibles	-	238	1,197	1,435
Fees receivable	1,138	-	-	1,138
Other assets	3,968	-	-	3,968
Total assets	73,268	11,468	28,031	112,767
Liabilities				
Short-term bank borrowings	19,777	-	-	19,777
Customer accounts	28,805	-	-	28,805
Other liabilities	2,910	-	-	2,910
Payable to other unit holders	2,836	-	-	2,836
Total liabilities	54,328	-	-	54,328
Liquidity gap	18,940	11,468	28,031	58,439
Cumulative liquidity gap	18,940	30,408	58,439	58,439

32. Accounting classification and fair values

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

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

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32. Accounting classification and fair values (continued)

31 December 2015	Fair value through profit or loss	Fair value through other comprehensive income	Loans and receivables	Liabilities at fair value	At amortised cost	Total carrying value
Cash and cash equivalents	-	-	60,974	-	-	60,974
Treasury bills	-	-	-	-	750	750
Investments at fair value through profit or loss	14,258	-	-	-	-	14,258
Investments at fair value through other comprehensive income	-	-	-	-	-	-
Available-for-sale investments	-	30,244	-	-	-	30,244
Fees receivable	-	-	1,138	-	-	1,138
Other assets	-	-	3,759	-	-	3,759
	14,258	30,244	65,871	-	750	111,123
Short-term bank borrowings	-	-	-	-	19,777	19,777
Customer accounts	-	-	-	-	28,805	28,805
Other liabilities	-	-	-	-	2,910	2,910
Payable to unit holders in consolidated funds	-	-	-	2,836	-	2,836
	-	-	-	2,836	51,492	54,328

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

(ii) Fair value hierarchy

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

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

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

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

The table below analyses financial assets carried at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorized.

As at 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Fair value through other comprehensive income investments:				
- Equities	**2,185**	**-**	**377**	**2,562**
- Debt securities	**112**	**2,119**	**-**	**2,231**
Fair value through profit or loss:				
- Equity	**5,853**	**-**	**-**	**5,853**
- Debt securities	**11,180**	**470**	**-**	**11,650**
- Funds	**6,870**	**2,780**	**887**	**10,537**
Investments at amortized cost:				
- Debt securities	**8,923**	**-**	**-**	**8,923**
Liabilities				
- Payable to unit holders in consolidated funds	**(2,830)**	**-**	**-**	**(2,830)**
Total	**32,293**	**5,369**	**1,264**	**38,926**

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

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.

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32. Accounting classification and fair values (continued)

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale investments:				
- Funds	10,635	1,161	256	12,052
- Equities	5,356	-	319	5,675
- Debt securities	8,270	4,247	-	12,517
Investments at fair value through profit or loss:				
- Funds	286	-	-	286
- Equity	5,251	-	-	5,251
- Debt securities	8,721	-	-	8,721
Liabilities				
- Payable to unit holders in consolidated funds	(2,836)	-	-	(2,836)
Total	35,683	5,408	575	41,666

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

	Level 3 2015
At 1 January 2015	515
Total loss :	
- in statement of profit or loss	-
- in other comprehensive income	60
Purchases	-
Settlements	-
Transfers into / (out) of level 3	-
At 31 December 2015	575

(iii) Valuation technique and significant unobservable input

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

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Level 2			
Debt instruments	Market Comparison technique: The valuation is based on observable market multiples derived from quoted prices of comparable debt instruments.	Not applicable	Not applicable
Funds	Net asset values of the funds obtained from the fund managers	Not applicable	Not applicable
Level 3			
Private equity funds	Net asset values of the funds obtained from the fund managers	Net assets of the funds and the valuations of the underlying investments	The estimated fair value would increase (decrease) if there are any changes in the net assets of the funds based on the performance of the underlying investments.
Equity	Adjusted net asset value	Net assets of the company adjusted for discounts on investment in real estate and venture capital	The estimated fair value would increase (decrease) if there are any changes in the net assets (equity) of the company.

33. Comparatives

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

Corporate Governance Review

COMMITMENT

SICO is committed to upholding the highest standards of corporate governance. This entails complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value, and achieving organisational efficiency. The Bank has Board-approved policies for risk management, compliance and internal controls, in accordance with the latest rules and guidelines from the Central Bank of Bahrain (CBB).

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors. The Board is committed to excellence in corporate governance, and adheres to rules of the High Level Controls Module (HC Module) of the Central Bank of Bahrain; and the principles of the Corporate Governance Code of the Kingdom of Bahrain issued by the Ministry of Industry and Commerce

SHAREHOLDER INFORMATION

The Bank's shares are listed on Bahrain Bourse as a closed company. As at 31 December 2016, the Bank had issued 428,487,741 ordinary shares of Bahraini fils 100 each. The last Annual General Meeting was held on 21 March 2016.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

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

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

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

BOARD COMPOSITION AND ELECTION

The Board's composition is guided by the Bank's Memorandum of Association. As at 31 December 2016, the Board consisted of nine Directors, four of whom are Independent directors, and five 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.

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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 2016, the Board of Directors resolved that the four 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 annually reviews its Charter and its own effectiveness; and initiates suitable steps for any amendments. The Board also reviews self-evaluations of the individual Board members, Chairman and the Board Committees, and considers appropriately any recommendations arising out of such evaluation.

REMUNERATION OF DIRECTORS POLICY

The Board of Directors' remuneration is governed by provisions of the Commercial Companies Law 2001 and the CBB. The Directors' remuneration is approved by the shareholders at the annual general meeting. In addition, the members are paid sitting fees for the various sub committees of the Board. The Board's remuneration is reviewed by the Nomination, Remuneration & Corporate Governance Committee as per the remuneration policy. Directors' remuneration is accounted as an expense as per international accounting standards and CBB regulations.

BOARD MEETINGS AND ATTENDANCE

According to the Bahrain Commercial Companies Law and the CBB rules, Board meetings will be conducted at least four times a year (on a quarterly basis). All Board members must attend at least 75 per cent 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 2016, five Board meetings were held in Bahrain, and the members' attendance is noted in the table below:

Directors' Attendance: January to December 2016

	Board Meetings Total held 5				
Board Members	**18 February 2016**	**21 March 2016**	**10 May 2016**	**30 August 2016**	**8 November 2016**
Shaikh Abdulla bin Khalifa Al Khalifa Chairman of the Board	✓	✓	✓	✓	✓
Mr. Hussain Al Hussaini Vice Chairman	✓	✓	✓	✓	✓
Mr. Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	✓	✓
Mr. Mahmoud Al Zewam Al-Amari	✓	✓	✓	✓	✓
Mr. Fahad Murad	✓	✓	✓	✓	✓
Mr. Prakash Mohan	✓	✓	✓	✓	✓
Mr. Waleed K. Al Braikan	✓	✓	✓	✓	✓
Mr. Mohammed Abdulla Isa	✓	✓	✓	✓	✓
Mr. Yusuf Saleh Khalaf	✓	✓	✓	✓	✓

Corporate Governance Review continued

Investment Committee Meetings
Total held 5

Board Committee Members	27 January 2016	10 April 2016	29 June 2016	26 October 2016	13 December 2016
Shaikh Abdulla bin Khalifa Al Khalifa Chairman of the Investment Committee	✓	✓	✓	✓	✓
Mr. Hussain Al Hussaini	✓	✓	✓	✓	✓
Mr. Prakash Mohan	✓	✓	✓	✓	✓

Audit Committee Meetings
Total held 4

Board Committee Members	17 February 2016	9 May 2016	29 August 2016	7 November 2016
Mr. Yusuf Saleh Khalaf Chairman of the Audit Committee	✓	✓	✓	✓
Mr. Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	✓
Mr. Waleed K. Al Braikan	✓	✓	✓	✓

Nominations, Remuneration and Corporate Governance Committee Meetings
Total held 4

Board Committee Members	3 February 2016	9 March 2016	15 March 2016	28 August 2016
Mr. Fahad Murad Chairman of the NRCG committee	✓	✓	✓	✓
Mr. Mohammed Abdulla Isa	✓	✓	✓	✓
Mr. Mahmoud Al Zewam Al-Amari	✓	✓	✓	✓

BOARD COMMITTEES

Investment Committee

Objective

- Review investment policies, and procedures to monitor the application of, and compliance with, the investment policies
- Approve and recommend (where appropriate) to the Board, relevant investment decisions (as defined in the Investment Policy Guidelines and Restrictions)
- Review strategic and budget business plans prior to submission to the Board
- Review and approve the Bank's monthly financials
- Oversee the financial and investment affairs of the Bank
- Review major organisational changes

Audit Committee

Objective

- Review the Bank's accounting and financial practices
- Review the integrity of the Bank's financial and internal controls and financial statements
- Recommend the appointment, compensation and oversight of the Bank's External Auditors
- Recommend the appointment of the Internal Auditor
- Review the Bank's Compliance procedures and Regulatory matters
- Review the Bank's Risk Management systems

Nominations, 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

Corporate Governance Review continued

DIRECTORS' PROFILES

Shaikh Abdulla bin Khalifa Al Khalifa Chairman Director since 2011 (Executive Director)	Represents Social Insurance Organisation (Bahrain) Chairman of SICO Investment Committee Chief Executive Officer: Osool Asset Management BSC(c) Board Director: BBK, BFC Holdings Limited, Amanat Holding PJSC, Amlak Social Insurance Organisation Development Company, Bahrain Marina Development Company **Professional experience:** 20 years **Educational qualifications:** BSc in Business Administration, George Washington University, Washington DC, USA
Mr. Hussain Al Hussaini Vice Chairman Director since 1997 (Executive Director)	Represents National Bank of Bahrain - Bahrain Member of SICO Investment Committee General Manager: Treasury, Overseas Branches & Operations Group, National Bank of Bahrain Board Director: Esterad **Professional experience:** 35 years **Educational qualifications:** PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing & Management Change, DePaul University; BA in Economics, Concordia University, Montreal, Canada
Mr. Anwar Abdulla Ghuloom Ahmadi Director since 2002 (Executive Director)	Represents Social Insurance Organisation - Bahrain Member of SICO Audit Committee Board Director: Al Seef Properties **Professional experience:** 35 years **Educational qualifications:** ACPA, GED, CIPA; BSc in Accounting
Mr. Prakash Mohan Director since 2015 (Executive Director)	Represents Ahli United Bank BSC – Bahrain Member of SICO Investment Committee Group Head: Ahli United Bank **Professional experience:** 24 years **Educational qualifications:** 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

Mr. Mohammed Abdulla Isa Director since 2009 (Executive Director)	Represents BBK - Bahrain Member of SICO Nominations, Remuneration and Corporate Governance Committee Group Chief Financial Officer: BBK Board Director: Benefit **Professional experience:** 25 years **Educational qualifications:** Certified Public Accountant, American Institute of Certified Public Accountants - Delaware State Board of Accountancy (2001)
Mr. Mahmoud Al Zewam Al-Amari Director since 2004 (Independent Director)	Represents Bank ABC - Bahrain Member of SICO Nominations, Remuneration and Corporate Governance Committee First VP & Head: Portfolio Department, Bank ABC **Professional experience:** 32 years **Educational qualifications:** AIBD; MA in Macro Economics
Mr. Fahad Murad Director since 2011 (Independent Director)	Represents Arab Investment Resources Company – Bahrain Chairman of SICO Nominations, Remuneration and Corporate Governance Committee Managing Director - Head of Placement for Bahrain: Investcorp **Professional experience:** 32 years **Educational qualifications**: BBA and MBA in Finance from the University of Houston, Texas, USA
Mr. Waleed K. Al Braikan Director since 2014 (Independent Director)	Represents Gulf Investment Corporation - Kuwait Member of SICO Audit Committee Director: GCC Equity Markets, Gulf Investment Corporation Board Director: Ithmar Capital, UAE **Professional Experience:** 31 years **Educational qualification:** BA in Finance from Kuwait University
Mr. Yusuf Saleh Khalaf Director since 2012 (Independent Director)	Chairman of SICO Audit Committee Founder & Managing Director: Vision Line Consulting Independent Board Director: BBK and Eskan Bank **Professional experience:** 36 years **Professional Qualifications:** Associate Chartered Certified Accountant (ACCA), UK

Corporate Governance Review continued

MANAGEMENT

The Board delegates the authority for the day-to-day management of the business to the Chief Executive Officer, who is supported by a qualified senior management team, and four management committees: Asset Management Committee; Assets, Liabilities and Investments Committee (ALIC); Internal Control Committee; and Research Committee. Profiles of Managers are listed later in this Review.

Membership of Management Committees

Managers	Asset Management Committee	Assets, Liabilities & Investments Committee	Internal Control Committee #
Chief Executive Officer	Chairperson	Chairperson	Chairperson
Chief Operating Officer			
Chief Financial Officer			
Head of Internal Audit	✗	✗	✗
Head of Brokerage			
Head of Asset Management			
Head of Investments & Treasury			
Risk Management	✗	✗	
Internal Control			✗

Voting committee members
✗ Non-voting Member
\# Formed in 2016

MANAGEMENT COMMITTEES

Asset Management Committee

Objective

To oversee the fiduciary responsibilities carried out by 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 funds and portfolios; reviews and approves asset allocations; and reviews subscription and redemptions, and adherence to client guidelines.

Assets, Liabilities and Investments Committee (ALIC)

Objective

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

Internal Control Committee (ICC)

Objective

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

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

MANAGEMENT PROFILES

Najla M. Al Shirawi - Chief Executive Officer
Joined SICO in 1997

Najla Al Shirawi has more than 20 years' investment banking experience. Her appointment as Chief Executive Officer in March 2014 was preceded by her promotion to Deputy CEO in June 2013. Prior to this, she held various positions in the Bank, including Chief Operating Officer for seven years, Head of Asset Management, and Head of Investments & Treasury. Najla also worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust, where she was responsible for establishing private banking operations for the Group in the Gulf region. Her career also embraces a Lectureship in Engineering at the University of Bahrain. Najla is Chairperson of the Boards of Directors of two SICO subsidiaries: SICO Funds Services Company (SFS) and SICO UAE; an Independent Board Member of Eskan Bank, Bahrain; a Board Member of the Deposit Protection Scheme, Bahrain; and a Member of the Board of Trustees of the Human Resources Development Fund, Bahrain. Najla holds an MBA and a Bachelor's degree in Civil Engineering, and attended the Management Acceleration Programme at INSEAD, France. She was ranked 19th regionally and third in Bahrain in the Forbes Middle East Most Powerful Arab Businesswomen list for 2015; and was honoured by HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King and Chairperson of the Supreme Council for Women; and also by the University of Bahrain; for her contribution to the Kingdom's banking and financial sector, as part of Bahrain Women's Day 2015.

Anantha Narayanan - Chief Operating Officer
Joined SICO in 2008

Anantha has more than 26 years' experience in the areas of operations, audit and risk in the banking industry. He was Head of Internal Audit at SICO for six years before appointment to his present position in 2014. Prior to joining SICO, he worked for Credit Agricole Corporate & Investment Bank; BBK; Commercial Bank of Oman/Bank Muscat; and PricewaterhouseCoopers. Anantha is a Chartered Accountant and Cost Accountant (India); a Certified Information Systems Auditor and Financial Risk Manager (USA); and an Associate Member of the Institute of Financial Studies (UK). He holds a BSc Honours degree from the University of Manchester, UK.

Abdulrahman Saif - Head of Investments & Treasury
Joined SICO in 2003

Abdulrahman has over 17 years' experience in investments and treasury. Prior to joining SICO, he was with the Asset Management team at Taib Bank. He has also worked for Gulf International Bank and Bank ABC. A Certified Investment Representative, Abdulrahman holds a MSc in Finance from DePaul University – Charles H. Kellstadt Graduate School of Business, a BSc in Accounting from the University of Bahrain, and a Treasury & Capital Markets Diploma from the Bahrain Institute of Banking & Finance. He has also undertaken specialised training at INSEAD, France.

Corporate Governance Review continued

K.Shyam Krishnan - Chief Financial Officer
Joined SICO in 2015

Shyam has 26 years' experience in finance, accounting, audit, investments and risk management, with the majority of his career spent in investment, conventional and Sharia-compliant banking. Prior to joining SICO, 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. Shyam is a Chartered Accountant and Management Accountant from India. He is a Chartered Financial Analyst, Certified Internal Auditor and also a Certified Information Systems Auditor. He holds a Bachelor of Commerce degree from Madras University, India.

Fadhel Makhlouq - Head of Brokerage
Joined SICO in 2004

Fadhel has over 34 years' professional experience. He was Head of Brokerage at SICO for five years before being appointed as Head of Investments & Treasury in 2008. He was re-appointed Head of Brokerage in 2010. Prior to joining SICO, he worked for a number of leading financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase). Fadhel holds an MBA from Glamorgan University, UK.

Shakeel Sarwar - Head of Asset Management
Joined SICO in 2004

Shakeel has over 22 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with the asset management division of Riyad Bank, and was part of the team that managed over US$ 3 billion in Saudi equities. Previous experience includes working 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
Joined SICO in 2008

Ali has over 10 years' experience in asset management, investments, treasury and brokerage. Joining SICO in 2008 as an Analyst in the Investments & Treasury division, he then headed up the newly-established Fixed Income Desk in 2012, before being promoted to his current position in January 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) degree in Banking, Finance & Management from Loughborough University, UK.

Wissam Haddad - Head of Corporate finance
Joined SICO in 2014

Wissam has more than 15 years' experience in conventional and Sharia-compliant investment banking and private equity in the GCC .Prior to joining SICO, he was a Director with Gate Capital in Dubai.Previously, he held senior positions with UAE-based Najd Investments, Unicorn Capital, EmiratesNBD's NBD Sana Capital, and Saudi National Commercial Bank's NCB Capital and Eastgate Capital. He also worked with Gulf Finance House, Shamil Bank and BDO Jawad Habib in Bahrain during the early part of his career. Wissam holds a BCom degree from Concordia University, Canada.

Nishit Lakhotia - Head of Research
Joined SICO in 2009

Nishit has over 12 years' diversified investment experience in the fields of risk management, hedge funds, private equity and sell-side research. Joining SICO Research in 2009 as a senior analyst, he was responsible for actively tracking the telecommunications, aviation, construction and consumer sectors in the GCC. Nishit was promoted to Head of Research in 2013. Prior to SICO, he worked for an Iceland-based private equity firm with a focus on the Indian infrastructure sector. Nishit is a Chartered Financial Analyst, a Chartered Alternative Investment Analyst, and a Financial Risk Manager from the Global Association of Risk Professionals. He holds an MBA (specialising in Finance) from the Narsee Monjee Institute of Management Studies, Mumbai, India.

Amal Al Nasser - Head of Operations & Client Relations
Joined SICO in 1997

Amal has more than 28 years' banking experience. She was Head of Operations at SICO for 10 years before being appointed General Manager of SFS, a wholly-owned subsidiary of SICO, on its establishment in 2006. Amal resumed her role as Head of Operations at SICO in 2010. Before joining SICO, 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 degree in Economics from Poona University, India.

Nadia Albinkhalil - Head of HR & Administration
Joined SICO in 1995

Nadia has been with SICO since its establishment, during which time she established the HR & Administration department as well as being responsible for Board meetings administration. Prior to joining SICO, she provided administrative support for the Private Banking Unit of Chase Manhattan Bank. Nadia holds a Diploma in Office Management from Bahrain University. She was honoured by HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King and Chairperson of the Supreme Council for Women; and also by the University of Bahrain; for her contribution to the Kingdom's banking and financial sector, as part of Bahrain Women's Day 2015.

Nadeen Oweis - Head of Corporate Communications
Joined SICO in 2008

Nadeen has more than 17 years' professional experience. Prior to joining SICO, Nadeen was in charge of corporate communications and public relations for Microsoft in Bahrain. Before this, she handled regional accounts for Lowe Contexture, a regional branding and communications consultancy based in Bahrain. Previous experience includes working for Proctor & Gamble Jordan and managing the advertising and promotions account for Radio Fann FM in Jordan. Nadeen holds a Master's degree in Diplomatic Studies from the Jordan Institute of Diplomacy, and a Bachelor's degree in Law from University of Jordan.

Mohammed Ibrahim - Acting Head of Information Technology
Joined SICO in 2007

Mohammed has over 16 years' experience in the field of Information Technology (IT), which includes IT project management, business analysis, complex system builds and interfaces, business continuity planning and information security. Joining SICO's IT division in 2007, he was promoted to his present position in 2016. Prior to SICO, he was Training Head & Technical Consultants Team Lead at the Bahrain Institute of Technology; and before this, Technical & Training Manager at YAT Group, Egypt. Mohammed is a Certified Information Systems Security Professional (CISSIP), a Master Certified Internet Web Professional (MCIW), a Microsoft Certified Solutions Expert, and a Microsoft Certified Trainer. He holds a Bachelor of Science & Education degree and a Postgraduate Special Diploma in Science & Education, from Alexandria University, Egypt.

Joseph Thomas - Head of Internal Audit
Joined SICO in 2015

Joseph has over 15 years' experience in internal audits, assurance engagements and other financial advisory services. Prior to joining SICO, he was Head of Internal Audit at Global Banking Corporation. Before this, he worked with the Risk Consulting division of KPMG Bahrain, where he led risk-based internal audits for conventional and Sharia-compliant investment banks, firms and other entities. He began his career with Bharat Overseas Bank in India, followed by an internal audit role at the South Indian Bank. He later led assurance engagements as Audit Manager for a Dubai-based auditing firm, and also held the position of Partner in their Bahrain office. Joseph is a Chartered Accountant, a Certified Internal Auditor, and a Member of the Institute of Internal Auditors (IIA); and holds a Bachelor of Commerce degree.

Corporate Governance Review continued

Sreenivasan Konnat - Acting General Manager
SICO Funds Services Company (SFS)
Joined SICO in 1998

Sreeni has a total of 25 years' professional experience, with the majority of this time spent in funds administration, financial control and accounting, and back office operations. He joined SICO in 1998 in the Financial Control department; and was appointed Head of Asset Administration with the Bank's subsidiary, SICO Funds Services Company (SFS) in 2007. Prior to SICO, Sreeni 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 (with Maths and Physics) from the University of Calicut, India; and has completed Intermediate Level certification from the Institute of Chartered Accountants, India.

Bassam A. Khoury - General Manager
SICO UAE
Joined SICO in 2008

Bassam has over 31 years' international experience in brokerage, investments and financial consultancy. He was Head of Brokerage at SICO from 2008 to 2010, before leaving to join QInvest, Qatar as Head of Regional Brokerage. Prior to rejoining SICO in 2013 as General Manager of SICO UAE, Bassam was Chief Executive Officer of Bahrain-based ABC Securities. Previously, he worked with Banque Saudi Fransi in Saudi Arabia; BMB Investment Bank and Lehman Brothers in Bahrain; a private family office in Paris; and M Sternburg & Company in the USA. Bassam holds a BSc degree in Business Administration & Economics from King's College, New York, USA.

GOVERNANCE FRAMEWORK

SICO's Corporate Governance framework comprises Board and Committee Charters; Directors' Handbook; Code of Business Conduct; operational policies and procedures; internal controls and risk management systems; compliance procedures; internal and external audit; effective communications and transparent disclosure; and measurement and accountability.

CODE OF BUSINESS CONDUCT

SICO conducts itself in accordance with the highest standards of ethical behaviour. A Code of Conduct for SICO Staff has been developed to govern the personal and professional conduct of all employees. The Code of Conduct outlines areas of conflict of interest; confidentiality; fair and equitable treatment; ethics and acting responsibly, honestly, fairly and ethically; and managing customer complaints. A Whistleblowing Policy and Procedures is included within the Code of Conduct for SICO Staff.

COMPLIANCE AND ANTI-MONEY LAUNDERING

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

The Kingdom of Bahrain's Government has signed Intergovernmental Agreement Model 1 with the United States of America. SICO has therefore registered itself as Registered Deemed-Compliant Financial Institution (including a Reporting Financial Institution under a Model 1 IGA) with the Internal Revenue Service, and obtained a Global Intermediary Identification Number for the Bank and its subsidiaries.

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

CORPORATE COMMUNICATIONS

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

RELATED PARTY TRANSACTIONS & CONFLICT OF INTEREST

The Directors make every practicable effort to arrange their personal and business affairs to avoid a conflict of interest situation with the Bank. The Directors disclose their interests in other entities or activities to the NRCG committee on an annual basis, and inform the Bank of any conflict of interest whenever it arises, and abstain from voting on any related subject matter. The Bank reviewed all such transactions during 2016, and there were no transactions involving potential conflicts of interest which need to be brought to the shareholders' attention. The related party transaction details are disclosed in Note 25 to the Consolidated Financial Statements.

REMUNERATION OF BOARD MEMBERS AND SENIOR MANAGEMENT, AND FEES PAID TO EXTERNAL AUDITORS

The remuneration paid to Board members and senior management personnel are disclosed in Note 25 to the Consolidated Financial Statements. The information on fees paid to External Auditors for audit and other services will be available to the CBB and shareholders upon request, provided such disclosure does not impact the interest of Bank.

COMPLIANCE WITH CBB's HIGH LEVEL CONTROLS MODULE

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

SICO is in compliance with HC Module except for the following:

As per **HC 1.4.6 & 1.4.8**, the Chairman of the Board of Directors should be an independent and non-executive director.

SICO's Chairman, Shaikh Abdulla bin Khalifa Al Khalifa is considered as an executive director as he is representative of the major shareholder of SICO. The Bank obtained exemption from the CBB for complying with the above-mentioned requirement.

SICO Remuneration Policy & Related Disclosures

SICO'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 revised 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 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. SICO'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. SICO's reward package comprises the following key elements:

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

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

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

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

NRCGC ROLE AND FOCUS

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

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

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for Approved Persons and Material Risk-Takers, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks, and that the remuneration system takes into consideration employees who earn the same short-run profit, but take different amounts of risk on behalf of the Bank.

- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCGC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board Members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements

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

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

The aggregate remuneration paid to NRCGC members during the year in the form of sitting fees amounted to BHD 6,000 [2015: BHD 6,000].

EXTERNAL CONSULTANTS

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

SCOPE OF APPLICATION OF THE REMUNERATION POLICY

The principles of this remuneration policy apply on a Group-wide basis. However, application of deferral requirements and issue of non-cash instruments for each subsidiary of the Bank will be determined by applicable local regulations and market norms.

BOARD REMUNERATION

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

VARIABLE REMUNERATION FOR STAFF

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines

SICO Remuneration Policy & Related Disclosures continued

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

SICO Remuneration Policy & Related Disclosures continued

- 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	2016	2015
• Sitting Fees	39	39
• Remuneration	-	42
• Others	9	12

(b) Employee remuneration

2016

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

2015

BD 000's	Number of staff	Total Fixed Remuneration		Variable Remuneration		Total
		Cash	Shares	Upfront cash	Deferred shares	
Approved persons						
- Business lines	7	598,583	22,290	121,144	33,786	775,803
- Control & support	8	393,283	12,030	52,880	14,570	472,763
Other material risk takers	28	731,244	18,345	82,958	20,432	852,979
Other staff	69	1,246,532	38,346	163,448	28,044	1,476,370
TOTAL	112	2,969,642	91,011	420,430	96,632	3,577,915

Notes:
The amounts reported above represent actual awards for 2016 and 2015 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.

SICO Remuneration Policy & Related Disclosures continued

(c) *Deferred awards*

2016

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

2015

BD 000's	Shares	
	Number	(BHD)
Opening balance	15,437,347	2,253,853
Awarded during the period	1,381,199	187,843
Paid out / released during the period	(1,911,505)	(279,080)
Service, performance and risk adjustments	-	-
Changes in value of unvested opening awards	-	(135,258)
Closing balance	14,907,041	2,027,358

Notes:

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

Risk and Capital Management Basel III, Pillar 3 Disclosures

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Bahraini Dinars '000

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 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.

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Risk and Capital Management
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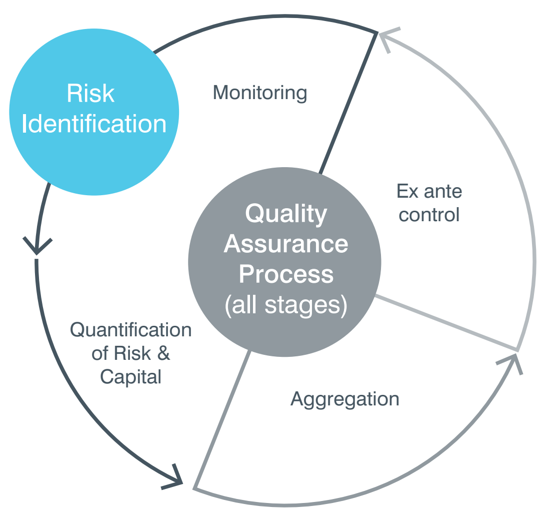
1. OVERVIEW AND STRUCTURE OF RISK MANAGEMENT

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

The major risks types to which SICO is exposed are:

- Credit risk
- Concentration risk
- Market risk
- Operational risk
- Liquidity risk
- Fiduciary risk
- Compliance 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 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 involves quantifying the risks identified in the risk identification process. It creates the objective basis for decision-making, and enables Senior Management to make decisions regarding SICO's risk-bearing capacity within 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 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 which reflect the Bank's maximum risk appetite.

2. RISK GOVERNANCE STRUCTURE

SICO has established a strong organizational structure including disciplined control functions 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	Assets Management Committee	Internal Control Committee

↓

Control Units			
Risk Management	Compliance	Internal Control	Internal Audit

- **Board of Directors (BOD):** The BOD is primarily responsible for approving the Bank's risk strategy, risk appetite, and risk policies 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 including regulatory and operational risk.
- **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 which factor in the risk taken by the business, and oversees corporate governance-related issues.
- **Assets, Liabilities and Investment Committee (ALIC):** ALIC is a management committee that sets the investment philosophy and guidelines. It is responsible for managing the balance sheet and monitoring the performance of the proprietary and treasury activities.
- **Assets Management Committee (AMC):** AMC is a management committee that oversees the fiduciary responsibilities carried out by Asset Management unit in managing clients' discretionary portfolios, as well as the funds operated and managed by SICO.

Risk and Capital Management
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- **Internal Control Committee (ICC):** The ICC is a management committee that oversees the internal control functions carried out in SICO by various departments. The remit of ICC is to strengthen the internal control culture throughout the company.
- **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; and ensure that the principles and requirements of managing risk are consistently adopted throughout the Bank.
- **Compliance Unit:** This is an independent unit within SICO that is responsible for internal compliance, regulatory compliance, and KYC & 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 (ICU):** The unit is responsible to ensure the adequacy of internal control framework of the various business units of the bank and recommend changes wherever deemed. The unit is also responsible for ensuring that all policies and procedures are followed correctly.
- **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 III - Pillar 3.

BASEL III Framework:

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

Basel III measures aim to:

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

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

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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.

Risk and Capital Management
Basel III, Pillar 3 Disclosures continued

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3. CBB AND BASEL GUIDELINES (continued)

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 ICAAP is based on the Bank's economic capital framework, which is designed to ensure that SICO has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of economic or financial stress.

Pillar 3

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 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").

During 2016, SICO early adopted IFRS 9 accounting standards, which resulted in a change in the classification and measurement of eligible financial instruments as required under the standards.

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 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

Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	**42,849**
Less: Employee stock incentive programme funded by the Bank (outstanding)	**(1,599)**
General Reserve	**3,217**
Legal / Statutory reserves	**5,969**
Share Premium	**692**
Retained Earnings brought forward	**4,860**
Current interim cumulative net income / losses	**2,345**
Securitisation exposures subject to deduction	**-**
Accumulated other comprehensive income and losses	**(251)**
Total Common Equity Tier 1 Capital (A)	**58,082**
Other Capital (AT1 & Tier 2)	
Instruments issued by parent company	**-**
Instruments issued by banking subsidiaries to third parties	**-**
Share premium	**-**
Assets revaluation reserve - property, plant, and equipment	**-**
General loan loss provisions	**-**
Total AT1 & Tier 2 (B)	**-**
Total Available Capital (C) = (A) + (B)	**58,082**
Credit risk-weighted exposures	**51,728**
Market risk-weighted exposures	**26,588**
Operational risk-weighted exposures	**16,263**
Total risk-weighted exposures (D)	**94,579**
CET1 Capital Ratio (A) / (D)	**61.41%**
Total Capital Adequacy Ratio (C) / (D)	**61.41%**

4.2 Capital Adequacy Ratio

Consolidated & Subsidiaries above 5% of Group capital:

	31 December 2016	
Subsidiaries	**Total Capital Adequacy Ratio**	**Tier 1 Capital Ratio**
SICO Consolidated (Group)	61.41%	61.41%
SICO UAE*	7.40	2.87

** 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.*

Risk and Capital Management
Basel III, Pillar 3 Disclosures continued

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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 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

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

Counterparty Risk: SICO deals with different counterparties for its money market placements, brokerage and REPO activities. To measure counterparty risk, SICO employs an internal rating model to assign ratings to each 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. Moreover, SICO employs margin calls to ensure collateral coverage does not drop below the agreed parameters.

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

Credit risk is monitored and controlled by policies and procedures that are put in place by RMD, and that have been approved by 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 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 Central Bank of Bahrain under the Credit Risk Management Module.

5.1 Gross Credit Exposures

As at 31st December 2016	Gross credit exposure On-balance sheet (Funded)	Off-balance sheet (Unfunded)	TOTAL	Credit Risk Weighted Assets	Capital requirement @ 12%
Cash items	-	-	**-**	-	-
Claims on sovereigns	38,912	-	**38,912**	-	-
Claims on Bahraini PSE	500	-	**500**	-	-
Claims on banks	53,080	-	**53,080**	22,269	2,672
Claims on corporates	17,451	-	**17,451**	8,563	1,028
Regulatory retail portfolios	3,527	-	**3,527**	-	-
Investments in securities	11,219	-	**11,219**	14,948	1,794
Holdings in real estate	1,879	-	**1,879**	3,758	451
Other assets	2,295	-	**2,295**	2,190	263
TOTAL	**128,863**	**-**	**128,863**	**51,728**	**6,208**

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

As at 31st December 2016	Less than 1 year	Over 1 year to 5 years	Above 5 years	Total
Cash and Bank balances	80,900	-	-	**80,900**
Treasury bills	16,256	-	-	**16,256**
FVTPL investments	16,625	5,811	5,604	**28,040**
FVOCI investments	-	112	4,681	**4,793**
Investments at amortized cost	-	-	8,923	**8,923**
Fees receivable	1,164	-	-	**1,164**
Other assets	5,481	-	-	**5,481**
Total gross credit exposures	**120,426**	**6,407**	**20,231**	**147,064**
Commitments	**1,623**	**-**	**-**	**1,623**

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

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5.3 Sectoral Distribution

As at 31st December 2016	Financial	Sovereign	Diversified Funds	Real Estate	Others	Total
Cash and Bank balances	64,495	13,090	-	-	3,315	**80,900**
Treasury bills	-	16,256	-	-	-	**16,256**
FVTPL investments	7,845	818	9,650	4,506	5,221	**28,040**
FVOCI investments	4,029	-	-	377	386	**4,793**
Investments at amortized cost	-	8,923	-	-	-	**8,923**
Fees receivables	555	-	-	-	609	**1,164**
Other assets	4,506	-	-	-	975	**5,481**
Total assets	**81,430**	**39,087**	**9,650**	**4,883**	**10,506**	**145,558**

Note: The above table excludes furniture & fixtures.

5.4 Geographical Distribution

As at 31st December 2016	Middle East and Asia	North America	Europe	Total
Cash and Bank balances	80,078	-	822	**80,900**
Treasury bills	16,256	-	-	**16,256**
FVTPL investments	16,093	4,031	7,915	**28,040**
FVTOCI investments	4,793	-	-	**4,793**
Investments at amortized cost	8,923	-	-	**8,923**
Fees receivables	1,164	-	-	**1,164**
Other assets	6,923	-	65	**6,988**
Total assets	**134,230**	**4,031**	**8,802**	**147,064**

5.5 Large Exposure Limits

As at 31st December 2016, there were no exposures in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

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 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 adhered to by the Investments team and are also monitored independently by RMD. 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 encompasses the following risks to which SICO is exposed, and are being effectively managed as a part of the Market Risk Management strategy:

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

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

	Market Risk-weighted Assets			
	During the Year to date period			
	Minimum	Maximum	As at 31-Dec-2016	Capital Requirement @ 12%
Interest Rate Position Risk	470	1,163	1,163	140
Equities Position Risk	568	936	936	112
Foreign Exchange Risk	28	102	28	3
Total minimum capital required for market risk			**2,127**	**255**
Multiplier			12.5	12.5
TOTAL			**26,588**	**3,191**

6.1 Equity Price Risk

A significant portion of the Bank's proprietary portfolio comprises equity instruments which are 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.

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6.1 Equity Price Risk (continued)
Equity Positions

	Gross Exposure	Risk Weighted Assets	Capital requirement @ 12%
Equity investments			
- Listed	1,184	1,184	142
- Unlisted	-	-	-
Investment in rated funds	-	-	-
Investment in unrated funds - Listed/Unlisted	10,035	13,764	1,652
TOTAL	**11,219**	**14,948**	**1,794**

6.2 Interest Rate Risk
Interest rate risk is the risk where changes in market interest rates might adversely affect the Bank's financial condition. Investments in debt instruments, placements, deposits and borrowings give rise to interest rate risk. The Investments and Treasury team 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. Moreover, SICO does not trade speculatively in derivatives.

Bank placements are mostly short term (less than 3 months) with a fixed interest rate and are subject to re-pricing risk at rollover. Investments in bonds are subject to interest rate risk and the Bank controls the same by managing the portfolio duration by combining floaters and short duration bonds along with longer duration ones.

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

As at 31st December 2016	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and Bank balances	-	-	-	24,737	**24,737**
Call deposits	-	1,203	-	-	**1,203**
Placements with banks	1.9%	54,960	-	-	**54,960**
Treasury bills	-	16,256	-	-	**16,256**
FVTPL investments	6.3%	235	11,414	16,391	**28,040**
FVTOCI investments	3.4%	-	2,231	2,562	**4,793**
Investments at amortized cost	-	-	8,923	-	**8,923**
Furniture, equipment and intangibles	-	-	-	1,507	**1,507**
Fees receivable	-	-	-	1,164	**1,164**
Other assets	-	-	-	5,481	**5,481**
Total Assets		**72,654**	**22,568**	**51,842**	**147,064**
Short term borrowings	1.5%	39,255	-	-	**39,255**
Customer accounts	-	-	-	42,994	**42,994**
Other liabilities	-	-	-	3,903	**3,903**
Payables to unit holders	-	-	-	2,830	**2,830**
Total Liabilities		**39,255**	**-**	***49,727***	***88,982***
Total Equity				***58,082***	***58,082***
Total Liability and Equity		**39,255**	**-**	**107,809**	**147,064**
Interest rate sensitivity Gap		*33,399*	*22,568*	*(55,967)*	
Cumulative Interest rate sensitivity gap		**33,399**	**55,967**	**-**	

The Bank also applies stress testing to monitor interest rate shock 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 FVOCI book as follows:

100 bps increase	50 bps increase
- 4,676	**- 2,338**

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

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

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

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

	2013	2014	2015
Gross income	9,237	10,284	6,495
Average gross income (A)			8,672
Alpha (B)			15%
(C) = (A) * (B)			1,301
Risk weighted exposures (D) = (C) * 12.5)			**16,263**
Capital requirement @ 12% of (D)			**1,952**

8. OTHER RISKS

8.1 Concentration Risk

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

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

The Bank continues its effort to maintain an acceptable level of concentration by adhering to the limits set as per 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 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 risks may arise from a depletion of cash and cash equivalents, investments turning illiquid, and mismatches in the maturity pattern of assets and liabilities. Measuring and managing liquidity needs are vital for the effective operation of investment banks.

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

The RMD carries out risk assessment on the various fiduciary activities of the Bank 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: 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 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.

8.4 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 full operational status and is capable of carrying out 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.

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. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential, and even to cessation of operations. The Bank ensures adherence to all applicable regulations provided by various regulatory authorities, including regulations by CBB and Bahrain Bourse. In addition, the Bank's internal policies ensure that its practices are in line with best market practices, which helps in managing Compliance risks.

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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	Consolidated PIR data
	31-Dec-16	**31-Dec-16**
Assets		
Cash and cash equivalents	80,900	
of which Cash and balances at central banks		4,469
of which Placements with banks and financial institutions		76,431
Treasury bills	16,256	
of which other assets		16,256
Investments at fair value through profit and loss	28,040	28,040
Investments at fair value through other comprehensive income	4,793	4,793
Investments at Amortized Cost	8,923	8,923
Furniture, equipment and intangibles	1,507	
of which intangibles (computer software)		1,040
of which furniture and equipment		467
Fees receivable	1,164	
of which other assets		1,164
Other assets	5,481	
of which loans and advances (margin receivables)		3,526
of which interest receivable		480
of which other assets		1,475
Total assets	**147,064**	**147,064**

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

	Published Financial Statements	Consolidated PIR data
	31-Dec-16	**31-Dec-16**
Liabilities		
Short-term bank borrowings	39,255	
of which amounts relating to repo transactions		34,354
of which other short-term borrowings		4,901
Customer liabilities	42,994	
of which other liabilities		42,994
Other liabilities	3,903	
of which Interest payable		30
of which other liabilities		3,873
Payable to other unit holders (Other liabilities)	2,830	2,830
Total liabilities	**88,982**	**88,982**
Shareholders' Equity		
Share Capital - eligible for CET1	42,849	42,849
Shares under employee share incentive scheme	(1,599)	(1,599)
Statutory reserve	6,661	
of which share premium		692
of which legal reserve		5,969
General reserve	3,217	3,217
Available-for-sale fair value reserve	(251)	
of which unrealised gains from fair valuing equities		(308)
of which unrealised gains from other financial instruments		57
Retained earnings	7,205	
of which retained earnings brought forward from previous year		4,860
of which net profits for the current period		2,345
Total shareholders' equity	**58,082**	**58,082**
Total liabilities and equity	**147,064**	**147,064**

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APPENDIX 3

Step 3: Composition of Capital Common Template (transition)

Equity Tier 1 capital : instruments and reserves	**30-Dec-16 Amt. in BD '000s**
Issued and fully paid ordinary shares	42,849
Employee stock incentive program funded by the bank (outstanding)	(1,599)
General reserves	3,217
Legal / statutory reserves	5,969
Share premium	692
Retained earnings	4,860
Current interim net income	2,345
Unrealized gains on other AFS instruments	57
Unrealized gains on AFS equities	(308)
Total CET1 capital prior to regulatory adjustments	**58,082**
Other capital (AT1 & T2)	**-**
Total capital	**58,082**

APPENDIX 4

Disclosure template for main feature 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

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