



Informed  
Financial Services



**BUILDING  
PARTNERSHIPS**  
for Sustainable Growth

Annual Report 2018

[sicobank.com](http://sicobank.com)

# Building Partnerships for Sustainable Growth

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



**His Royal Highness Prince Khalifa bin Salman Al Khalifa**

The Prime Minister of the Kingdom of Bahrain



**His Majesty King Hamad bin Isa Al Khalifa**

The King of the Kingdom of Bahrain



**His Royal Highness Prince Salman bin Hamad Al Khalifa**

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

# 2018

## Contents

**06**

Year in Review

**08**

Mission, Vision, and Values

**10**

Chairman's Statement

**26**

Management Team

**28**

2018 Financial Performance

**34**

Operational Review

**14**

Board of Directors

**18**

CEO's Note

**24**

GCC Market Snapshot

**64**

Corporate Social  
Responsibility

**70**

Regulatory Disclosures

# Year in Review

## Informed Financial Services Since 1995

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

Headquartered in the Kingdom of Bahrain with a growing regional and international presence, SICO has a well-established track record as a trusted regional bank offering a comprehensive suite of financial solutions including asset

management, brokerage, investment banking, and market making backed by a robust and experienced research team that provides regional insight and analysis on more than 90% of the region's major equities.

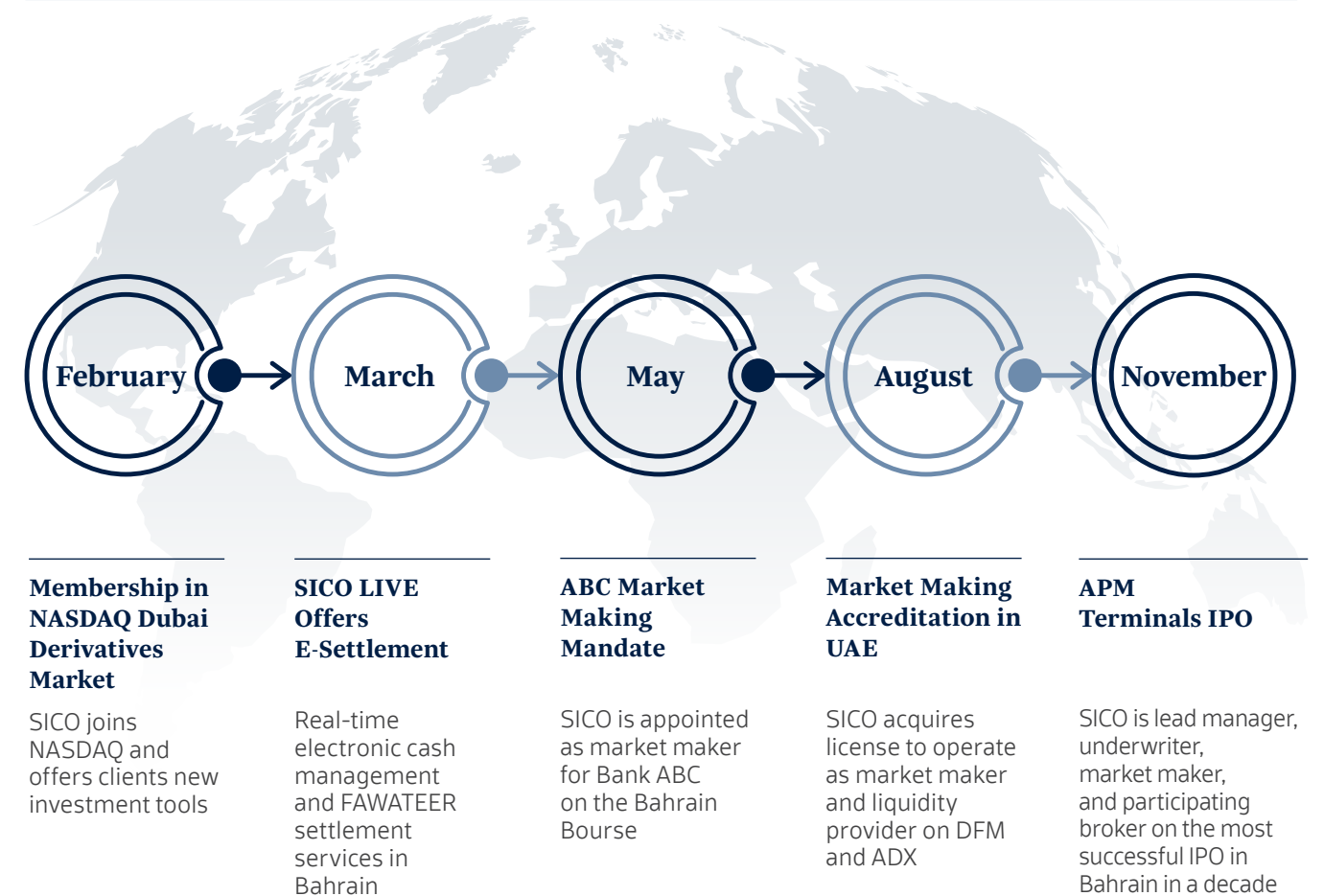
Since inception in 1995, SICO has consistently outperformed the market and developed a solid base of institutional clients. Going forward, the Bank's continued growth will be guided by its commitments to strong corporate governance and developing trusting relationships with its clients. The Bank will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

### 2018 Awards

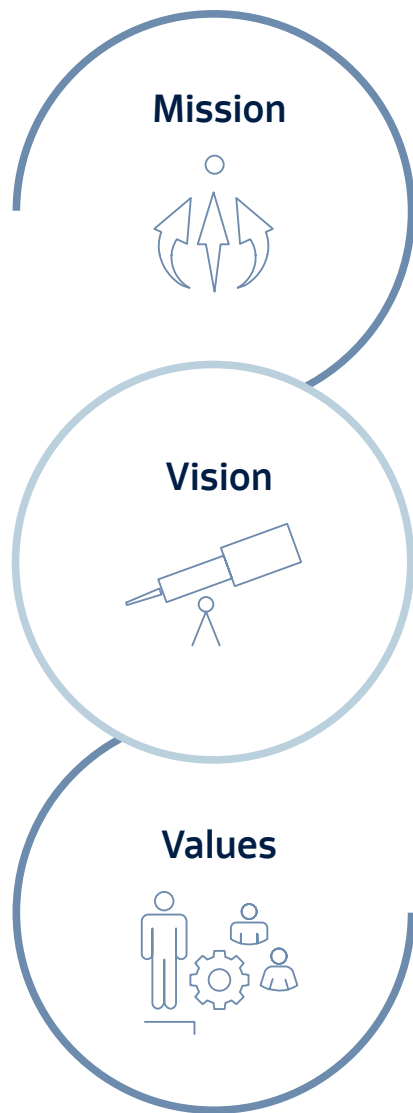
 <b>Best Investment Bank – Bahrain</b> World Finance Awards	 <b>Most Innovative Investment Bank</b> International Finance Awards	 <b>Best Investment Management Firm – Bahrain</b> World Finance Awards
 <b>Number One Broker – Bahrain Bourse</b> 20th consecutive year	 <b>The Middle East's Most Influential Women – SICO CEO, Najla Al Shirawi</b> Forbes Middle East/4th consecutive year	

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

### 2018 Milestones



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



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

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

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



# Chairman's Statement

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

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

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

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

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

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

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



**Abdulla bin Khalifa Al Khalifa**  
Chairman of the Board

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

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

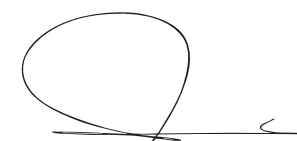
I think we've seen good progress in Bahrain. Under the leadership of His Royal Highness, Prince Salman bin Hamad Al Khalifa, Crown Prince of Bahrain and the Chairman of the Bahrain Economic Development Board (EDB), FDI has hit record highs with the aggregate value of investment projects supported by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

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

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

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

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



**Abdulla bin Khalifa Al Khalifa**  
Chairman of the Board

**3.7<sup>BD</sup><sub>MN</sub>**

2018 Net Profit

**10.7<sup>BD</sup><sub>MN</sub>**

2018 Net Operating Income

**12%**

2018 Increase in Net Profits

# Board of Directors



## Shaikh Abdulla bin Khalifa Al Khalifa

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

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



## Hussain Al Hussaini

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

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



## Fahad Murad

*Independent Director since 2011, representing Investcorp Bank BSC – Bahrain*

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



## Waleed K. Al-Braikan

*Independent Director since 2014, representing Gulf Investment Corporation – Kuwait*

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



**Anwar Abdulla Ghuloom Ahmadi**

*Executive Director since 2002, representing Social Insurance Organisation – Bahrain*

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

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



**Mohammed Abdulla Isa**

*Executive Director since 2009, representing BBK BSC – Bahrain*

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



**Khurram Ali Mirza**

*Executive Director since 2017, representing Social Insurance Organization – Bahrain*

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



**Prakash Mohan**

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

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



**Emad Al Saudi**

*Independent director since 2017, representing Bank ABC – Bahrain*

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

# CEO's Note

## Dear Shareholders,

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

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

In 2018, SICO reinforced its position as a positive force for growth in local capital markets. From spearheading Bahrain's most successful IPO in a decade, to crucial market making activities and new investment products, we are proud to be regarded

as an integral component of Bahrain's growth story. Today SICO is the market leader in asset management, brokerage, and investment banking in Bahrain with an expanding regional footprint, and we have consistently proven that we know how to create value for our clients, shareholders, and the markets in which they do business irrespective of the challenging operating environment.

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

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

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



**Najla M. Al Shirawi**

Chief Executive Officer

## Market Background

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

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

Bahrain remained the top performing market in 2018 in terms of improving turnover 30% y-o-y. In the capital markets space, the APM Terminals IPO proved to be highly successful,

both in terms of market demand and share price performance subsequent to the listing. Furthermore, the country's fiscal outlook and market sentiment witnessed a considerable boost after the announcement of the USD 10 billion financial support package from Kuwait, the UAE, and Saudi Arabia. The package also supported the kingdom's bonds, ending the year as the best performing fixed-income market in the emerging market space with an average return of 4.7%.

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

## Operational Highlights

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

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

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

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

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

# 527<sup>USD</sup><sub>MN</sub>

2018 Asset Management  
Net Subscriptions

# 1.9<sup>USD</sup><sub>BN</sub>

2018 Total AUM

# 620<sup>USD</sup><sub>MN</sub>

Increase in AUM y-o-y

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

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

### Institutional Capability

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

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

We have taken serious steps to adopt new technology and fintech solutions that will strengthen our overall business, and we are on track with

our cyber security framework, which is now a priority that we have with an open platform for our clients. We are working to adopt artificial intelligence to help us run our business more efficiently and give clients more insight and control over their accounts and portfolios.

### Corporate Social Responsibility

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

### The Year Ahead

2019 will be a challenging year in the GCC, which can also open up opportunities for investment banks like SICO. From an economic perspective, while measures and reforms are being taken to bring in more diversification and raise non-oil revenues, this does bring its own share of challenges, which can to some extent cause temporary disruption. However, this also provides a strong business

case for companies to merge, pursue synergies, and cut costs, possibly offering opportunities for investment banks like SICO to advise clients on M&A opportunities. A further push for privatization by regional governments as part of reform programs will also bring about opportunities in the primary market as we have seen with the APM Terminals IPO. Assuming oil prices average below USD 70/bbl in 2019, most GCC economies will likely have higher fiscal deficits as they pursue an expansionary budget, which implies more sovereign issuances and consequently opportunities on the fixed income side of the business.

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

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

I'm extremely proud of everything that we have achieved over the years but what makes me most proud of being CEO of SICO is the remarkable team of world-class professionals that I'm privileged to work with day in and day out. We take great pride in the fact that we have been able to

build long-term relationships, not only with our clients who have on average been with us for 10 years-plus, but also with our people. We have been fortunate enough to have exceptionally low turnover amongst our senior team. In fact, we are the biggest asset manager in the region that has had the same senior team in place since we established the line of business as we know it today. Because our culture is entrepreneurial, our people feel like they are true partners and as such they treat SICO as their own business.

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

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



**Najla M. Al Shirawi**  
Chief Executive Officer

# GCC Market Snapshot

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

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

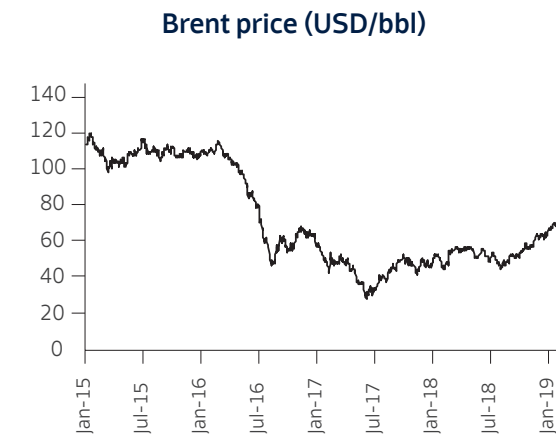
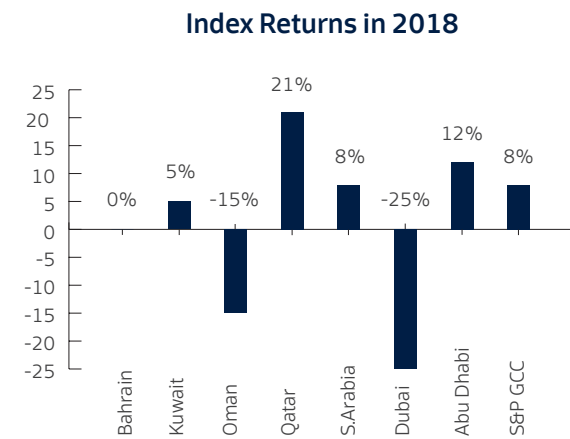
Dubai's stock market was the worst performer of the year losing a quarter of its value in 2018, dragged down by the real estate sector, which continues to struggle. Abu Dhabi on the other hand finished on a high note reporting a

double-digit increase in its index (+11.7%) in 2018, led primarily by First Abu Dhabi Bank as it revised upward its forward guidance.

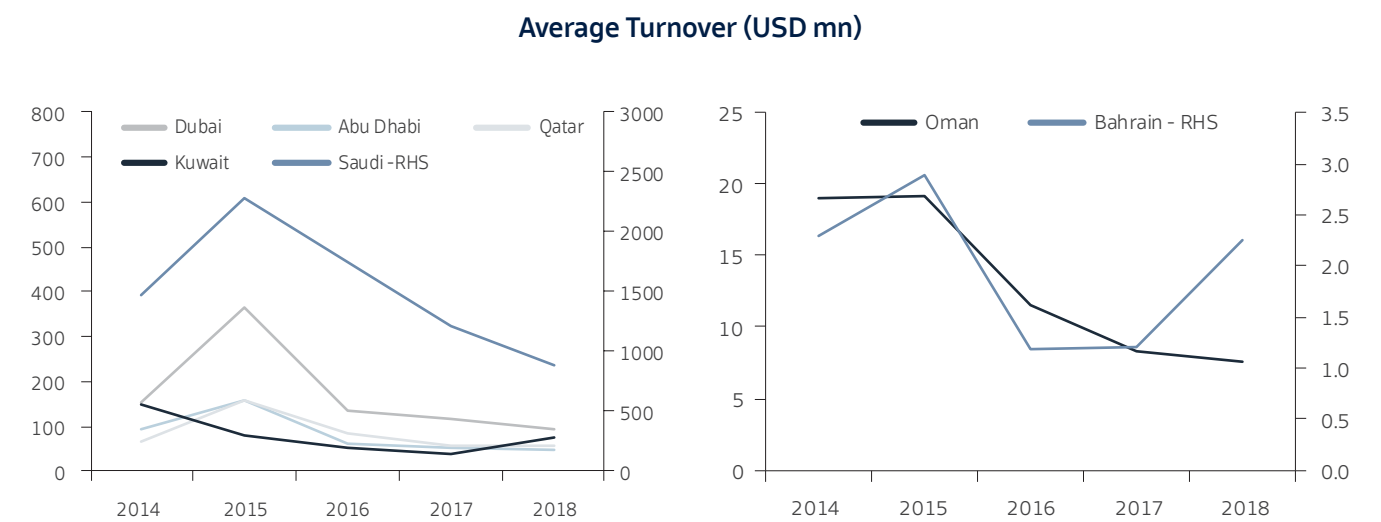
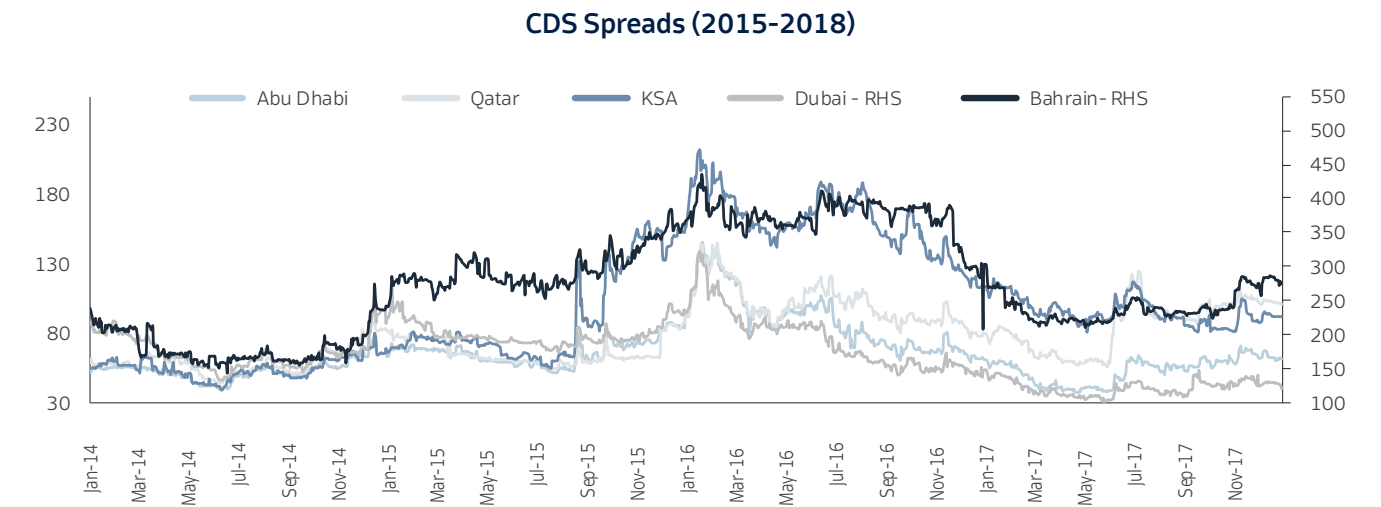
Kuwait's stock market was up 3.5% in the first three months of 2018, after the index was divided into three different indices based on criteria, including market capitalization and volume of shares traded. Oman's index declined 15.2% in 2018, primarily due to lower liquidity and no triggers while Bahrain's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

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

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



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



# Management Team

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



**Seated from left to right:**

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

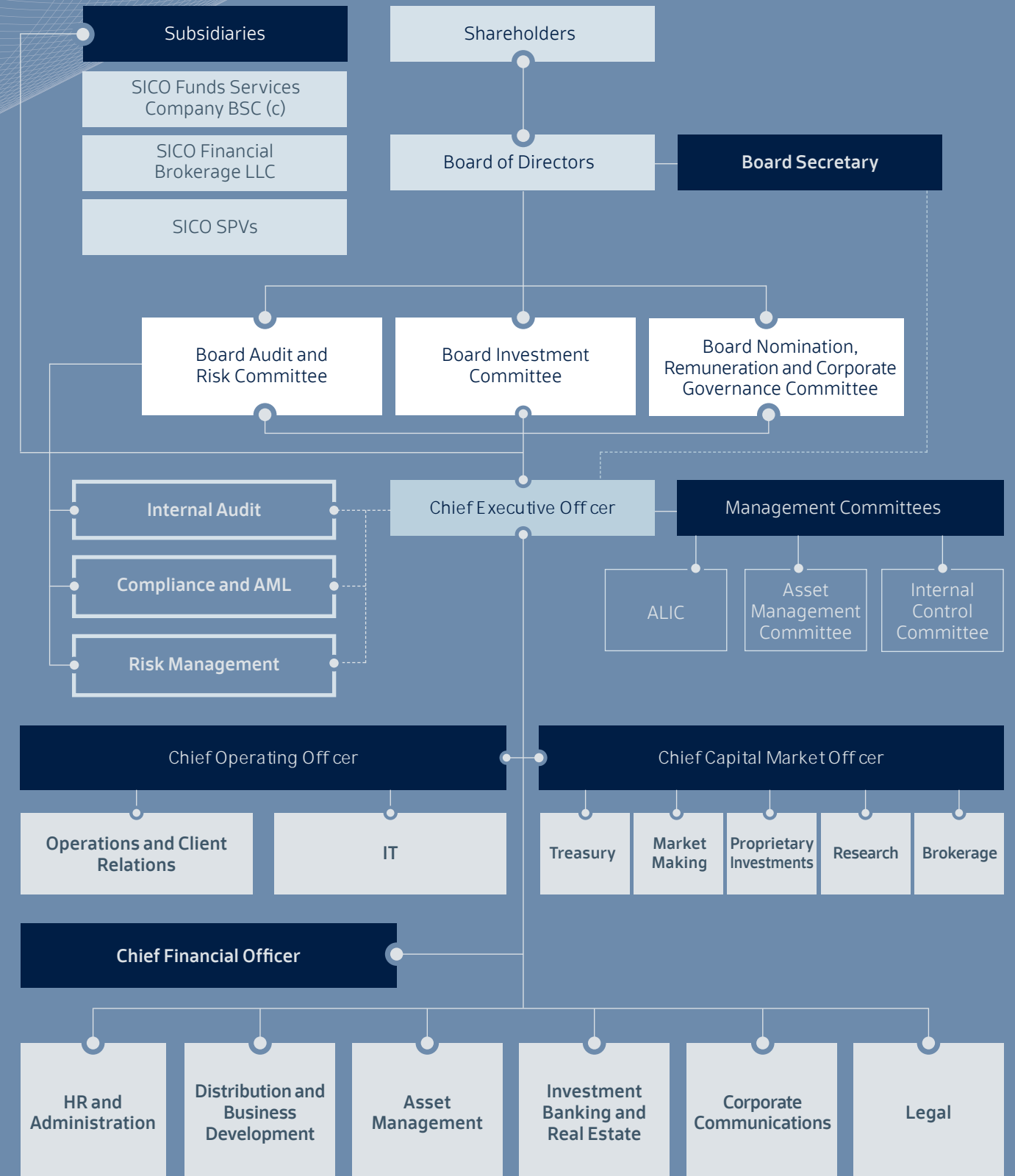
**Standing from left to right:**

- Mohammed Ibrahim**, Head of Information Technology
- Sreenivasan Konnat**, General Manager, SICO Funds Services Company (SFS)
- K. Shyam Krishnan**, Chief Financial Officer
- Ali Marshad**, Head of Fixed Income Asset Management
- Anantha Narayanan**, Chief Operating Officer

- Nishit Lakhotia**, Head of Research
- Joseph Thomas**, Head of Internal Audit
- Nadeen Oweis**, Head of Corporate Communications
- Simone Del Nevo**, Head of Legal
- Amal Al Nasser**, Head of Operations and Client Relations
- Fadhel Makhloq**, Chief Capital Markets Officer
- Mariam Isa**, Head of Brokerage
- Bassam Houry**, General Manager, SICO Financial Brokerage (Abu Dhabi)
- \*Jithesh Gopi**, Head of Proprietary Investments
- \*Haitham Haji**, Head of Distribution and Business Development

\*Appointed in 2019

# Organization Chart



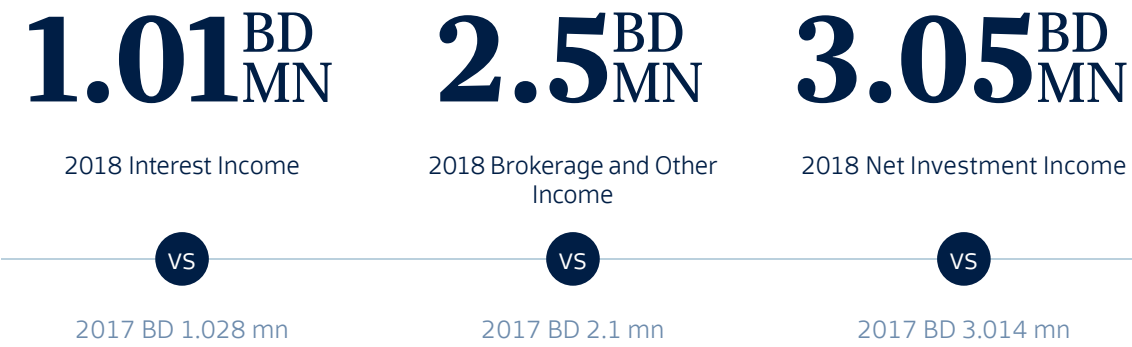


# 2018 FINANCIAL PERFORMANCE

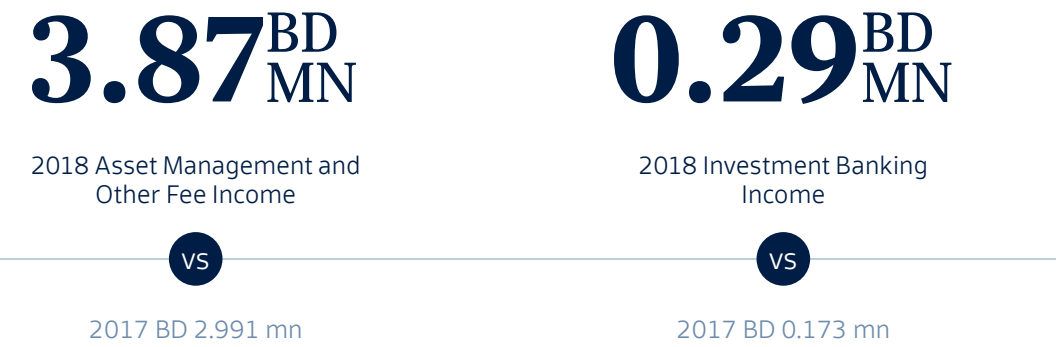
In 2018, SICO continued to deliver superior financial results even against the backdrop of region-wide fiscal and monetary challenges. FY18 net profit came in at BD 3.7 million, up a full 12% y-o-y.

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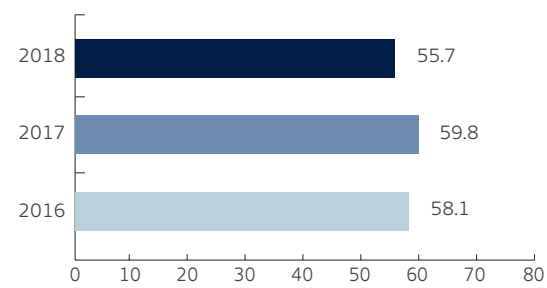
# 2018 Financial Highlights



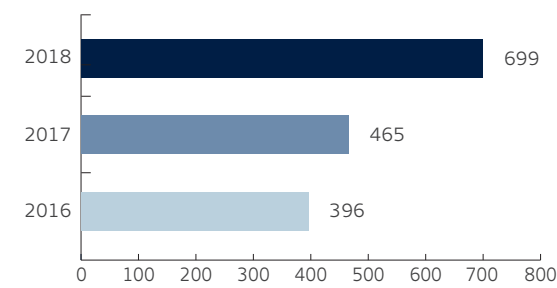
“ SICO has delivered a solid set of results for the year and proven its ability to outperform the market.



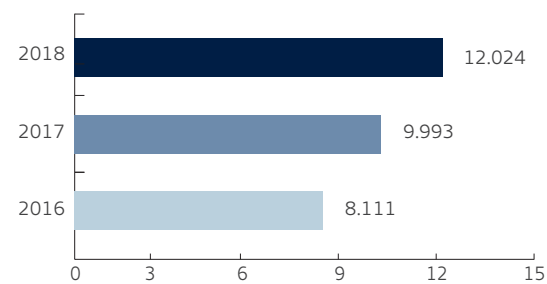
**Shareholders' Equity**  
BD mn



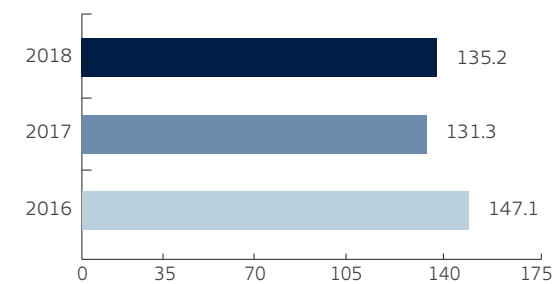
**Assets Under Management**  
BD mn



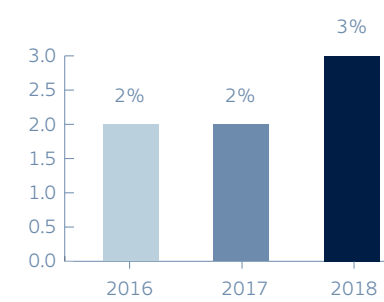
**Total Revenues**  
BD mn



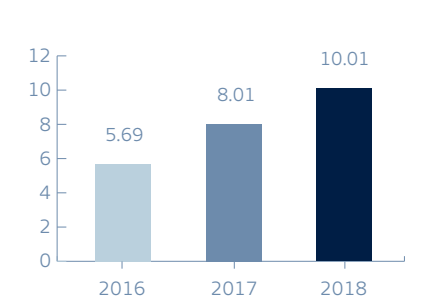
**Total Assets**  
BD mn



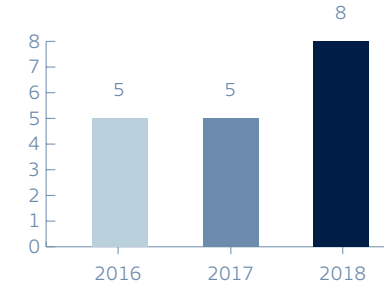
**Return on Average Assets**  
Annual Ratio



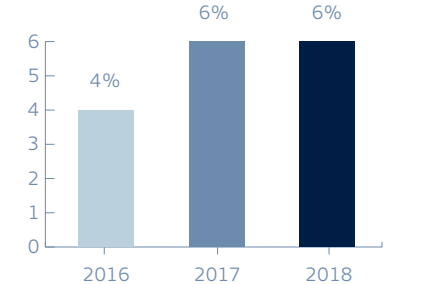
**Earnings per Share (Fils)**  
Annual Ratio



**Dividends per Share (Fils)**  
Annual Ratio



**Return on Average Equity**  
Annual Ratio



# Management Discussion & Analysis

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

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

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

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

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

During 2018, SICO worked to achieve growth across all business areas, with key initiatives including market making mandates in Bahrain and the UAE; the successful execution of our role as underwriter and lead manager in the APM

Terminals IPO, the largest in Bahrain during the year; and increasing mandates on the Repos and Reverse Repos activities.

## I. Appropriations

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

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

## II. Asset Management

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

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

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

## III. Securities Brokerage

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

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

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

## IV. Investment Banking & Real Estate

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

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

## V. Proprietary Investments

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

## VI. Treasury

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

## VII. Market Making

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

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

A rowing team in a boat on blue water. The rowers are wearing white and blue uniforms and are captured in the middle of a stroke, with their oars dipping into the water and creating splashes. The boat is moving towards the right side of the frame.

# OPERATIONAL REVIEW

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

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# Asset Management

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

## Overview

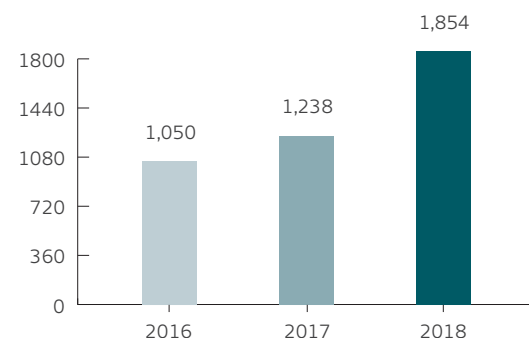
With USD 1.9 billion in AUM up from USD 1.2 billion in 2017, SICO Asset Management has an unparalleled team of highly-experienced asset managers with one of the longest track records in the market who continue to outperform regional benchmarks, generating returns indicative of SICO's ongoing ability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

SICO Asset Management's mutual funds and discretionary portfolios serve a wide range

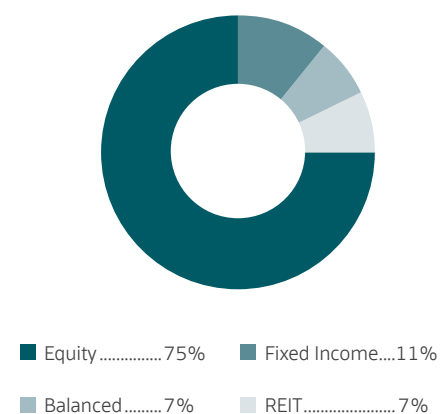
of investors, including institutions, sovereign wealth funds, family offices, and private banks, and cater to variant risk profiles and investment objectives. The division's mandates cover conventional and Sharia-compliant equities, money market and fixed income securities, as well as the first Sharia-compliant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

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

**AUM Growth**  
USD mn



**AUM by Asset Class**



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

## 2018 Operational Review

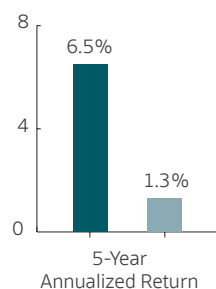
Notwithstanding the frequent fluctuations, market trends in 2018 were generally favorable for equities. The S&P GCC Total Return Index ended the year up 12.8% with strong performances coming from Qatar, which closed the year up 29% (S&P Qatar TR), and the Tadawul in KSA, which ended the year up 12.4%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

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

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

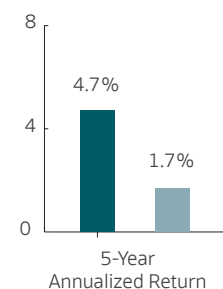


### SICO Kingdom Equity Fund



■ SKEF ■ Index

### Khaleej Equity Fund



■ KEF ■ Index

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

#### Equities

SICO Asset Management manages three equity funds, including its top-performing SICO Kingdom Equity Fund (SKEF) and Khaleej Equity Fund (KEF) together with several discretionary portfolio management accounts.

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

SICO's flagship Khaleej Equity Fund which invests in equities listed on stock markets in the GCC and Egypt, ended 2018 with a return of 12.7%, making it one of the GCC's best-performing funds of the year. SICO is currently in the process of converting its Gulf

Equity Fund, a fund with a mandate to invest in all GCC equity markets, excluding Saudi Arabia, into a Sharia-compliant version of the Khaleej Equity Fund.

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

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

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

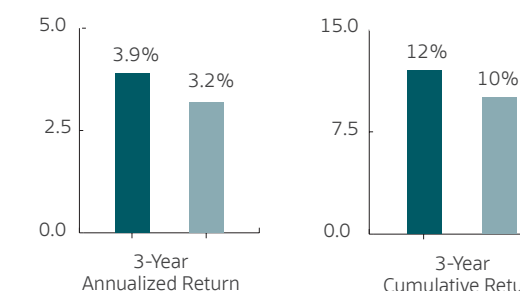
### Fixed Income

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

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

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

### SICO Fixed Income Fund Growth



■ SFIF ■ Index

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

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

#### Real Estate

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

In 2018 EBRIT, which continues to be traded on the Bahrain Bourse, made two dividend

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

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

### 2019 Outlook

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

Regional heavyweights Saudi Arabia and Kuwait are expected to see significant inflows from passive funds as they are now officially on the radar of global investors which will likely be a game changer. SICO Asset Management is currently

exploring new opportunities for geographical expansion in Saudi Arabia that will further facilitate its investment in Saudi assets.

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

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

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

### SICO Fund Performance 2018

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

# Brokerage

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

## Overview

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

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

SICO's Brokerage Division offers a wide-ranging portfolio of products and services including direct securities, such as equities, bonds, and sukuks; single-product brokerage across the GCC and the wider MENA region; margin trading facilities for equities; and repurchase agreements repos for fixed income. SICO's Fixed Income Trading Desk began operations in 2011 and subsequently became part of the Brokerage Division in 2017. It has since established itself as a leader in the industry by continuing to cultivate innovative strategies in both developed and emerging market issues.

SICO's Agency Brokerage Desk, the first-of-its-kind in Bahrain, has since inception in 2010

allowed clients to have a single broker to carry out transactions on their behalf. It also allows them to maintain their own disclosed accounts in several GCC and MENA stock exchanges where they are required to have a nominated custodian.

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

## 2018 Operational Review

2018 saw SICO maintain its position as the number one broker in Bahrain, representing c.43.6% of the market in terms of volume traded, with the division continuing to be the prime broker for institutions and foreign investors in Bahrain. During the year, the Brokerage team executed a total of 14,448 transactions,

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

representing 37.58% of total market executions on the Bahrain Bourse. Total traded value for the year was BD 252.96 million which represented 39.06% of the total market share.

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

subscriptions. SICO Brokerage was one of only four participating brokers in the landmark IPO.

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

## SICO Performance on Bahrain Bourse (2018)

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

Source: Bahrain Bourse Annual Trading Bulletin

### SICO Financial Brokerage

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

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

### Fixed Income

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

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

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

New products and service offerings were set up to help clients enhance returns, with SICO's Fixed Income Trading Desk successfully competing with regional blue chip banks and brokers to provide some of the most efficient trading facilities, competitive pricing, and coverage in the market. The desk worked on enhancing communication channels with clients, providing them with accurate, daily updates that help raise the firm's profile as a multi-asset broker.

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

### 2019 Outlook

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

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

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

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

# 43.6%

Brokerage market share in Bahrain

# 253<sup>BD</sup><sub>MN</sub>

Total traded value in 2018

# 1.27<sup>USD</sup><sub>BN</sub>

Fixed income value in 2018

# Investment Banking

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

## Overview

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

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

SICO Investment Banking has delivered consistent growth and established a solid track record

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

## 2018 Operational Review

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

SICO successfully carried out its mandate as lead manager, underwriter, market maker, and participating broker for the BD 11.88 (USD 31.5) million initial public offering of APM Terminals Bahrain,

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

the exclusive port operator of Bahrain's only commercial port. The IPO which successfully closed on November 25, 2018, was widely viewed as a proxy on Bahrain's non-oil economy, offering investors attractive dividend yields of 15.5% based on the company's 2017 performance.

SICO's Investment Banking team was responsible for:

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

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

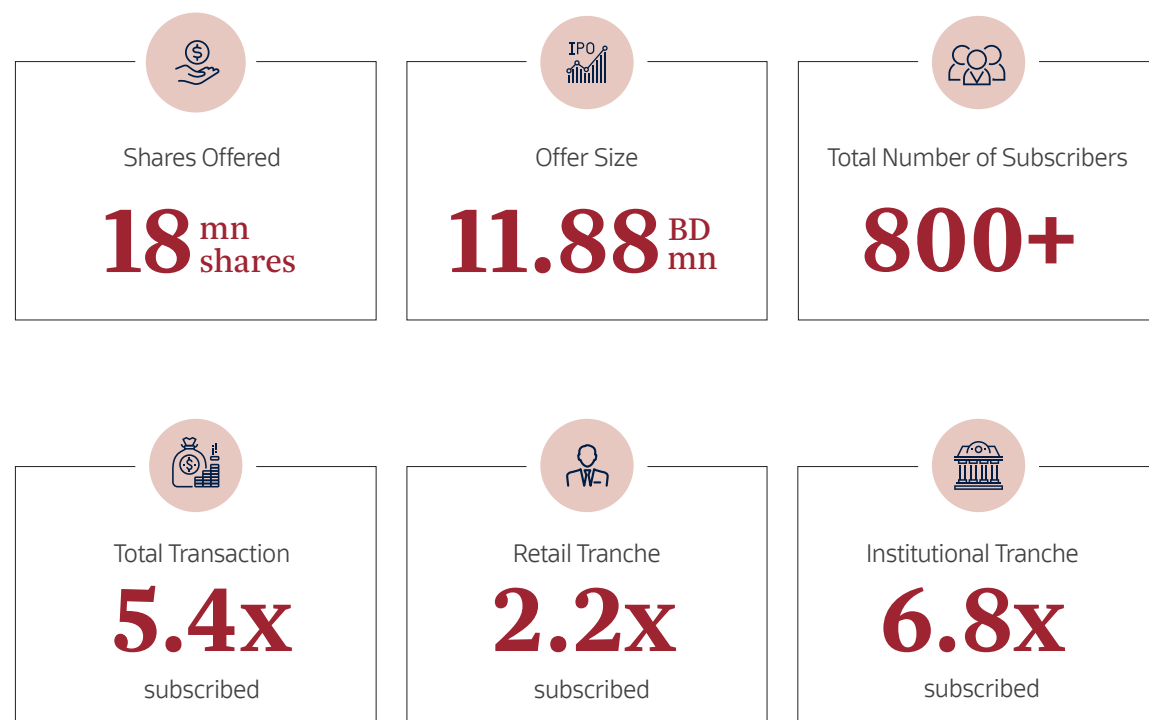
offer size, with strong domestic and foreign demand, especially amongst GCC institutional investors. Demand from retail investors was also strong, with the retail tranche subscribed 2.2x the original offer size.

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

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

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

### APM Terminals Bahrain IPO Results



### Value of all 2018 IB Mandates



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

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

as prospects for the economy in general start to improve. With a clear market trend towards M&As particularly in the finance and hospitality sectors, SICO Investment Banking will draw on its expertise in providing M&A advisory services to capture more deal flow in 2019.

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

### 2019 Outlook

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

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

The division will leverage the success achieved with the APM Terminals IPO and the renewed interest in Bahraini capital markets to help widen a pipeline of new deals in the coming year

# Treasury

## Overview

SICO's Treasury Division manages SICO's liquidity while employing a client-focused approach to provide value-added services for clients across the GCC. In an effort to provide attractive funding sources to pursue market opportunities, the Treasury Division offers services including short-term money market and liquidity solutions, foreign exchange, collateralized lending through margin facilities for equities, and repos for fixed income. The Bank's foreign currency services are diverse, with SICO acting as a settlement agent for its clients' transactions across markets for cost-efficient trading.

## 2018 Operational Review

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

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

# 63.97%

Capital Adequacy Ratio

# 576K<sub>BD</sub>

Net Interest Income

# Proprietary Investments

## Overview

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

## 2018 Operational Review

In line with stated objectives, the proprietary book contributed positively to SICO's bottom line during 2018. Having been constructed in accordance with IFRS 9 standards, the investment portfolio comprises three components: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortized cost (AC).

Under the FVTPL portfolio, SICO invests across asset classes (equity, fixed income, and alternative assets), both directly as well as through third-party managers, following multiple strategies that align the portfolio with its risk-return and diversification objectives. During 2018, active management of equity and debt exposures helped maintain a buoyant portfolio during periods of excessive volatility. Furthermore, increasing the portfolio's alternative investment component helped the portfolio to lower overall correlation with regional capital markets.

The FVOCI portfolio, which includes mainly regional equity and debt securities, continued to make a positive contribution to overall returns driven by

an income strategy that focuses on medium-term, income-generating financial assets.

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

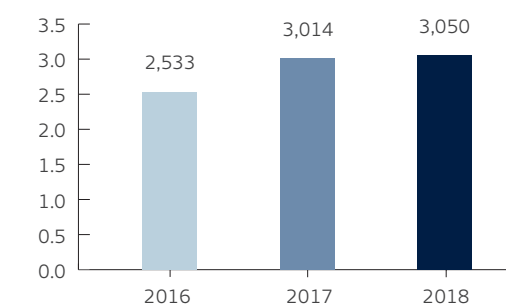
The proprietary book's prudent strategy enabled the Bank to generate positive and sustainable returns, generating a net investment income of BD 3,050 million in 2018 compared to BD 3,014 million during the previous year. Notably, the income was achieved while maintaining a low correlation of 0.65 to the S&P GCC Index and a lower volatility of 3.90% compared with 7.07% of the index.

## 2019 Outlook

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

Net Investment Income 2016-2018

BD '000



# Market Making

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

### Overview

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

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

### 2018 Operational Review

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

group, Bahrain Telecommunications Company (BATELCO) with respect to the company's ordinary shares listed on the Bahrain Bourse.

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

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

Bahrain Bourse ADTV reached BD 1.1 million in 2018 representing an increase of 30% y-o-y, with BLF transactions representing 22% of the total ADTV for the year vs. 39% in 2017. The drop in BLF's market share is a natural progression for a liquidity fund that was intended to serve as a catalyst to generate more interest from market participants. The fact that investors are now more encouraged to actively participate in the market is an indicator that the fund is serving its purpose and has been able to unlock significant value in



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

one of the GCC's smaller markets. BLF has generated an annual return on capital of 6.44% in 2018 representing a net asset value (NAV) of BD 42.5 million. The return includes cash dividends distributed to unit holders in the Fund.

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

### 2019 Outlook

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

# 22%

Percentage of BLF Transactions on Bahrain Bourse in 2018

# 6.44%

Annual Return on Capital BLF 2018

# 42.5<sup>BD</sup><sub>MN</sub>

BLF NAV 2018

# Research

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

## Operational Review 2018

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

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

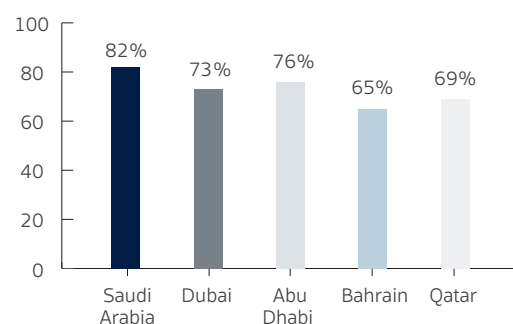
SICO's Top 20 List performed broadly in line with the overall S&P GCC Index in 2018 returning more than 12% total return for the year.

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

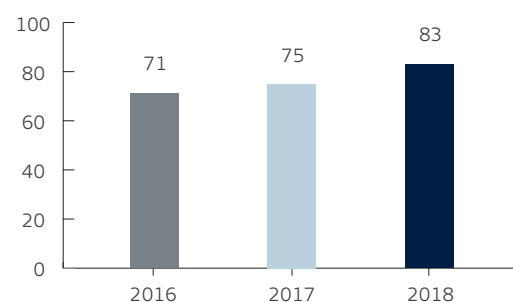
In addition to written research products and client support, the division continued to host analyst and investor conference calls for listed companies across the GCC as part of the value added services and corporate access that it regularly provides to its clients.

SICO Research Coverage

Key GCC Countries\*



SICO Research Company Coverage



\*as a percentage of index market capitalization

## Companies Under Coverage by Sector



## Reports Published

### GCC Morning Call

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

### GCC Market Watch

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

### Bahrain Daily

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

### GCC Economics – The Numbers

Published monthly, analyses data from the region's central banks.

### Petrochemicals Round-up

Published fortnightly, offers insight into this key industrial sector.

### Oil Markets Update

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

### Company & Sector Reports

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

### SICO Top 20

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

### GCC Strategic Outlook Reports

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

### GCC Stock Coverage & Recommendations

Published semi-annually, summarizes SICO's view of stocks under coverage.

### GCC Equities – Quarterly Results Preview

Provides profit estimates for GCC companies under coverage.

### GCC Equities – Quarterly Profit Consensus

Provides profit consensus estimates for GCC companies under coverage.

### GCC Equities – Results Snapshot in Charts

Published quarterly, analyses quarterly profits of covered GCC companies in chart format.

### Trading Activity

Provides monthly insight on trading activity across the region.

### Saudi PoS Analysis

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

# SICO Funds Services (SFS)

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

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

## 2018 Operational Review

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

## 2019 Outlook

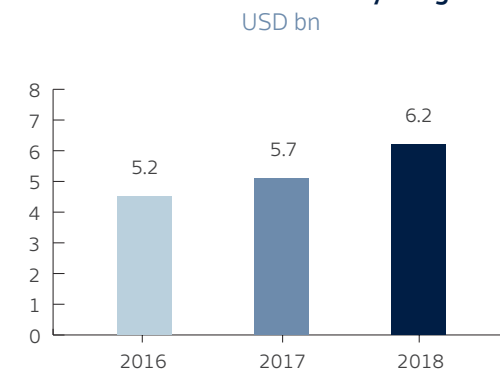
The introduction of automation such as Robotic Process Automation (RPA) in areas with a high

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

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

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

## 3-Year Assets Under Custody Progression



# Support Functions

## Client Relations

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

## Human Resources

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

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

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

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

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

## Headcount and Bahrainization Percentage - Bahrain

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

\*This number includes three executive trainees

Note: SICO Financial Brokerage is SICO's wholly owned subsidiary in the UAE, employs 11 personnel, including one Bahraini

## Breakdown by Gender

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

## Legal

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

The primary tasks of the newly established legal department include:

- Identifying strategic business opportunities arising from changes to the domestic and international legal framework.
- Assisting business units in the structuring, development and delivery of products and services, while incorporating sound and innovative legal solutions.
- Administering the legal affairs of SICO through the internal provision of professional, timely, and useful legal advice and services, and by arranging and actively managing the services of outside counsel as needed.

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

### Information Technology

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

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

globally which will significantly improve cyber security controls and enhance business continuity plans.

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

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

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

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

### Operations

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

### Corporate Communications

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

Corporate communications also worked on the digitalization of the client experience through reports, presentations, and an enhanced social media presence. SICO's new unified brand

identity has been well received by various internal and external stakeholders in Bahrain and the broader region.

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

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

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

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

# Control Functions

## Compliance and Anti-Money Laundering

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

## Risk Management

SICO's independent Risk Management Department is responsible for establishing the risk management framework and appropriate risk guidelines to assist the Bank in achieving its strategic and business objectives. The department provides leadership, direction, and coordination in implementing the risk management framework across the entire organization. This entails a systematic process of identifying, assessing and mitigating the principal business risks

facing SICO by establishing appropriate controls to manage these risks; and ensuring that appropriate monitoring and reporting processes are in place. During 2018, Risk Management continued to play a pivotal role in ensuring that SICO remains strong, methodical, and consistent in the face of economic uncertainty. An overview of SICO's risk management framework, plus a report of key developments during the year, are covered in the Risk and Capital Management section of this annual report.

## Internal Audit

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

During 2018, the department met quarterly with the Audit Committee, and presented the results of internal audits performed in line with the Board-approved risk-based internal audit plan. As outlined by the approved audit plan, key operational, business, and management processes and divisions, including the subsidiary SICO Financial Brokerage UAE were audited/reviewed. Internal Audit also carried out spot check reviews on an ad-hoc basis covering various areas based on Management's request, with the results being presented to the Senior Management/Audit Committee.

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

## Financial Control

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

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

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

configured to meet with all requirements as laid out by the Kingdom's regulations.

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

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

# CORPORATE SOCIAL RESPONSIBILITY

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

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# Corporate Social Responsibility

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

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

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

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

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

## Supporting Education

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

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

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

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



Trade Quest trading challenge simulation 2018 at the Bahrain Bourse

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

SICO also sponsored a specialized trading simulation course given by the Bahrain Institute of

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

## Advancing the Financial Sector

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

“ **Improving the wellbeing and overall health of our community has been one of the main pillars of SICO’s CSR agenda for many years.** ”

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

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

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

### Improving Healthcare

Improving the wellbeing and overall health of our community has been one of the main pillars of SICO’s CSR agenda for many years. In 2018, we continued to support healthcare initiatives throughout the country. SICO hosted a blood drive in collaboration with King Hamad University Hospital blood bank, that saw employees donate blood to the hospital and gain awareness on how vital and necessary blood donation is to saving lives. We also supported a worthwhile men’s

health initiative through our sponsorship of the Movember Foundation’s Distinguished Gentleman’s Ride, a motorcycle ride that takes place annually in over 650 cities worldwide to raise funds and awareness for men’s general health issues.

### Promoting Sports and the Wellbeing of Youth

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

### Preserving the Environment

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

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

