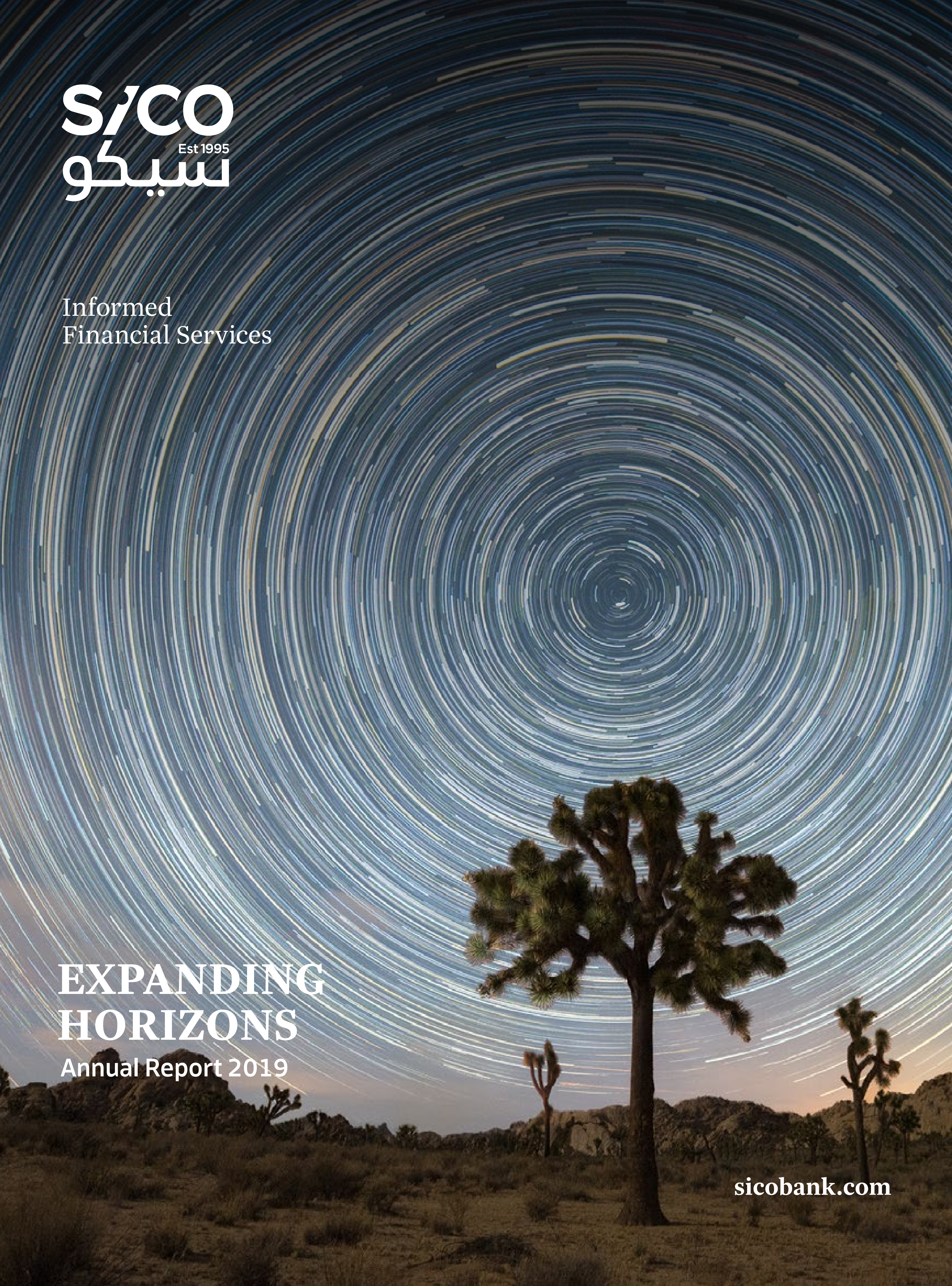

SICO
Est 1995
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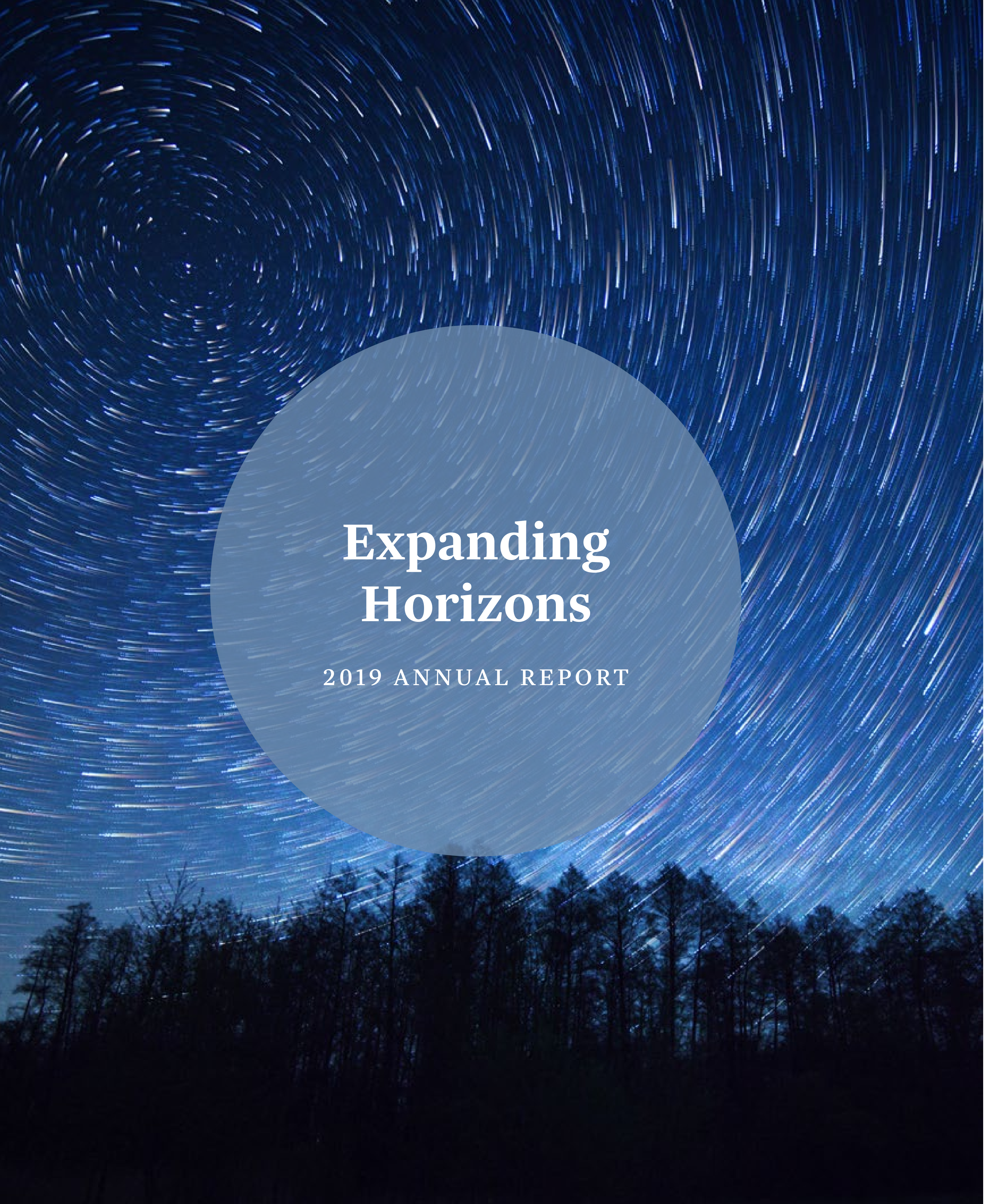
Informed
Financial Services

EXPANDING HORIZONS

Annual Report 2019

sicobank.com



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

2019 SICO
Annual Report

Expanding Horizons

SICO is now growing its presence in three GCC markets including KSA, the largest market in the region. This landmark development will allow us to capitalize on market growth and offer our clients a combination of local expertise and regional outlook.

2019

Table of Contents

Bahrain's Leading Investment Bank

SICO is a leading regional asset manager, broker, market maker, and investment bank with USD 2.1 billion in assets under management (AUM). Today, SICO operates under a wholesale banking licence from the Central Bank of Bahrain and also oversees three wholly owned subsidiaries: an Abu Dhabi-based brokerage firm, SICO Financial Brokerage, a specialised regional custody house, SICO Fund Services Company (SFS), and a Saudi based asset management business, SICO Financial Saudi Company (under formation). Headquartered in the Kingdom of Bahrain with a growing regional and international presence, SICO has a well-established track record as a trusted regional bank offering a comprehensive suite of financial solutions, including asset management, brokerage, market making, investment banking, advisory, treasury, and custody and fund administration, backed by a robust and experienced research team that provides regional insight and analysis of more than 90 percent of the region's major equities. Since inception in 1995, SICO has consistently outperformed the market and developed a solid base of institutional clients. Going forward, SICO will invest in both digitalization and human resources to scale its business and seek sustainable growth opportunities in regional markets where the bank can leverage its expertise as an advisor on some of the region's most high-profile and complex deals.

2019 Milestones

January
SICO is appointed as Market Maker by leading Telecom player Batelco on shares trading on the Bahrain Bourse

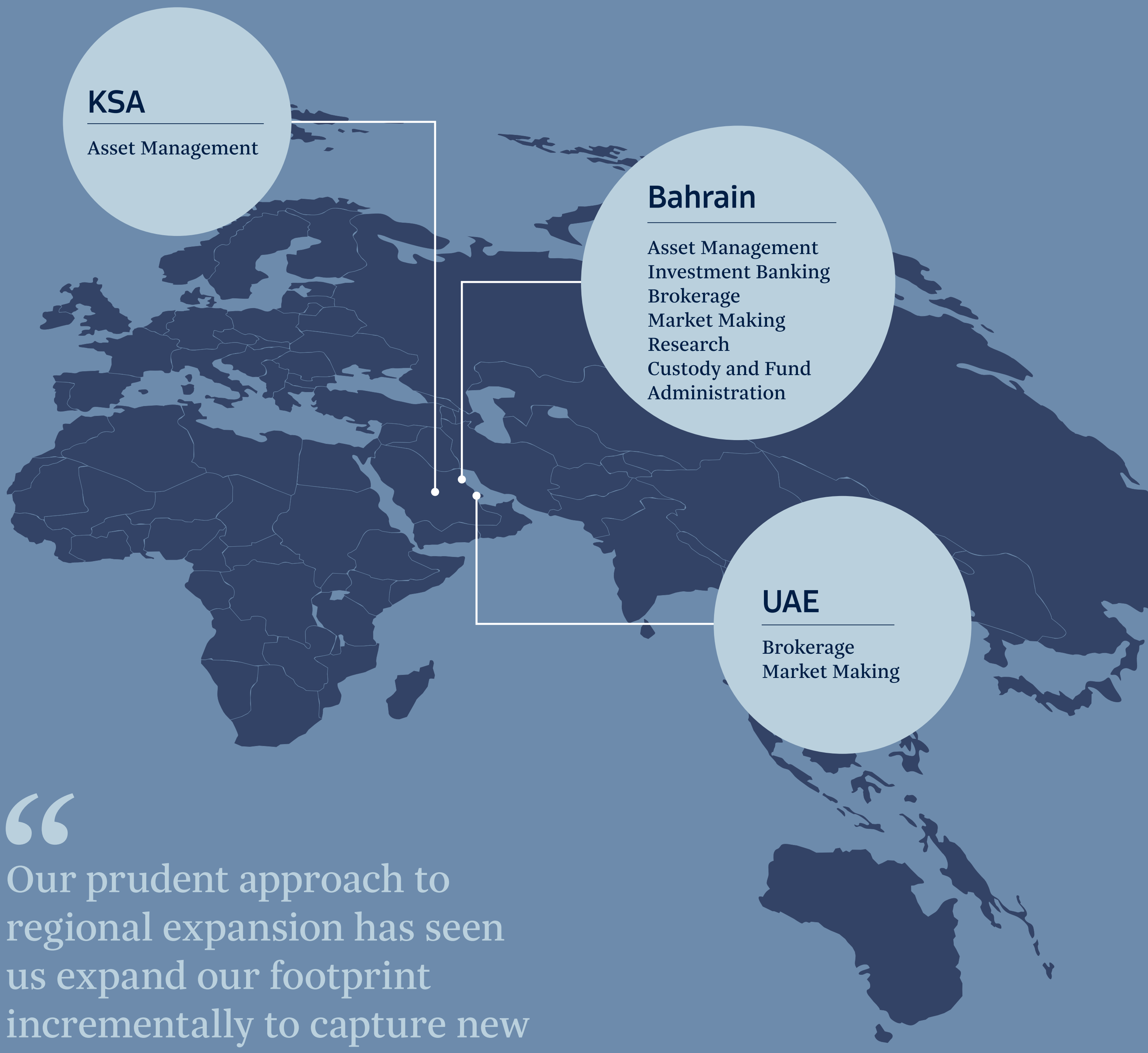
June
SICO named Best Investment Bank in Bahrain at the 2019 Euromoney Middle East Awards for Excellence

July
SICO successfully concludes Market Making function post-IPO for APM Terminals

September
SICO is appointed as investment manager for Minors' Estate Directorate's fixed-income and equity portfolio

November
Saudi Capital Markets Authority gives SICO regulatory approval to offer asset management services in KSA

December
SICO is appointed as the issue execution advisor, receiving agent and allotment agent in National Bank of Bahrain acquisition of Bahrain Islamic Bank



> "Our prudent approach to regional expansion has seen us expand our footprint incrementally to capture new market opportunities

> “SICO takes tremendous pride in excelling in all lines of business. We look forward to entering a new decade of achievement having capped off a record-breaking year

2019 Awards

Best Investment Bank – Bahrain
Euromoney

Best Equity Fund (Khaleej Equity Fund)
Global Banking and Finance Awards

Best Fixed Income Fund – Bahrain
Global Banking and Finance Awards

Best Asset Manager – Bahrain
EMEA Finance Middle East Banking Awards

Best Broker – Bahrain
EMEA Finance Middle East Banking Awards

Best Investment Management Company – Bahrain
World Finance

Best Research House – Bahrain
Global Business Outlook Awards

Broker of the Year – Bahrain
(highest value of traded shares for 5th consecutive year)
Arab Federation of Exchanges Awards

Number One Broker on the Bahrain Bourse
(21 consecutive years)

Mission

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

Vision

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

Values

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

Chairman's Statement

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

In 2019, the world saw an escalation of policy uncertainty, growing recession concerns, low rates, and increased negative-yielding debt. Despite this, the economy remained resilient and all equity asset classes and some fixed income, delivered double-digit returns. SICO too delivered on its mission to create value for shareholders, clients, employees, and the community. However, we did not stop there, we continued to innovate and grow, and focused on expanding our horizons across all areas of the business.

This mindset has been positively reflected in our performance this year. SICO achieved a significant increase in net profits from BD 3.7 million to BD 6 million, up 63%. All business units reported higher revenue, resulting in a total net operating income of BD 14.6 million in 2019, up by 36% from BD 10.7 million. Our basic earnings per share stands at 16.3 Bahraini fils vs. 10 fils the prior year.

To expand horizons, planning and execution is very important and the team excelled on both fronts. An example of this is shown by SICO's 16% growth of assets under management, bringing it to over USD 2 billion. This was an important milestone for us and although we are proud to have achieved it this year, we will continue to strive for more growth.

Acquiring a new asset management license in the Kingdom of Saudi Arabia was another historical event for SICO and a huge leap forward in terms of our regional expansion strategy, which began in the United Arab Emirates in 2012. This development enables SICO to broaden horizons further by diversifying allocation to regional markets and ultimately adding value to our portfolios while improving risk/return profiles. Having presence in the largest economy in GCC with a GDP of over $780 billion, we are strategically positioned to access a huge market, increase our client base, and further our opportunity set.

In our home market of Bahrain, the economy proved resilient in 2019 as inflation remained low and the government continued its drive for economic diversification. According to the IMF, economic growth will remain steady at 2.5% for the non-oil sector with overall GDP growth of 2.1% in 2020. While we continue with our plans to expand regionally, we remain bullish on Bahrain given its strong fundamentals and attractive yields.

Expanding horizons is also the ability to push boundaries and go that extra mile which we proved in our instrumental role of one of Bahrain's largest M&A transactions — the acquisition of Bahrain Islamic Bank (BISB) by the National Bank of Bahrain (NBB). Our appointment as the issue execution adviser, receiving agent, and allotment agent demonstrates our track record and expertise as a trusted partner to Bahrain's major financial institutions.

Our track record is very important to us and ensuring we outperform year-on-year is imperative. However, the asset management industry is rapidly transforming and to win, we must embrace the evolving role of technology. Therefore, we are enhancing our infrastructure and continuing to invest in systems to

> “In 2019, we continued to innovate and grow, and focused on expanding our horizons across all areas of the business

improve efficiency, enhance client experience, and ultimately support our business going forward.

As we look to our future, it is difficult to predict the geopolitical environment or when the expansion will end, but what we can do is continue to be resilient and diligent. We can ensure portfolios are well positioned during this late-cycle and be prudent with our selection of risk assets. We will continue to grow, innovate, and Expand Horizons in 2020 and beyond.

Further, I would like to take this opportunity to thank our esteemed Board of Directors for their tremendous support and guidance that they continue to give SICO as we embark on this new and exciting phase of growth. The Board has proven time and again their ability to work in harmony with senior management in a manner that helps SICO to effectively achieve its goals. With our upcoming board elections in March 2020, we will be seeing several members, who have served their tenure, exit the SICO Board. We highly appreciate the time and effort that they have dedicated and we wish them the best on their future endeavors.

I would also like to give special thanks and recognition to our senior management for their vision, hard work, and dedication. I am extremely proud of our leadership and of all that they have achieved this year.

On behalf of SICO's Board of Directors, we would like to extend our utmost gratitude to the Central Bank of Bahrain and the Bahrain Bourse for the confidence that they have placed in us as not just a financial services provider, but as a true partner. And last but not least, each and every member of the SICO team wishes to express thanks and appreciation to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince for their steadfast leadership and progressive vision for the financial sector in Bahrain.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

Board of Directors

Shaikh Abdulla bin Khalifa Al Khalifa

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

- Chairman of SICO Board Investment Committee
- Chief Executive Officer, Osool Asset Management BSC
- Chairman, Batelco
- Board Director, BBK, Amanat Holding PJSC, Amlak Social Insurance Organization Development Company, Bahrain Marina Development Company, Bina Al Bahrain
- Professional experience – 23 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 at the National Bank of Bahrain BSC
- Board Director, Esterad Investment Company BSC
- Professional experience – 38 years
- Education – PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing and Management Change, DePaul University Chicago, USA; and BA in Economics, Concordia University, Montreal, Canada

Fahad Murad

Independent Director since 2011

- Chairman of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Former Managing Director, Head of Placement for Bahrain and Oman, Investcorp Bank BSC
- Professional experience – 35 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 and Risk Committee
- Director of GCC Equities Division, Gulf Investment Corporation
- Professional experience – 34 years
- Education – BA in Finance from Kuwait University, Kuwait

Anwar Abdulla Ghuloom Ahmadi

Executive Director since 2002, representing Social Insurance Organization – Bahrain

- Member of SICO Board Audit and Risk Committee
- Professional experience – 38 years
- Education – ACPA, GED, CIPA; and BSc in Accounting

Mohammed Abdulla Isa

Executive Director since 2009, representing BBK BSC – Bahrain

- Member of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Group Chief Financial Officer, BBK
- Professional experience – 29 years
- Education – Certified Public Accountant, American Institute of Certified Public Accountants, Delaware State Board of Accountancy (2001), USA

Prakash Mohan

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

- Member of SICO Board Investment Committee
- Group Head – Credit Risk, Ahli United Bank
- Professional experience – 27 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

Khurram Ali Mirza

Executive Director since 2017, representing Social Insurance Organization – Bahrain

- Member of SICO Board Nomination, Remuneration and Corporate Governance Committee
- Head of Asset Allocation, Osool Asset Management BSC (c)
- Professional experience – 27 years
- Education – Fellow, Institute and Faculty of Actuaries, UK; BSC in Actuarial Science and MSc in Mathematical Trading and Finance from Cass Business School, University of London, UK

Emad Al Saudi

Independent director since 2017, representing Bank ABC – Bahrain

- Member of SICO Board Audit and Risk Committee
- Head of Derivatives & Foreign Exchange, Bank ABC
- Professional experience – 28 years
- Education – BSc in Business Administration from Pepperdine University, California, USA; General Certification from International Securities Market Association

CEO's Note

Najla M. Al Shirawi
Chief Executive Officer

With every passing year I become more and more proud of the role that SICO plays, not only as a market leader, but also as an authority on financial services in the GCC. We have successfully differentiated ourselves as an investment bank that brings true value to the market by offering a comprehensive bouquet of services that give our clients the advantage of being 'fully informed' regardless of the type of investment opportunity that they wish to pursue in Bahrain and the wider Gulf region where we are starting to establish a prominent presence.

SICO's ability to inform clients is not just a result of our award-winning research. Our vast experience as an asset manager, broker, market maker and capital markets advisory house, and our first-hand knowledge of regulatory frameworks, investor appetite and new opportunities across the financial spectrum gives us the unique ability to provide on-the-ground solutions to challenging problems.

The types of mandates that we have been fortunate enough to receive are proof of the fact that we continue to be trusted partners on some of the most complex capital markets transactions in Bahrain. After successfully executing on our IPO advisory mandate for APM Terminals, Bahrain's most successful IPO of the past decade, we were selected at the end of 2019 as issue execution advisor, receiving agent, and allotment agent for Bahrain's largest M&A deal to date.

Among the many asset management mandates we have won this year from institutional clients, we are proud of our appointment as the investment manager for Minors' Estate Directorate's fixed-income and equity fund portfolio, a small but key mandate that gives us the opportunity to enhance the value of an investment portfolio that caters to a very worthwhile cause. Such mandates are a testament to the faith that the government of Bahrain has placed in us and indicative of SICO's proven ability to deliver results across diverse investment products, risk appetites, and market conditions.

Beyond Bahrain, we have recently taken our first concrete steps towards establishing a direct presence in the Kingdom of Saudi Arabia (KSA). In November 2019, the Saudi Capital Markets Authority gave SICO regulatory approval to offer asset management services in the Kingdom. This move will further facilitate our investments in Saudi assets and allow us to provide clients with on-the-ground insights into a market that holds tremendous potential.

While this landmark development positions us on the cusp of something new and exciting, we are maintaining our prudent stance and taking a phased approach to our presence in KSA. Starting with asset management, our plan is to eventually create an entity that could offer investors SICO's full portfolio of services and allow us to capitalize on market growth on the Kingdom's upgrade to emerging market status on both the FTSE and MSCI indices, and the growing demand for regional fixed income active management capabilities. We aim to create a unique

> "We give our clients the advantage of being fully informed on any investment opportunity that they wish to pursue

business model that would create opportunities for both local and foreign investors who are looking for their first entry into the Saudi market.

As we go after new opportunities in KSA, we will simultaneously continue to broaden our client base with our market-making and brokerage businesses, attracting new clients in both the UAE and Bahrain.

Market Background

As expected, structural and fiscal reforms continued in the GCC during 2019 with VAT being introduced in Bahrain and levies of some new fees/taxes to boost non-oil revenues. Amid these reforms, GCC equity markets ended the year on strong footing in line with the most major developed and developing markets.

Kuwait was the top performer with its premier index gaining more than 30% during the year on the back of flows from index inclusion. While the Saudi market ended strongly (7% up) after successfully listing the largest IPO (1.5% of Aramco) in history in December and thereby propelling the Tadawul's market capitalization to more than USD 2.4 tn.

Bahrain was the second-best performing market in GCC, mainly led by a rally in market heavyweight, Ahli United Bank (AUB), on the back of a merger with KFH. The recent APM Terminals IPO was also tremendously successful with more than 100% return to investors in 2019, one year after listing in December 2018. The Bahrain Liquidity Fund (BLF), now in its fourth year, has played a major role in attracting capital to the market and improving the average daily traded volume (ADTV) of the Bahrain Bourse. BLF transactions in 2019 represented 31.25% of the total ADTV on the Bourse, which reached BD 1.121 million. We expect momentum to continue in 2020 with the upcoming cross listing of KFH in Bahrain as well as the execution of major projects such as the BAPCO refinery expansion and completion.

Within the fixed income space, the US Federal Reserve played its part and delivered 3 rate cuts during 2019 in an attempt to stave off a slowdown in global growth. Other investment themes that drove regional bond markets were the inclusion into the widely followed JP Morgan EM Bond Index, Brexit, and most notoriously the international trade wars, mainly between the US and China. A combination of better fiscal balances by GCC states as well as the implementation of budget deficit reducing measures helped GCC credit spreads tighten to their lowest level in four years at 134 basis points with the average yield now at just 3.16% compared to 4.65% at the start of the last year. Bahrain government bonds have in fact been one of the most compelling credit stories this year and even more so after being upgraded to a positive outlook by S&P. In total, gulf borrowers raised more than USD 100 billion in bond placements during 2019, marking a 28% y-o-y increase led by Saudi Arabia, Qatar, and the inaugural Aramco issue.

Operational Highlights

In 2019, SICO continued to outperform the market and gain momentum on the AUM front for both equities and fixed income with total assets under management reaching USD 2.1 billion up from USD 1.9 billion at the end of 2018. The 16% increase in AUM can be attributed to both new mandates and our ability to continue outperforming the market. Our asset management team has been extremely active in attracting new institutional investors and high net worth clients. Our fee-based income continued to record healthy growth increasing by 51% to BD 6.3 million from the BD 4.2 million recorded for the same period in 2018. SICO's diverse product offering under asset management continues to grow to include fixed income, money market, and real estate funds, as well as our signature, top-performing equity funds.

As we work to expand our coverage universe and increase access to global markets, we are attracting new retail brokerage clients in the UAE, where our ranking continues to improve, and Bahrain, where we have maintained our position as the number one broker for the past 21 years with more than 40% market share of total executions on the Bahrain Bourse in 2019. In Q12020, we will begin a gradual rollout of new markets in Europe and North America through our online trading platform SICO LIVE.

Despite a relatively slow year in terms of new public market transactions, the investment banking team is capping off the year with a big win as an advisor on the BD 124 million NBB-BISB M&A deal. The appointment is a strong vote of confidence in our ability to effectively advise and give guidance on valuation, optimal capital structures, distribution policy, liquidity, and restructuring on key transactions.

SICO's resounding success with the APM Terminals last year carried on into 2019 with a stellar performance on the secondary market during and after the successful completion of our 6-month, post-IPO market making mandate. In the absence of an active public market, SICO has been mandated to carry out a number of private market advisory services in 2019. The valuable advisory that we provide for these private transactions are adding much-needed depth to the market, helping investors make informed financial decisions, and opening the doors to new opportunities for both the owners and sponsors of these transactions.

Institutional Capability

With an eye on expansion and new growth opportunities, we are actively working to strengthen the team at the top. In 2019, we recruited three new senior managers including a new Head of Distribution and Business Development, a new Head of Proprietary Investments, and a new CEO for our subsidiary, SICO Funds Services (SFS).

As we grow our talent pool with a diverse set of expertise, we are also very proud of the fact that we have several team members who have worked their way up in the ranks to take on new senior positions including new Heads for Market Making, Treasury, Client Relations, and Operations, all of whom have been with SICO for more than 10 years.

The ramp-up in senior management is also creating new growth opportunities across the organization in both middle management and entry level positions. Because we are an organization that values succession planning, we have made sure that we have a solid succession strategy in place not just on the CEO and senior management levels but across the board so that everyone is clear on their future path to growth.

I believe that this strategy has proven successful because it allows us to look at the skills that will be required to achieve our future goals and then work to develop those skills internally whether that is through mentorships or professional training. We fully recognize that people are our most important asset which is why we promote from within the organization whenever possible. Mentorship is embedded in our culture and it is the responsibility of everyone within the organization to mentor the next leaders. This approach has allowed us to look at and develop the personal qualities of our people because good leadership requires more than just technical skills.

ESG

SICO has always been a socially responsible organization that believes in creating shared value for its clients, shareholders, employees, and the community at large. Building trust and partnerships amongst all of our stakeholders is something that we value deeply, which is why this year we have taken the concept of corporate social responsibility a step further and started developing a more comprehensive Environmental, Social and Governance (ESG) framework that will help shape our growth and drive our corporate initiatives.

In 2019, we also started aligning our ESG strategy with the UN Sustainable Development Goals (SDGs) with special emphasis on health and well-being, education, gender equality, innovation and responsible consumption and production.

On the environmental front, we have already begun to limit our consumption of single use plastics with a company-wide push towards re-usable water bottles, and to minimize our overall environmental footprint by declaring no-print days. While these may be small steps, we believe that they create the necessary awareness that will eventually lead to a change in day to day consumption habits. Going forward, we will look to take on more internal and external green initiatives as a part of the collective action required to combat climate change.

We continue to demonstrate our commitment to education and mentorship through the sponsorship of our ongoing signature initiatives including TradeQuest (a simulated business education program in cooperation with the Bahrain Bourse), Bahrain Fintech Bay, and the CFA Society. We also continued with our sponsorship of the Crown Prince's International Scholarship Program, an extremely worthwhile program that awards merit-based university scholarships to young Bahrainis from both public and private schools. A new education initiative that we also launched this year is a scholarship program that funds the undergraduate studies of one Bahraini student at Bangor University.

When it comes to corporate governance, we have always taken pride in the fact that we uphold the highest global standards in terms of compliance with regulatory requirements, the protection of the rights and interests of all stakeholders, the enhancement of shareholder value, and the achievement of organizational efficiency.

The Year Ahead

We are bullish about the prospects for the year ahead. SICO is now in a position that will allow us to take advantage of new opportunities and we are ready for bigger responsibilities and even better results as we look to grow outside Bahrain.

Our strategy for 2020 remains largely unchanged, but we will no doubt be more challenged as we enter new markets. I believe our number one goal will be to continue to grow our fee-based business in a manner that allows us to achieve a sustainable return on equity (ROE). Thus far, we have managed to achieve incremental growth on that front, and I believe we can continue to do so prudently and sustainably.

We will continue scaling up the business in 2020 so that SICO becomes more recognized as a name that is associated with regional capital markets, not just Bahrain. The lack of visibility that we have on the geopolitical front means that markets will remain volatile. Without clear direction on where things are headed, boutique firms will have trouble surviving. Key to our efforts to scale up and serve more clients in multiple markets will be the drive towards digitalization. We are currently investing in technology that will help us better serve our clients by expanding our reach to them and giving them better insight into their investments.

USD/BN	BD/MN	BD/MN
2.1	**6.3**	**6.0**
total AUM (16% increase y-o-y)	fee-based income (51% increase y-o-y)	net profits (63% increase y-o-y)

Simultaneous with our push towards digitalization will be a build-up of our advisory capability not only on asset management but also on portfolio allocation and monitoring. In short, we are seeking to expand our service offering so that we can provide end to end services including services for HNWI and family offices.

GCC-wide, we are looking forward to a positive 2020. I believe that there are ample opportunities for investors, and we can expect more deal flow into Saudi with the rebalancing of indices post the Aramco IPO. After a period of subdued growth in KSA, we are finally seeing promising movement in the consumer, healthcare, insurance, and banking sectors. Even with the doom and gloom for the real estate sector in the UAE, I believe that things will get better in the coming year with improving GDP growth, and we will be right there to capture the upside.

2019 may have gotten off to a slow start, but it has certainly ended on a high note for SICO with multiple transactions closing in the fourth quarter of the year. I am extremely proud of everything that we have achieved, and I am grateful for each and every member of our team who helped make those achievements possible. It has also been gratifying to receive recognition from our industry peers with a slew of awards. In addition to being named Best Investment Bank in Bahrain by Euromoney earlier this year, SICO has also been recognized for having the top equity and fixed income funds in Bahrain by the Global Banking and Finance Awards, the best broker and asset manager in the Kingdom by EMEA Finance Middle East Banking Awards, and the best research house by the Global Business Outlook Awards.

It is an honor to work with such a professional team and to have the continued support of our esteemed Board of Directors. I would like to give my heartfelt thanks to the Board, our shareholders, business partners, and clients as well as the Central Bank of Bahrain and the Bahrain Bourse. We truly value the confidence that you have placed in us as we prepare to enter a new chapter in our growth story.

Najla M. Al Shirawi
Chief Executive Officer

GCC Market Snapshot

> “Saudi Arabia’s market cap more than quadrupled after the successful listing of Aramco at USD 1.7 trillion valuations

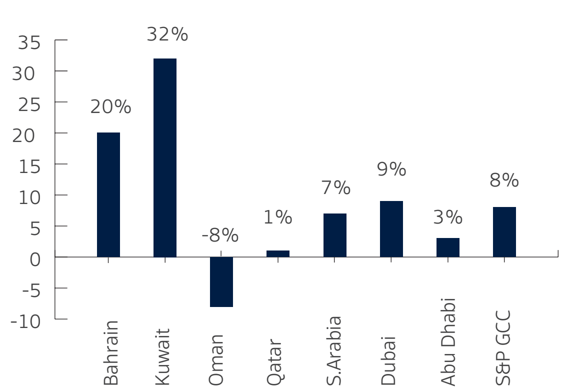
GCC markets performed strongly in 2019 in line with global markets. The S&P GCC price return index gained 8%, similar to 2018, led by Kuwait, which was a beneficiary of fund flows backed by the market’s inclusion on the FTSE EM and MSCI EM indices toward the end of 2019.

Bahrain was the second best performing market led by AUB, which rallied on the back of its merger with KFH. The biggest market, Saudi Arabia, saw market caps more than quadruple after the successful listing of Aramco at a valuation of USD 1.7 trillion. Tadawul also witnessed c. USD 27 billion in inflows from QFIs during 2019 backed by the market’s inclusion on both the MSCI EM and FTSE EM indices. The DFM gained 9% in 2019 led by a rally in index heavyweight Emirates NBD, which gained traction after announcing an increase in the FOL limit. Oman was the only market in the negative (-8%) for 2019 led by weak macros and stress on corporate earnings.

Turnover improved in Kuwait, gaining c. 90% on the back of the FTSE EM Index inclusion, as well as the ADX. Other GCC markets ended the year with turnover remaining flat or dipping slightly over the year before. Despite some improvement in Tadawul turnover after Aramco’s listing in December, broader market activity remained subdued during the year.

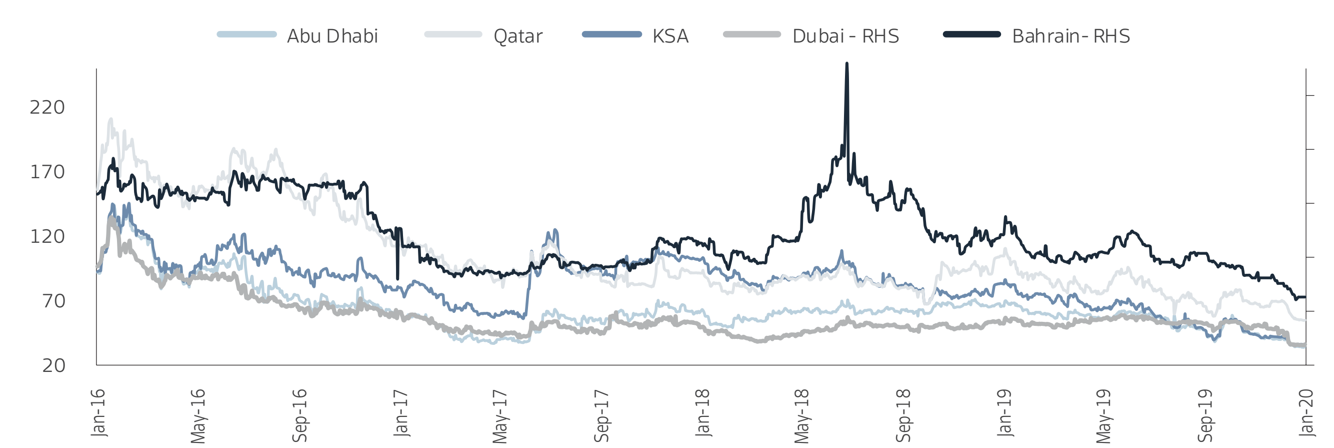
Another interesting trend across the region was compression of CDS spreads. Bahrain witnessed a maximum CDS spread compression of 115 bps, with other countries in the region following suit. Consequently yields tightened and investors chased high-yielding paper within the region as global yields compressed on the back of Fed rate cuts.

Index Returns in 2019

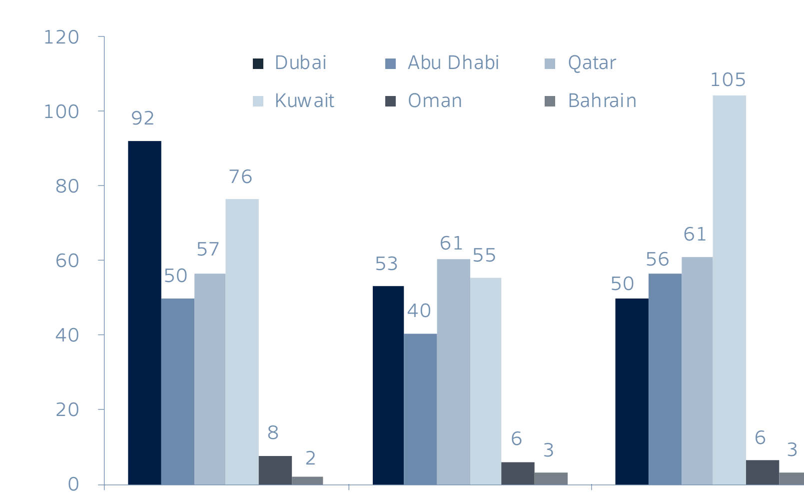


Brent price (USD/bbl)

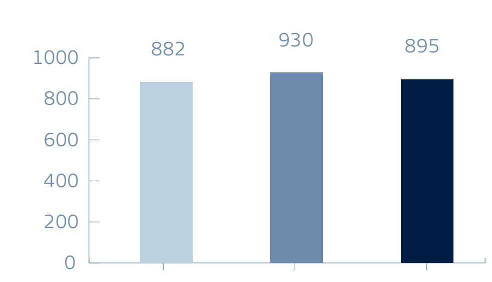
CDS Spreads (2016-2019)



GCC Average Turnover (USD mn)



Saudi Average Turnover (USD mn)

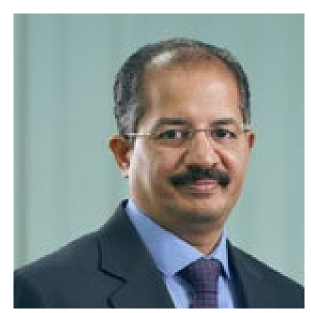


Management Team

> “SICO’s greatest asset is its world-class team of professionals who have made the bank into what it is today

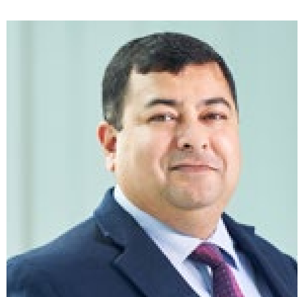
Najla Al Shirawi
Chief Executive Officer

Fadhel Makhlooq
Chief Capital Markets Officer



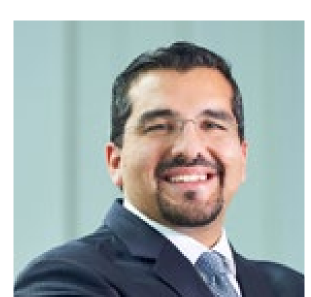
Anantha Narayanan
Chief Operating Officer

K. Shyam Krishnan
Chief Financial Officer



Shakeel Sarwar
Head of Equities Asset Management

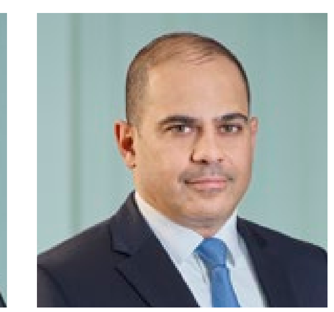
Ali Marshad
Head of Fixed Income Asset Management



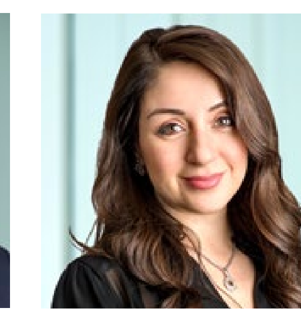
Wissam Haddad
Head of Investment Banking and Real Estate

Jithesh K. Gopi
Head of Proprietary Investments

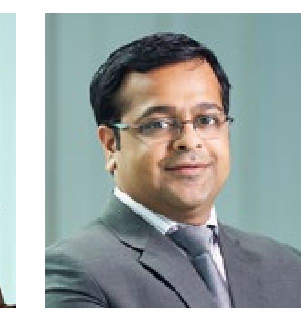
Mariam Isa
Head of Brokerage



Salman Al Sairafi
Head of Global Markets (Appointed in 2020)



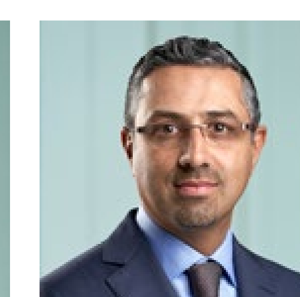
Shaikha Mohammed Kamal
Head of Market Making



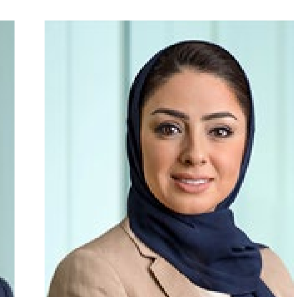
Nishit Lakhotia
Head of Research

Husain Najati
Head of Treasury

Nadeen Oweis
Head of Corporate Communications



Haitham K. Haji
Head of Distribution and Business Development



Fatima Mansoor
Head of Client Relations

Nadia Albinkhalil
Head of HR and Administration

Husain Ahmed
Head of Operations

Mohammed Ibrahim
Head of Information Technology

Simone Del Nevo
Head of Legal

Mohammed Juma
Head of Compliance

Joseph Thomas
Head of Internal Audit

Srikanth Sethuraman
Acting Head of Risk

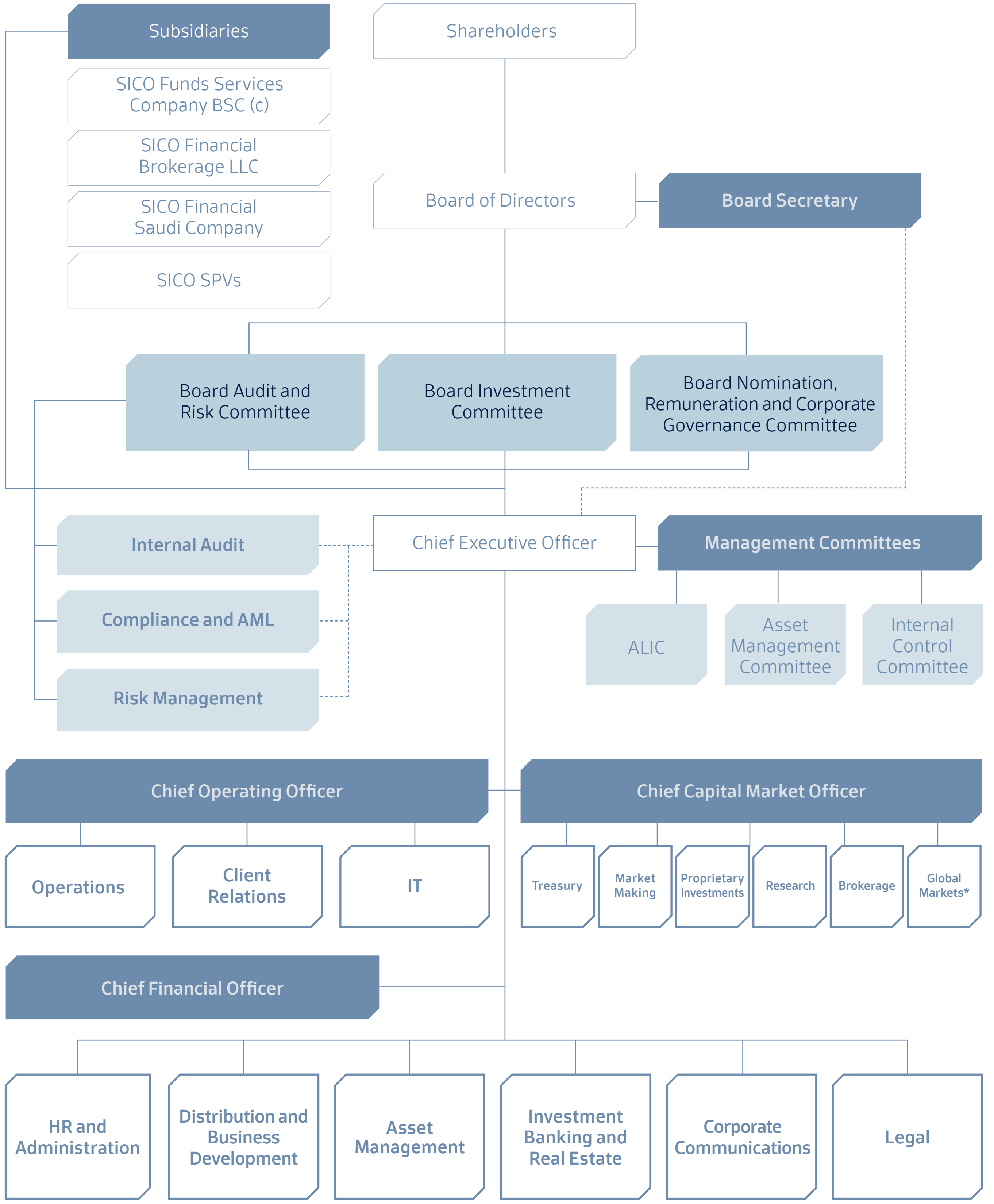
Matthew Hansen
Corporate Secretary

Subsidiaries

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

Bassam A. Khoury
General Manager, SICO Financial Brokerage LLC

Organization Chart



*Established in 2019

2019 FINANCIAL PERFORMANCE

SICO delivered strong top and bottom line growth on the back of multiple mandates throughout the year that attest to its position as a trusted partner on some of the most complex regional transactions

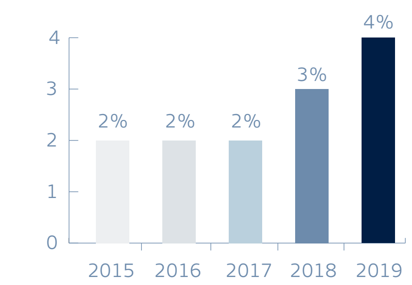
2019 Financial Highlights

BD/MN 1.41 Net Interest Income	BD/MN 4.32 Net Investment Income	BD/MN 1.39 Brokerage Income
BD/MN 1.01 2018	BD/MN 3.05 2018	BD/MN 1.25 2018

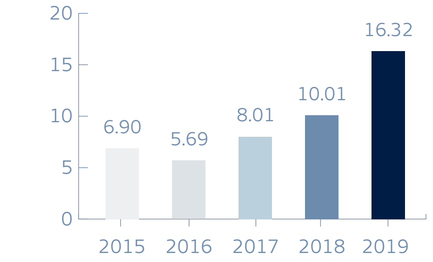
BD/MN 6.16 Asset Management Income and Other Fee Income	BD/MN 1.23 Other Income	BD/MN 0.11 Investment Banking Income
BD/MN 3.87 2018	BD/MN 1.27 2018	BD/MN 0.29 2018

> SICO's growth in 2019 was driven primarily by an increase in the bank's net fee income and net investment income.

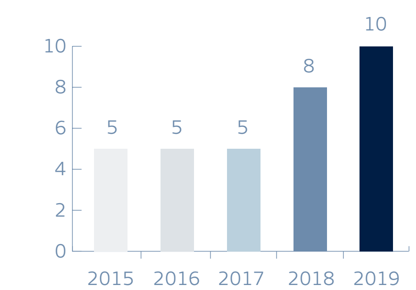
Return on Average Assets
Annual Ratio



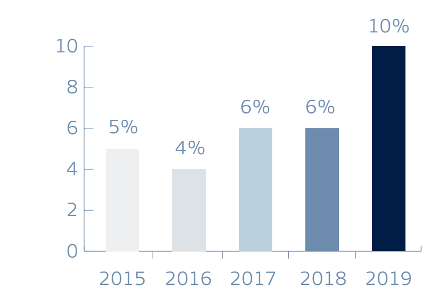
Earnings per Share (Fils)



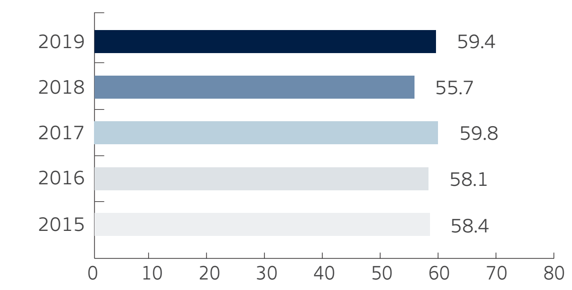
Dividends per Share (Fils)



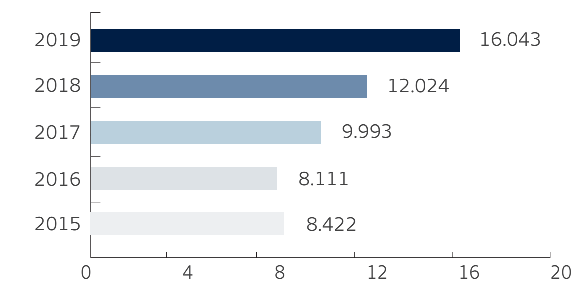
Return on Average Equity
Annual Ratio



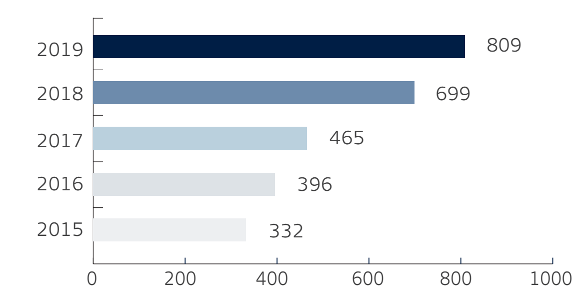
Shareholders' Equity BD mn



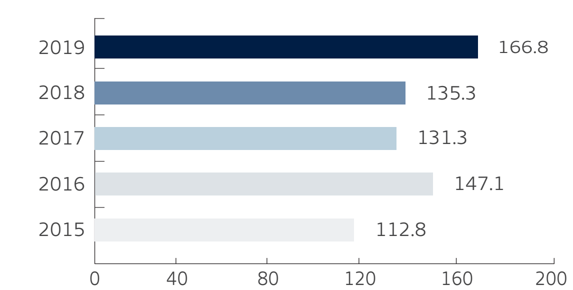
Total Revenues BD mn



Assets Under Management BD mn



Total Assets BD mn



Management Discussion and Analysis

SICO capitalized on favorable market dynamics to drive rapid top- and bottom-line expansions during 2019. The bank's core market of Bahrain was one of the GCC's standout performers during the year, boosted by the success of high-profile acquisitions and IPOs. Meanwhile, inflows from Kuwait's inclusion in FTSE EM Index and Saudi Arabia's inclusion in both MSCI and FTSE Emerging Markets Index added to the momentum on both the indices. Saudi Arabia also successfully closed its historic IPO of Aramco on the Tadawul. On the fixed income front, GCC markets delivered a record performance in 2019, yielding returns of 15.0% on the back of a favorable monetary policy environment and improving fiscal positions.

SICO's strategy for 2019 emphasized the continuous expansion of the bank's coverage footprint, as well as efforts to attract new mandates, grow the bank's base of institutional, brokerage and high-net-worth clients and further diversification of its product offering. Successful implementation of this strategy yielded rapid and broad-based growth in SICO's recurring fee-based income, with this expansion efficiently filtering down to the bottom line.

Consolidated net profit recorded BD 6.0 million for 2019, an increase of 63% from the figure booked in 2018. Bottom-line expansion was driven by a year-on-year increase of 36% in SICO's net operating income, which booked BD 14.6 million for 2019. SICO continued to closely control operating expenses, including staff and other unit-level costs, during the year, ensuring the significant growth of the bank. Other comprehensive income recorded BD 0.8 million in 2019, yielding a total comprehensive income of BD 6.8 million for the year, up by 81% from the figure recorded one year previously.

Earnings per share came in at 16.32 Bahraini fils per share for 2019, an increase of 63% on the 10.01 fils per share recorded in 2018. This increase reflects SICO's ability to capture the year's positive business trends as efficiently as possible.

I. Appropriations

SICO's Board of Directors has recommended a cash dividend of 10% of the share capital, equivalent to 10 Bahraini fils per share, subject to the approval of the Central Bank of Bahrain and the General Assembly. As a proportion of the bank's share capital, the amount proposed by the Board of Directors was up from the cash dividend distributed in 2018 of 8% of the same capital, reflecting SICO's continued ability to outperform the broader market and deliver sustainable shareholder value.

II. Asset Management

SICO's Asset Under Management (AUMs) stood at USD 2.1 billion by year-end 2019, up 16% from USD 1.9 billion as of December 2018. The increase was driven by both, an uptick in net subscriptions as SICO continued to be the asset manager of choice, as well market appreciation of its existing mandates. The active management of various client equity portfolios and SICO funds resulted in significant outperformance compared to benchmark indicies. This helped boost performance fee income to BD 2.2 million, up from BD 0.4 million in 2018.

SICO witnessed a more than doubling of Fixed Income AUM to USD 427 million during the year, as well as a rapid appreciation in SICO's Khaleej Equity Fund, which completed a second consecutive year as the top-performing regional equity fund. Meanwhile, SICO's Saudi-focused Kingdom Equity Fund generated returns exceeding 20% for the second consecutive year.

Management fees registered BD 3.6 million in 2019, up from BD 3.1 million in the previous year.

III. Securities Brokerage

Despite a degree of volatility in global markets on account of geopolitical and economic concerns, in 2019 SICO Brokerage successfully maintained its first place standing on the Bahraini Bourse – a distinction SICO has held for 21 consecutive years. Operating across both the equity and fixed income spaces, SICO offers brokerage services out of Bahrain and through a fully owned subsidiary SICO Financial Brokerage, based in Abu Dhabi, UAE.

SICO booked steady overall brokerage income in 2019, with its Abu Dhabi operation seeing a recovery following difficulties during 2018.

IV. Investment Banking and Real Estate

In 2019 SICO Investment Banking further consolidated its position as Bahrain's leading authority on equity and debt capital markets. This preeminent position was further confirmed when SICO received a mandate to act as issue execution adviser, receiving agent and allotment agent in the acquisition of Bahrain Islamic Bank (BISB) by the National Bank of Bahrain (NBB). The transaction, involving two of the Kingdom's largest financial institutions, saw SICO Investment Banking advise NBB on the various processes required to ensure a successful deal and manage the participation of BISB shareholders in the offer. The transaction further cemented SICO Investment Banking's role as the adviser of choice on high-profile Bahraini M&A deals and IPOs.

Later in 2019, a landmark transaction saw SICO's Investment Banking Division mandated by Kuwait Finance House as Bahrain receiving agent, Bahrain execution advisor, and cross-listing advisor in KFH's offer to acquire Ahli United Bank.

> “ The bank’s core market of Bahrain was one of the GCC’s standout performers during the year, boosted by the success of high-profile acquisitions and IPOs

V. Proprietary Investments

In 2019, SICO worked to limit the downside risk associated with its overall portfolio, using derivatives in its fair value through profit or loss (FVTPL) to hedge its positions during periods of excessive volatility in global markets, while maintaining active exposure to equity and debt capital markets. SICO’s fair value through other comprehensive income (FVOCI) portfolio focused on medium-term, regional financial assets, supplementing returns from these through an increased weighting for traded real estate instruments. The bank’s proprietary book generated net investment income of BD 4.32 million in 2019, up from BD 3.05 million in 2018.

VI. Treasury

Despite the reversal of interest rate increases by the Federal Reserve and the Central Bank of Bahrain in 2019, SICO’s Treasury Division delivered solid performance in 2019.

Treasury achieved BD 1.4 million in net interest income for 2019, representing a 40% y-o-y increase over the BD 1 million booked in 2018. FX income contributed BD 709 thousand to overall Treasury income for the year. SICO continued to maintain a sound and liquid balance sheet in 2019, with a capital adequacy ratio of 63.57%.

VII. Market Making

SICO won its first market making mandate in the UAE in 2019, acting as liquidity provider for the cross-listing of GFH Financial Group on the Dubai Financial Market. The bank also successfully executed market making mandates for APMT and BATELCO, among others, on the Bahrain Bourse, maintaining SICO’s position as the Kingdom’s leading market maker. SICO’s total market making income recorded BD 591 thousand in 2019, up from the BD 583 thousand booked one year previously.

2019 OPERATIONAL REVIEW

SICO secured new asset management mandates and won several new advisory mandates on high-profile transactions, including the acquisition of Bahrain Islamic Bank by the National Bank of Bahrain

Asset Management

Overview

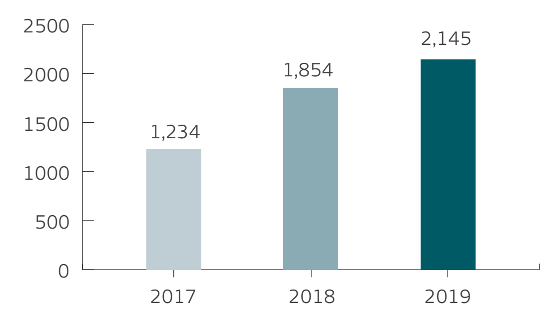
SICO's team of seasoned asset managers and investment professionals have consistently generated exceptional returns by utilizing an innovative, research-intensive investment strategy with an emphasis on methodical stock picking and prudent risk management across multiple asset classes in the GCC.

SICO continues to lead the market and gain the confidence of a loyal and expanding base of institutional and high net worth clients across the GCC. 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.

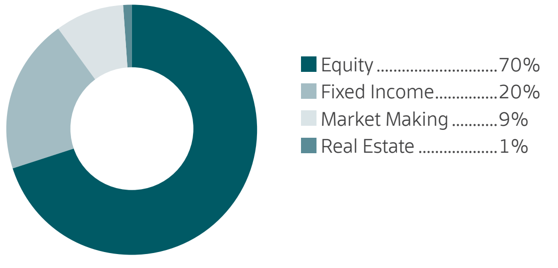
The asset management team also manages third party funds on behalf of leading regional financial institutions. SICO's signature equity and fixed income funds have consistently outperformed their respective benchmarks earning top spots on the league tables year after year.

AUM Growth

USD mn

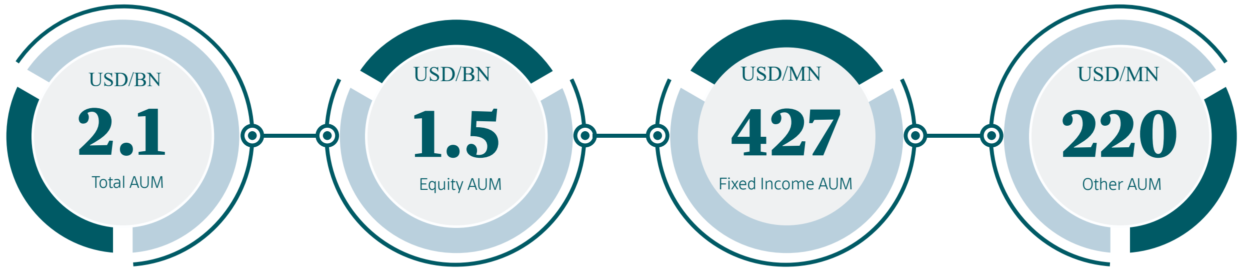


AUM by Asset Class



2019 Asset Management Highlights

- Acquired asset management license from the Saudi CMA
- Reached total AUM of USD 2.1 billion
- More than doubled fixed income AUM to USD 427 million
- Khaleej Equity Fund was the top performing regional fund for the second consecutive year, generating a return of 23.5%
- SICO Kingdom Equity Fund, a fund dedicated to investing in the Saudi market, is one of the most successful Saudi dedicated funds, generating returns in excess of 20% for the second consecutive year
- Appointed as investment manager for Minors' Estate Directorate's fixed income and equity fund portfolio



2019 Operational Review

While the year began on a high note with GCC equity markets performing exceptionally well in the first half of 2019, the second half of the year witnessed significant profit-taking with markets across the region giving up much of their gains. Despite the volatility, SICO Asset Management delivered a 16% increase in total AUMs, which grew to USD 2.1 billion from USD 1.9 billion at the end of 2018.

In line with a long-term regional expansion strategy to generate cross-market synergies and create new value for investors, SICO capped off the year with a new license from the Saudi Capital Markets Authority (CMA) to extend asset management services in KSA. SICO's direct penetration of the Saudi market positions the Bank strategically to serve a wider range of investors, including institutions, sovereign wealth funds, family offices, and private banks in a market that boasts tremendous potential. The new license represents a crucial pivot in the evolution of SICO's asset management business and an opportunity to build a dedicated on-the-ground team.

In 2019, among a number of new mandates, SICO's Asset Management Division was appointed by Bahrain's Ministry of Justice, Islamic Affairs and Endowments as the investment manager for the fixed-income and equity portfolio of the Minors' Estate Directorate. The new mandate will entail the management of a USD 20 million portfolio with the aim of creating more long-term value and enhancing income and dividend distribution payouts for its benefactors.

Equities

SICO's Equity Asset Management Team manages three equity funds, including its top-performing SICO Kingdom Equity Fund (SKEF) and Khaleej Equity Fund (KEF) together with several discretionary portfolio management accounts. All of SICO's equity funds continued to outperform exceeding 2018 figures with an increase of over 20% on the back of solid stock picking, driving SICO's equity AUMs to USD 1.5 billion up from USD 1.3 billion in 2018 despite a significant wave of redemptions in the second half of the year.

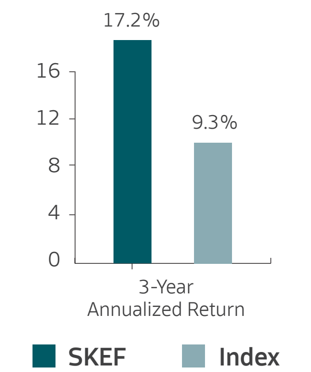
The equities division has developed a robust pipeline of mandates from key institutional clients in the region, all of which are expected to materialize in 2020.

SICO's flagship, Khaleej Equity Fund, which invests in equities listed on stock markets in the GCC and Egypt, ended 2019 with a return of 23.5%; maintaining its position as one of the top performing funds in the GCC.

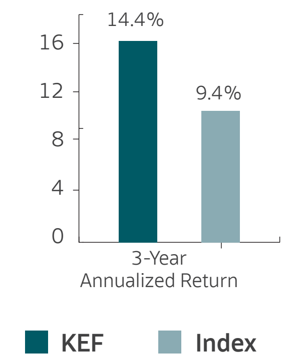
SICO's top-performing Kingdom Equity Fund, an equity fund that gives investors exposure to the Saudi equity market, continues to outperform the league tables delivering positive returns of 22.5% in 2019. This was the second year in a row in which the fund produced returns in excess of 20%.

SICO's Asset Management continues to successfully manage external funds on behalf of Riyad Bank and Al Ahli Bank of Kuwait, a 15-year long relationship that has seen SICO generate solid returns for both funds.

SICO Kingdom Equity Fund



Khaleej Equity Fund



SICO Fund Performance 2019

Fund Name	Launch Date	Principal Investment Focus	Benchmark	Peer Group	Return (January - December 2019)	Annualized Return
Khaleej Equity Fund	March 2004	Equity securities listed on stock markets of GCC countries	S&P GCC Index	GCC	23.5% vs benchmark 12.5%	14.4% vs benchmark 9.4% (last three years)
SICO Kingdom Equity Fund	February 2011	Equity securities listed in Saudi Arabia	Tadawul	Equity Saudi	22.5% vs benchmark 11.9%	17.2% vs benchmark 9.3% (last three 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	10.6% vs benchmark 15.0%	5.2% vs benchmark 6.2% (last three years)

Fixed Income

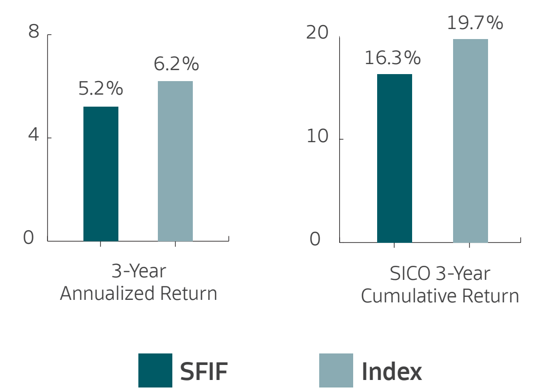
2019 was a historic year for fixed income in the GCC. As the year drew to a close, investors saw double-digit returns with the market achieving a milestone 15% at year-end, the region's best performance to date on the back of budget deficit reducing measures that saw GCC credit spreads tighten to their lowest level in four years at 134 basis points, with the average yield now at just 3.16% compared to 4.65% at the start of the last year. The US Federal Reserve also played a role and delivered three rate cuts during the year to stave off a slowdown in global growth. Additional developments that drove regional bond markets included inclusion into the widely followed JP Morgan EM Bond index, Brexit, and most notoriously the international trade wars mainly between the US and China.

Against this backdrop, SICO's fixed income asset management business more than doubled its AUMs in 2019 to USD 427 million up from USD 211 million in 2018. In addition to doubling its assets, the division also diversified its geographical reach in the region in terms of the sourcing of AUMs and grew its number of clients.

The flagship SICO Fixed Income Fund generated returns of 10.6% during 2019 in what transpired to become one of the best years for GCC fixed income. The Fund's strong performance was primarily driven by lower benchmark rates after US Federal Reserve cut its rates, pushing up bond prices in the process. The Fund was, however, also well exposed to take advantage of other investment themes that drove regional bond performance such as inclusion into the widely followed JP Morgan EM Bond index, Brexit as well as international trade wars, mainly between the US and China. The Fund also swapped duration risk with credit risk and benefited from a combination of better fiscal balances and the implementation of budget deficit reducing measures by GCC states. The team's strategy to overweight Bahrain also worked in the Fund's favor as it ended the year as the best performing GCC sovereign fund, on the back of improving economic conditions and fiscal reforms, setting up the kingdom as a prime candidate for a rating upgrade in 2020.

The team managed to capitalize on positive market developments to secure a number of advisory mandates in 2019 as well as their first money market portfolio, representing a further diversification of asset classes and mandate coverage.

SICO Fixed Income Fund Growth



Real Estate

SICO's real estate asset management activities include the sub-investment management of the USD 35 million Eskan Bank Realty Income Trust (EBRIT), a Sharia-compliant real estate investment trust (REIT) that invests in properties in Bahrain. Despite the liquidation of SICO's USD 55 million US Real Estate Fund due to unfavorable market conditions, SICO continues to manage US properties that will eventually be liquidated as well.

2020 Outlook

In 2020, GCC bonds are expected to deliver total returns of about 4%, driven by carry trades on the back of solid regional fundamentals, easy monetary policy and an uptick in US treasury yields. Steepening across the curve is anticipated and growth takes the reins as the main driver of risk asset returns with easier financial conditions starting to filter through with global tensions beginning to ease, favoring emerging market and high yield bonds. Probable catalysts might materialize toward the end of the year with the Dubai Expo 2020 beginning in October and Saudi Arabia hosting the G20 summit in November. Nevertheless, it will be the outcome of the US and China trade war that will ultimately determine the path of future bond prices. On one hand, both have strong incentives to hit pause on their trade conflict across 2020, but it is also equally unlikely that a convincing deal will emerge given each nation's strong stance.

Against this backdrop, SICO's Asset Management Division has ambitious plans for the year ahead for both the equities and fixed income sides of the business.

Brokerage

Overview

SICO Securities Brokerage has been ranked as the number one broker on the Bahrain Bourse for 21 consecutive years and has established reputational excellence across the region as a one-stop-shop for equities and fixed income with an experienced team of dedicated brokers backed by superior in-house research capabilities.

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

The Brokerage Division offers a range of investment products including direct securities, such as equities, bonds, and sukuks, as well as single-product brokerage across the GCC and the wider MENA region, margin trading facilities for equities, and repurchase agreements (repos) for fixed income. SICO's Fixed Income Trading Desk, active since 2011, has also established itself as a market leader in the industry.

2019 Operational Review

2019 proved to be a challenging year for Brokerage due to a global climate of uncertainty and geopolitical challenges. Nonetheless, SICO Brokerage maintained its first place standing on the Bahrain Bourse and increased its market share of the traded value to 41.25% up from 39.06% in 2018.

The team traded a total of 915,828,139 shares through 16,828 transactions, amounting to 40.62% of total market executions on the Bahrain Bourse.

SICO remained the broker of choice for institutional clients, who make up 70% of its client base as well as ultrahigh net-worth individuals who rely on SICO's unparalleled capabilities in the equities and fixed income spaces.

New achievements in 2019 included an expansion of SICO's online trading platform, SICO LIVE, which offers clients seamless multi-market access across key stock markets in the GCC and Egypt, which was added in 2019, from a single account, granting them the ability to trade in real time and access SICO's world-class research products from any device, no matter where they are.

2019 Brokerage Highlights

- Continued to expand market share both in Bahrain and the UAE
- SICO Financial Brokerage achieved highest revenue since inception

The online trading platform is working to expand its scope beyond regional markets to include international markets in North America and Europe. This expanded access is expected to grow SICO's retail client base even further as the market becomes more aware of the superior capabilities of SICO LIVE and the ease with which they can now trade international markets and have access to quality research.

SICO Performance on Bahrain Bourse (2019)

	Amount	Market Share	Ranking
Total value of shares traded	BD 236,271,921	41.25%	1
Total volume of shares traded	915,828,139	39.57%	1
Total number of transactions	16,828	40.62%	1

SICO Financial Brokerage

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

In 2019, SFB significantly improved its ranking and market share on the DFM moving up seven notches to number 10 up from number 17 in 2018 with total traded value outpacing the markets by over 15%.

Commission revenue increased to AED 4.4 million in 2019, compared to AED 3.1 million in 2018, a 36% improvement year on year. Interest revenue from margin activity and deposits also increased to AED 1.32 million in 2019, compared to AED 1.08 million in 2018, an increase of 23%. All in all, total revenue for the year was the highest ever achieved by SFB since inception. SFB also witnessed an increase in retail margin activity and steady growth in institutional business.

Fixed Income

In 2019, Fixed Income trading volumes reached USD 1.32 billion, compared to the USD 1.27 billion recorded in 2018, a 4% increase y-o-y.

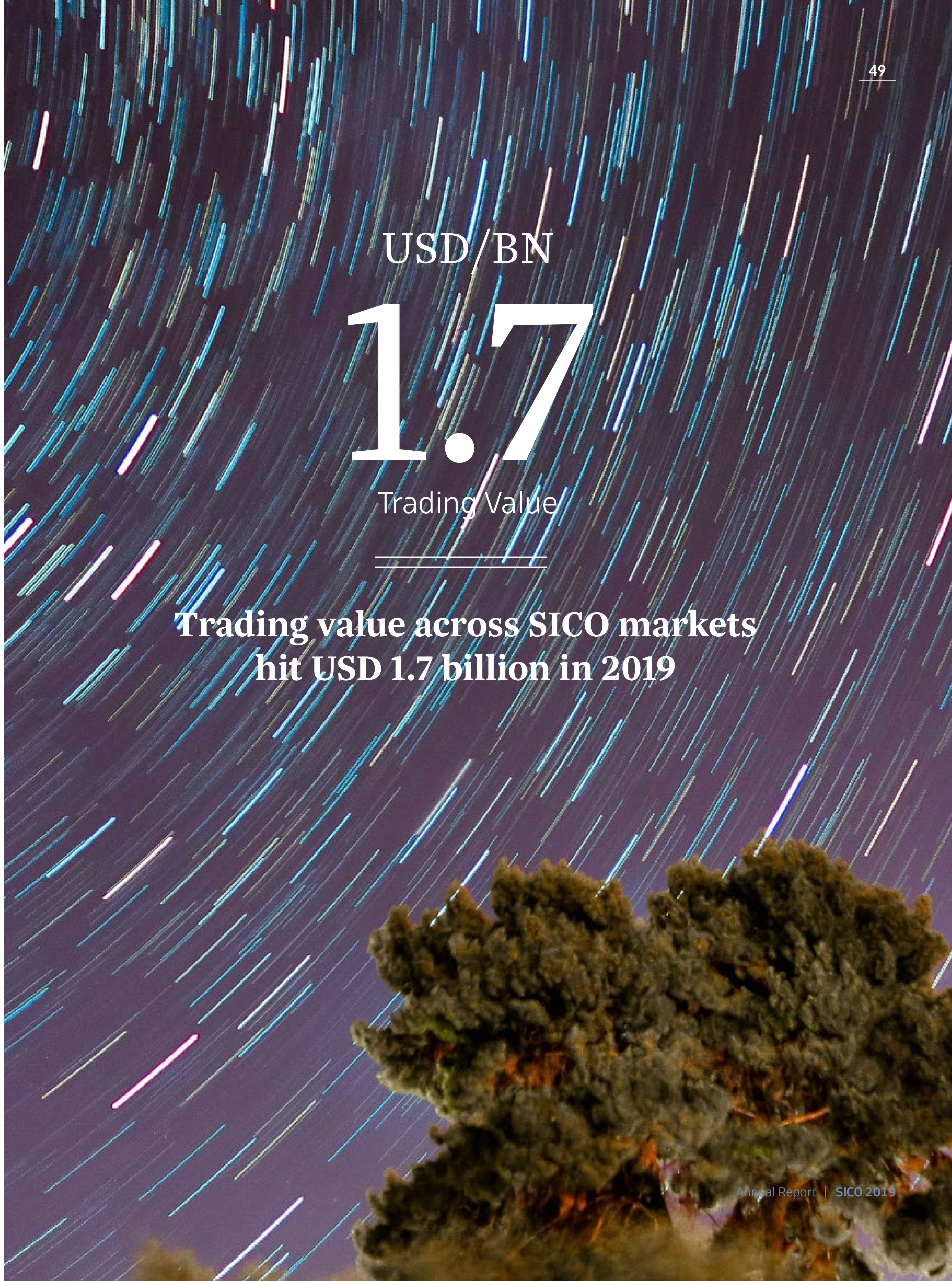
In a further effort to cater to the needs of retail clients wishing to raise short-term capital to finance the purchase of securities and other investments, the Brokerage Division introduced repos (repurchase agreements) for retail clients. The total repo book for institutional clients grew from USD 42 million to USD 137 million, representing an increase of over 44% y-o-y.

In spite of these challenges, SICO continued to leverage its capabilities, track record of success, and highly experienced team of professionals in order to cement its position as a leading broker in the fixed income space.

2020 Outlook

Going into 2020, Securities Brokerage will continue to face challenging market conditions, but with a solid track record, expanding market share in Bahrain and the UAE, and more streamlined client-facing services such as the expansion and upgrade of online trading capabilities, the Division remains in a strong position to withstand market headwinds.

The Brokerage team will also leverage its capabilities in order to develop tailored advisory services for its clients targeted to meet their investment and trading needs both locally and regionally.



Investment Banking

Overview

SICO Investment Banking has successfully cemented its position as the leading advisor on Bahrain's equity and debt capital markets transactions and as the partner of choice on high-profile IPO's and M&A deals in the Kingdom. The Investment Banking Division's team of professionals also delivers unique corporate and private advisory services including real estate advisory, capital restructuring, listing and cross-listing, fund set-up, business valuation, privatization, and underwriting.

Over the years, the Investment Banking Division has taken the lead on a number of landmark transactions such as the Eskan Bank REIT, Bahrain's first listed REIT (which the team continues to manage), 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, the APM Terminals IPO, Bahrain's most successful IPO in the past decade, and most recently, the acquisition of Bahrain Islamic Bank (BISB) by National Bank of Bahrain (NBB), one of the largest M&A transactions in the Kingdom to date.

2019 Operational Review

The Investment Banking Division continued to achieve new operational milestones in 2019 capping off the year as the mandated issue execution advisor, receiving agent, and allotment agent in the acquisition of BISB by NBB, two of Bahrain's most prominent banks, amid an ongoing wave of M&As in the GCC banking sector. The appointment stands as a testament to SICO's 20-plus year track record as lead advisor on key transactions and to its position as a trusted local partner with unparalleled on-the-ground expertise in the Bahraini banking sector.

The BD 62 million deal saw NBB acquiring from the public market an additional 49.8% shares in BISB, on top of the 29.1% it already owned in BISB, to consolidate a post-transaction ownership of 78.8% in BISB, resulting in the consolidated NBB and BISB market capitalization to reach approximately BD 1.13 billion following the acquisition. As the issue execution advisor and receiving and allotment agent, SICO advised NBB on the various processes required for successful closure and received and managed the process of BISB shareholders participating in the offer including the announcement of satisfied conditionality thresholds and the settlement of payment and share issuance by NBB. The entire transaction was processed seamlessly in line with the Central Bank of Bahrain's rules and regulations.

The Division also received a key mandate in 2019 as Bahrain Receiving Agent and Execution Advisor for the cross listing of Kuwait Finance House's offer to acquire 100% of Ahli United Bank, a full mandate that is expected to close in May 2020.

Additionally, in the education sector, SICO was mandated by a reputable local university to arrange up to BD 12 million in debt financing from both commercial banks and multilateral development banks for the construction of a new university campus in Bahrain.

2019 Investment Banking Highlights

- Mandated as issue execution advisor, receiving agent, and allotment agent in National Bank of Bahrain acquisition of Bahrain Islamic Bank
- Mandated as Bahrain Receiving Agent, Execution Advisor for cross listing of Kuwait Finance House offer to acquire 100% of Ahli United Bank
- Mandated to arrange debt financing for a leading university in Bahrain
- Ongoing sub-investment manager of Eskan Bank Reality Income Trust for 3 years

The Investment Banking Division's expertise in providing discrete private advisory services to businesses, government entities, and high-net-worth individuals came into play during the course of the year with the provision of private placement services to a large minority shareholder in a company in the real estate sector. The Investment Banking team conducted a valuation of the stake available for sale and prepared an investor presentation, which is currently used to market the transaction to potential private buyers.

In the insurance sector, SICO's corporate advisory services were tapped by a leading insurance group in Bahrain to address their need for an increase in capital adequacy through portfolio rebalancing without an immediate capital injection. Additionally, the team also provided the same insurance group with white label services during the course of the year.

> "SICO is the advisor of choice on all high-profile IPO's and M&A deals in the Kingdom of Bahrain

NBB-BISB Deal Stats

78.8%	529mn	93.55%	6.45%	0.117 BHD share	0.167
acquisition of BisB by NBB	acceptances ordinary shares of BISB	acceptances from institutions	acceptances from individuals	cash offer	share exchange ratio of NBB shares per BisB share

2020 Outlook

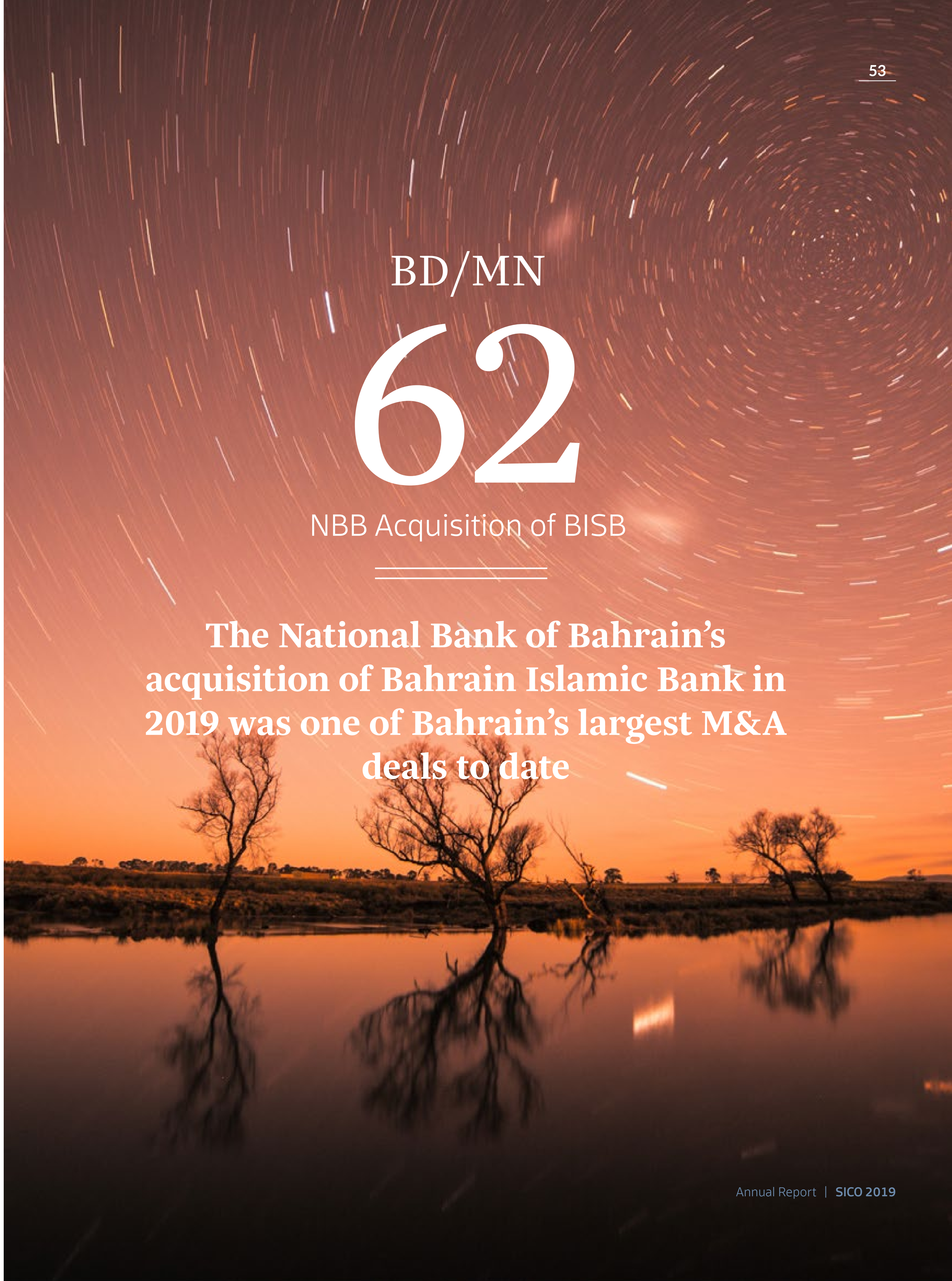
Going into 2020, the Investment Banking Division will build on momentum gained in 2019. As witnessed in 2019, the M&A wave across the financial services sector is expected to continue in 2020 and SICO, with its rich and recent track record of successful M&As, is poised to participate in more of these anticipated transactions.

Additionally, other sectors such as food and beverages have shown potential for consolidation and the Investment Banking Division is closely monitoring them to identify potential opportunities for the department. SICO will also continue its efforts to increase awareness about the Bahrain Investment Market (BIM) and encourage fast-growing companies in the kingdom with potential to list their shares in the BIM with SICO acting as their financial advisor and sponsor for the listing.

The continued diversification from energy by regional governments and their efforts towards fiscal consolidation is likely to push through privatizations, with recent announcements of potential IPOs for Bahrain's airport and related entities. REITs are also expected to pick up as Bahrain's sovereign interest rates continue to tighten following the successful launch and implementation of the government's Fiscal Balance Program.

Apart from its capital market advisory and the M&A mandates, SICO will also continue to provide and expand its advisory services provided to private sector entities and family businesses.

The Division looks forward to the potential for expansion in Saudi Arabia after SICO received regulatory approval from the Saudi Capital Markets Authority to offer asset management services in the Kingdom. The Investment Banking Division is hopeful that an on-the-ground asset management presence in the GCC's largest market can be a stepping stone towards the full execution of SICO's regional expansion strategy by extending capital markets transaction services in the Kingdom.



Treasury

Overview

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

2019 Operational Review

SICO's Treasury Division weathered multiple challenges brought on by shifts in the macro environment including the reversal of interest rates by the FED and CBB in 2019. The Division managed to deliver a solid performance with interest income playing a substantial role during the year. Despite three interest rate cuts, Treasury achieved net interest income of BD 1.4 million in 2019. Foreign exchange income was bolstered with a contribution of BD 709 thousand as a result of the generally positive performance of active markets during the year. SICO maintained a sound and liquid balance sheet throughout 2019, with a capital adequacy ratio of more than 50%, remaining substantially above the CBB's minimum requirement. The impressive results were made possible by utilizing a flexible, client-focus approach that directly addresses their needs through tailor-made solutions.

63.57%
Capital Adequacy Ratio

BD
1.4 mn
Net Interest Income

> “Treasury delivered a solid performance with interest income playing a substantial role during the year

2019 Treasury Highlights

- Proactively provided liquidity solutions for all lines of business within SICO
- Expanded relationships with counterparties throughout the region
- Pursued a more client-centric approach to directly address the needs of clients
- Bolstered foreign exchange income with a contribution of BD 709 thousand

Proprietary Investments

> In 2019, the focus was on limiting downside risk while taking active exposures to both equity and debt markets

Overview

The Proprietary Investments Division's primary focus is on 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. Focusing 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.

2019 Operational Review

The proprietary book contributed positively to SICO's bottom line in 2019. 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 2019, active management of equity and debt exposures enhanced returns, while partial hedging of exposures using derivatives, mainly in global markets, limited downside risks during periods of excessive volatility. The focus has been to limit the downside risk of the overall portfolio while taking active exposures to both equity and debt 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. Inclusion of more traded real estate instruments enhanced portfolio income while also providing capital appreciation due to their attractive entry points. 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 4.315 million in 2019, compared to BD 3.050 million during the previous year.

2019 Proprietary Investments Highlights

- Increased Investments in yielding assets with lower or no correlation to equity markets
- Began using hedging strategies to safeguard gains and limit downside risks
- Achieved positive returns for 12 consecutive months on the direct book

2020 Outlook

After a strong performance in 2019, capital markets and risky assets are expected to witness higher levels of volatility during 2020 given elevated valuation levels, geopolitical concerns, US elections, and global trade concerns. 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.

Market Making

Overview

SICO has played a leading role as the premier market maker on the Bahrain Bourse for the past 25 years helping to create the depth and liquidity that investors need to gain confidence in the market. Currently 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 both the bid and offer side and narrow price spreads.

For the past four years, SICO has also been the investment manager of the BD 42.5 million Bahrain Liquidity Fund (BLF), a fund that SICO established and co-seeded with leading Bahrain-based financial institutions, including Bahrain Mumtalakat Holding Company, BBK, NBB, and Osool, to improve liquidity and enhance market depth. The fund also seeks to create absolute returns to investors around the level of market returns. Since its launch in 2016, BLF has had a remarkably positive impact on investor sentiment, market volumes, valuations, and performance.

2019 Operational Review

Leveraging on its success as a market maker in Bahrain, 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. After being awarded the license in 2018, the division won its first UAE mandate as liquidity provider for the cross-listing of GFH (Gulf Financial Holdings) on the DFM. SICO is also the market maker for GFH on the Bahrain Bourse.

As the designated market maker for APM Terminals (APMT) for a period of six months post-IPO, SICO created the liquidity needed on both buy and sell sides reflecting the true value of the company and helping to build investor confidence going forward. During the six-month mandate, APMT share price appreciated by more than 30%.

After receiving approval from the Central Bank of Bahrain (CBB) to act as the sole market maker for Bahrain Telecommunications Company (BATELCO) in 2018, SICO began executing the mandate in January 2019 and has succeeded in doubling BATELCO's average daily traded value (ADTV) by the end of the year, factoring price appreciation of around 38%, and further reflecting the true value of the stock.

The Division's signature fund, BLF, continued to make a significant positive impact on the ADTV of the Bahrain Bourse. While the Fund has been reduced in size from BD 42.5 million to BD 39.5 million due to a 10% payback to shareholders, ADTV on the Bourse continued to grow in 2019 reaching BD 1.121 million, an increase of 3.6% y-o-y. Total BLF transactions in 2019 represented 31.25% of the total ADTV on the Bourse versus 22% in 2018, a testament to the successful role that the fund continues to play as a liquidity provider.

2019 Market Making Highlights

- Maintained position as leading market maker in Bahrain
- Won first UAE mandate as liquidity provider for the cross-listing of GFH on the Dubai Financial Market (DFM)
- Bahrain Liquidity Fund (BLF), currently in its fourth year, helped increase the average daily traded value (ADTV) on Bahrain Bourse
- Successfully executed the market making mandate for APMT on the Bahrain Bourse

BLF generated an 8.19% annual return on capital (including cash dividends distributed to unit holders).

2020 Outlook

On the back of a strong 2019 market performance that saw a 20.4% increase in the Bahrain All Share Index, the second-best performer in the GCC, Market Making looks forward to a positive year ahead supported by strong fundamentals and generous yields. The Division will continue working to capture new market share in Bahrain and further to expand in GCC markets.

> "BLF continues to be a significant liquidity provider accounting for 31.25% of the total ADTV on the Bahrain Bourse

Research

> SICO Research has incrementally increased both the quality and scope of its in-depth proprietary research to cover more than 80 companies across 13 key regional sectors

Overview

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 Research 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 13 key regional sectors. SICO Research is known for its objectivity and thoroughness. The Research Division 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.

2019 Operational Review

In 2019, SICO Research continued to expand its coverage universe to include three new companies across the consumer, logistics, and leasing sectors. The Division published more than 800 reports during the year, including periodicals.

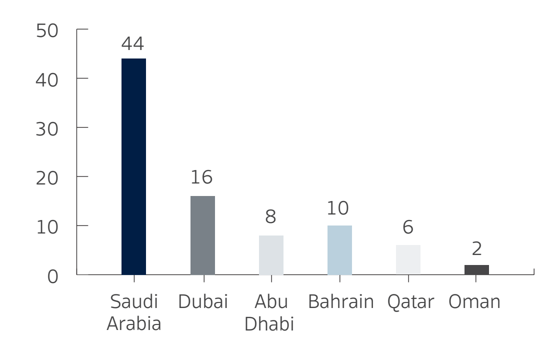
SICO Research had a strong year in terms of providing successful alpha generating calls where its Top–12 Picks for 2019 published in the Annual GCC Strategy Report (dated 11 February 2019) generated 25% return, outperforming the benchmark index return of 6.3% by a significant margin.

SICO Research's monthly Top–20 Picks newsletter, which lists the top 20 stocks across GCC in multiple sectors achieved returns of 30.7% in 2019 versus the 12.5% return of the S&P GCC total return index.

In addition to written research products and client support activities, 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.

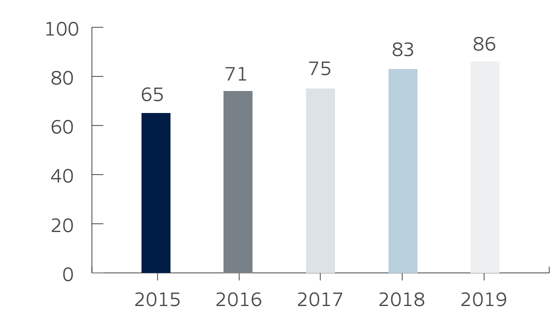
SICO Research Coverage by Country

Key GCC Countries*



*Total number of companies by country

SICO Research Company Coverage



Companies Under Coverage by Sector

Industrials and Utilities	Telecoms	Banks	Real Estate and Construction	Consumer	Logistics and Transportation	Building Materials	Healthcare	Insurance
15	9	21	7	8	7	9	5	2

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

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

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

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

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

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

SICO Funds Services (SFS)

2019 SICO Funds Services Highlights

- Appointed new CEO
- Grew assets under custody to USD 7.4 billion up from USD 6.2 billion last year
- Signed new mandate to be a service provider for Bahrain Fintech domiciled businesses at Bahrain Fintech Bay

Overview

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

As one of GCC's most successful and highly regarded fund service provider, 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 executive management and Board of Directors, and functions on a strictly arm's-length basis with SICO's Brokerage and Asset Management businesses.

2019 Operational Review

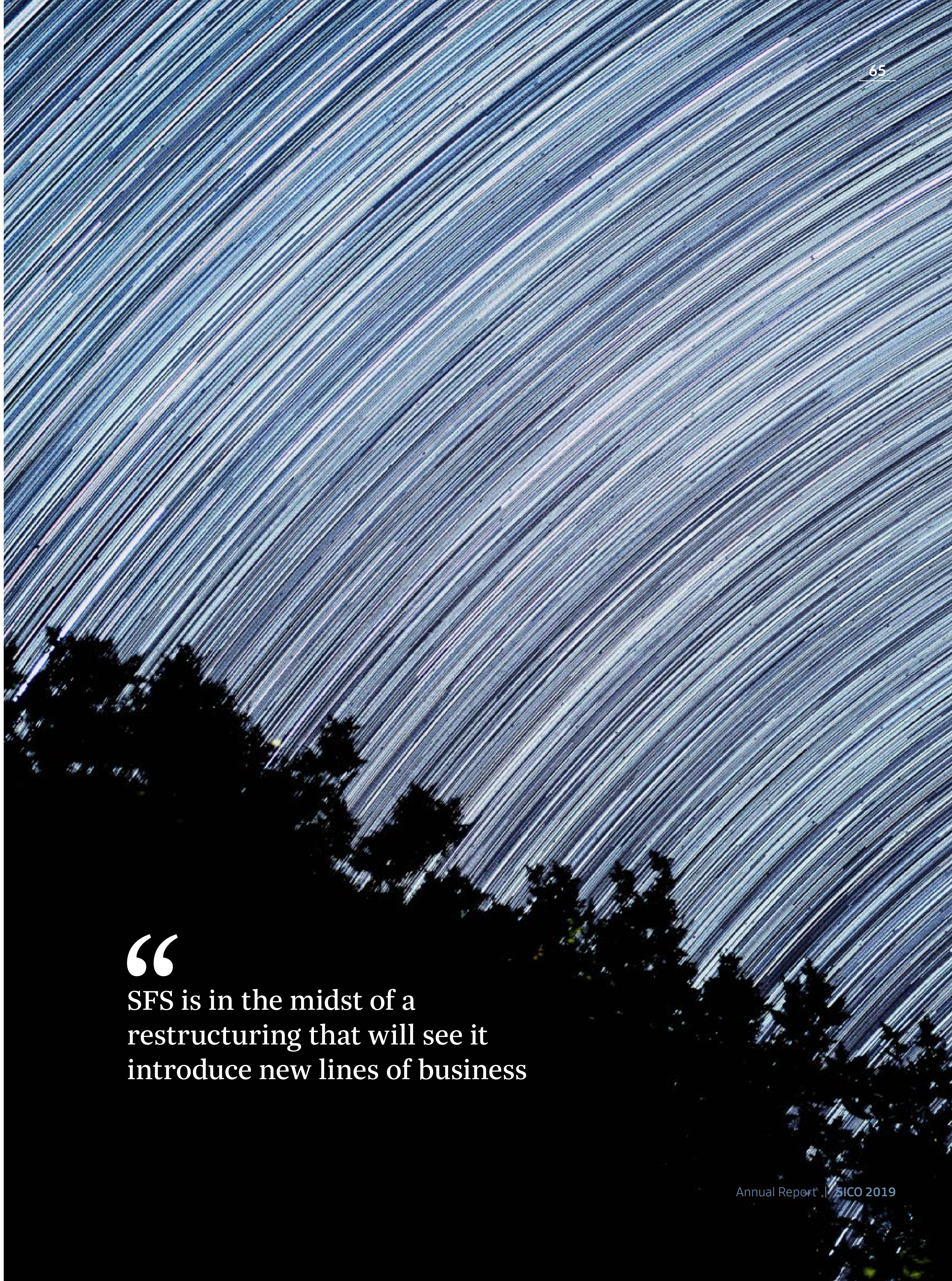
In 2019, SFS achieved net profit of BD 424 thousand (USD 1,126,000). Total custody, administration and registrar fees earned was BD 703 thousand (USD 1,865,000). Assets under custody was BD 2.8 billion (USD 7.4 billion) in 2019.

2020 Outlook

Looking forward to 2020, SFS has embarked on a new strategy that will include a complete restructuring of the business as an independent entity that leverages the synergies that it has with parent company, SICO but maintains a separate brand identity.

Plans are currently in the works to introduce new lines of business and pursue both organic and non-organic growth opportunities.

SFS will continue to work to upscale its business by acquiring technology systems that enhance custody, administration, and registrar services through composite reporting and analytical tools with features such as an online customer portal to improve services to clients.



"SFS is in the midst of a restructuring that will see it introduce new lines of business

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. Client Relations aims to create value for all SICO clients by recognizing and responding to individual needs. Queries and complaints concerning all non-trading issues are attended to promptly and efficiently by highly-trained customer service personnel. Client Relations 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. In 2019, the team continued to deliver on its mandate to deliver a high degree of customer satisfaction in the most efficient manner possible.

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 who are viewed 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 through mentorships at all levels within the organization, and in succession planning 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 currently employs 12 CFA holders.

In an effort to facilitate recruitment and broaden outreach, HR also launched a new job application functionality on the SICO corporate website. Job applicants and summer internship applicants can now apply for jobs at SICO Online. Additionally, the bank participated in the 2nd annual CFA Career Day, an event hosted by Bahrain's CFA Society in partnership with the Supreme Council of Women and INJAZ Bahrain.

SICO remains committed to identifying and training new talent through internships and executive training programs. SICO's six-month executive training program targets fresh graduates interested in pursuing careers in the banking and finance industry. As part of our ongoing push towards gender diversity, a special emphasis has also been placed on attracting female interns particularly in male dominated fields such as IT. In 2019, seven candidates participated in executive training and seven students held summer internships, including one female.

We are proud to report that 72% of our employees are Bahraini nationals. The bank and its subsidiaries are equally proud of the diversity of the overall team, which is comprised of different nationalities including Bahrainis, 35% of whom are women.

SICO strives to be considered an employer of choice in Bahrain and as such, HR is currently in the process of updating all policies and procedures in line with market best practices. The division has already expanded a number of employee benefits that in many instances surpass what is required by Bahraini labor law.

Headcount and Bahrainization Percentage – Bahrain

	Bahraini	Non-Bahraini	Bahrainization Percentage
SICO	61*	26	70%
SFS	10**	2	83%
Total	71	28	72%

*Including six Executive Trainees

**Including one Executive Trainee

Breakdown by Gender

Company	Male	Female	Total
SICO BSC	54	33	87
SICO Fund Services	8	4	12
SICO Financial Brokerage	10	1	11

Legal

SICO's in-house legal department, established in 2018, is headed by a specialized and experienced legal of counsel with years of expertise in advising financial institutions in Europe and in Asia.

The department continued to support SICO and its subsidiaries across their operations by –

- Identifying strategic business opportunities arising from changes to the domestic and international legal framework.
- Assisting business units in the structuring, development, and delivery of products and services 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 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

2019 Operational Review

Throughout the year, SICO's IT department achieved a number of important milestones aimed at streamlining the bank's operations. These initiatives have largely centered on automation and digitalization of services to provide clients with a more seamless suite of services and overhaul the bank's internal systems.

One of the key achievements of the year was the completion of the T24 Core Banking platform upgrade, a sixth-month process that was completed in April 2019. The new enhancements will allow for the integration of further systems and functionalities serving all of SICO's business units. The upgraded platform paved the way for the adoption of further automated systems targeting specific business units such as asset management and brokerage. The division was also able to successfully integrate a payment gateway from its core banking system to automate all SWIFT payments.

Additional features of the core banking sector upgrade included enhancements in client communications such as the streamlining of notifications and the unification of electronic statements. Through this new system, clients with multiple portfolios or accounts receive one comprehensive email notification with updated cash and position statements on all their accounts. The IT division was also able to implement the RPA system, a smart tool that allows for automated reconciliation between cash and position accounts.

Another key milestone for the division was the transformation of the SICO LIVE interface, the bank's online trading platform, integrating more features, to provide users with a more seamless experience.

To facilitate the delivery of SICO's mandate as the execution advisor, receiving agent, and allotment agent in National Bank of Bahrain Acquisition of Bahrain Islamic Bank, the IT division launched a new automated IPO Cloud based system that allows SICO to receive applications electronically. In addition, the new system can provide full statistics and reports for management, regulators, and investors.

The division also adopted a number of internal automated systems to complement the bank's operations including a new comprehensive HR system that allows for automated time and attendance tracking, with notifications and reports generated for all concerned staff and line managers. In addition, a new performance management system was launched, creating an automated system for appraisals and evaluations as well as development modules for all staff.

The division also embarked on a comprehensive assessment of all internal policies, procedures, and systems in order to ensure compliance with global data protection regulations. Based on this assessment, the division provided a number of recommendations to ensure that all bank operations are in compliance with the law.

SICO's IT division also worked on enhancing its cyber security framework to ensure that it is up to par with international best practices. A new cyber security incident management policy was also developed by the division, currently in the implementation phase, to create a standardized response from the bank regarding all security incidents.

2020 Outlook

In the coming year, SICO's IT division is working to integrate further systems to complement its many achievements in 2019. Further to its endeavors to streamline internal business processes, the division will seek to expand on its new performance management system. The system will be further developed to include automated KPIs including company strategy, company milestones, departmental goals, as well as staff review and appraisals. Additionally, a new archiving system featuring automated viewing controls will be adopted allowing for improved storage and record management within the bank.

On the business side, the division will work to add more international markets to its SICO LIVE platform, granting clients access to a more diverse range of markets and trading options.

Additionally, SICO IT will seek to leverage the Bahraini government's eKYC system in order to create a simplified automated customer onboarding system. Through this system, customers who are part of the eKYC database will only be required to submit their ID number, which can then be used by SICO to retrieve all relevant information when opening an account.

The division will also seek to implement an automated customer relationship management system, in order to provide a streamlined digital method of improving communications between the bank and its clients as it seeks to consistently deliver innovative quality services.

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, 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 2019, SICO's Corporate Communications department embarked on a number of initiatives with the aim of creating more brand equity and public awareness regarding the breadth and depth SICO's operations across business lines and geographies. During the year, the department spearheaded two key surveys to gauge client perceptions on SICO's Brokerage and Research service offerings. The survey results, which were largely positive, will be used to further enhance the products and services of the two divisions helping them to directly address the current and future needs of their clients.

Another important achievement for the department during the year was to successfully engage with the public through social media. The bank's presence on Instagram, which began in late 2018, expanded during 2019 with regular posts and updates on SICO's financial and operational milestones as well as weekly GCC Market Performance Updates from SICO's Research Division.

The department continued to provide support for and create awareness of SICO's major transactions such as the NBB acquisition of Bahrain Islamic Bank. Corporate Communications was also in charge of managing SICO's successful awards program, which saw the bank apply for and win a total of nine awards in 2019.

Corporate Communications carried on with its push on CSR and Go-Green initiatives to promote sustainable practices for all stakeholders. They also identified and secured impactful sponsorships for a number of conferences and industry events where SICO executives engaged with their peers as thought leaders and supporters of the Bahraini financial sector. The department's over-arching PR-focused strategy remains committed to transparency, accessibility, availability, and trust.

72%

of employees are Bahraini nationals

SICO is proud of the gender diversity of its team, 35% of whom are women, many of them holding senior positions

Control Functions

> Risk Management continues to play a pivotal role in ensuring that SICO remains strong, methodical, and consistent in the face of economic uncertainty

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. The department is responsible for the supervision and management of compliance issues for SICO and its subsidiaries. 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 2019, 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 for SICO and its subsidiaries 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 frame-work 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 2019, 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 2019, 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 subsidiaries, SICO Fund Services Company (SFS) and 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, based on new regulations relevant to Internal audit issued by the CBB in 2018, the Department worked towards enhancing its facilities, capabilities, and practices in line with the new regulations. The department has also procured an internal audit management software, which will be implemented in 2020, updated its policy framework (internal audit charter and manual), and established additional audits and processes. Throughout 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 of the Accounting and Reporting Unit (ARU) and the Internal Control Unit (ICU), is responsible for all aspects of accounting and internal controls at SICO. ARU is responsible for ensuring the bank's financial accounts and regulatory reporting are in good order, while ICU is responsible for ensuring that SICO's daily operations run smoothly in a risk-free and compliant manner. ICU is closely involved in contingency planning/disaster recovery testing and plays a coordinating role between other control functions, SICO's IT division, and various business lines.

During 2019, ARU produced MIS and regulatory reports and prepared consolidated financial statements in accordance with international accounting standards. Additionally, it made sure any and all relevant regulatory requirements were complied with in a timely manner. The division also successfully implemented all required changes to accounting and reporting standards as well as various new reporting requirements set by regulatory authorities in 2019.

Following the introduction of a value-added tax (VAT) in Bahrain, both ARU and ICU played a key role in ensuring relevant frameworks were set and implemented throughout SICO to comply with VAT. ICU in particular ensured the bank has complied with regulatory requirements to issue tax invoices, that it filed tax returns in a timely manner, and that VAT was paid on a periodic basis.

ENVIRONMENTAL SOCIAL GOVERNANCE (ESG)

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

Environmental Social Governance (ESG)

> “Our core values and principles are aligned with the United Nations Sustainable Development Goals (SDGs)

As a responsible investor and market leader in Bahrain’s financial sector, SICO continually works to align its strategy with Environmental, Social and Governance (ESG) factors. As the momentum towards sustainable investments builds worldwide, we are committed to becoming a more sustainable organization in every sense of the word. As such we are working to make our day-to-day operation more efficient and environmentally sound. We are and have always been an equal opportunity employer with a diverse workforce and a culture that promotes the empowerment of women, and we are increasingly taking into account the ESG credentials of our investments and business decisions.

SICO takes pride in being an ethical organization that believes “How profits are made” is just as important as “How much profits are made.” We ensure that we are creating value not just for our shareholders, but for all of our stakeholders, which includes our clients, our partners, our employees, and the community at large.

Our core values and principles are aligned with the United Nations Sustainable Development Goals (SDGs). While we believe in the merit of aligning with and promoting all 17 Goals, we have been actively and consistently delivering on at least seven of the goals –

SDG 3 Good Health and Well-Being

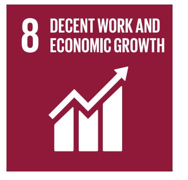
Improving the wellbeing and overall health of our community has been one of the main pillars of SICO’s CSR agenda for many years. We have spearheaded multiple initiatives including blood drives, sponsorships of Movember activities, breast cancer awareness, and support for the revitalization of Bahrain’s sports sector and youth athletics.

SDG 4 Quality Education

SICO has always been a firm believer that quality education for all is a key driver of economic growth and prosperity. Since inception, the bank has sponsored worthwhile education and career development initiatives in cooperation with the Bahrain Bourse, the CFA Society, the Bahrain Institute of Banking and Finance, and Bahrain’s flagship educational programs including the Al Mabarrah Al Khalifia Foundation and the Crown Prince’s International Scholarship Program (CPISP). SICO began its cooperation with CPISP in 2006 and has since provided support for 140 scholars. SICO also runs ongoing internship and executive training programs to give young university graduates and students the opportunity to experience careers in finance.

SDG 5 Gender Equality

Women’s empowerment and gender equality in the workplace are an integral component of SICO’s core values. Since 2014, the bank has been led by a female CEO. In 2017, we established an Equal Opportunity Committee under the auspices of SICO’s Charter for Gender Diversity. This Committee has been tasked with ensuring equal employment opportunities for men and women at SICO as well as identifying areas in which our policies, procedures, and practices can be improved to promote gender inclusion and diversity. Women account for more than 35% of total Group employees, occupying key managerial and supervisory positions.



SDG 8 Decent Work and Economic Growth

As Bahrain’s leading asset manager, broker, and investment bank with USD 2.1 billion in assets under management, SICO is regarded as a positive force for overall economic growth in the Kingdom and a major contributor to the revitalization of 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 an integral component of Bahrain’s growth story.

SDG 9 Industry Innovation and Technology

SICO is a technology driven organization that believes in investing in information and communication technology both internally as an investment bank and externally within the broader community. We continue to automate our processes and procedures and build our online trading capabilities. In Bahrain, a country that is emerging as a regional leader in the fintech space, we have partnered 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.

SDG 12 Responsible Consumption and Production

In 2018, SICO launched an internal Go Green initiative to promote sustainable business practices and help preserve our environment. The ongoing initiative, which includes eliminating the use of plastic, minimizing the use of paper and working to reduce electricity consumption, is raising awareness within the bank on ways to reduce our carbon footprint and minimize our environmental impact.

SDG 17 Partnerships for the Goals

SICO's internal and external stakeholders view us as more than just a service provider, but as a true partner. The bank is the partner of choice for IPOs and investments in sectors that are helping propel growth and create opportunities for millions of people in Bahrain and the wider GCC. SICO has built a successful track record as a strategic partner to the Bahraini government, the private sector, and civil society which has placed us in a very strong position to make maximum impact as the local champion for sustainable government-driven initiatives.

2019 ESG Highlights

Environmental

In 2019, we continued to expand our Go-Green initiative and integrate environmentally responsible practices across the organization. In an effort to reduce our consumption of paper, we initiated a successful no-print day, which saw daily printing volumes decrease by 95%. Power consumption during the year was also reduced significantly with a 22% decrease year-on-year. SICO also partnered with the local chapter of AIESEC on their Impact Bahrain for Environment program 2019/2020 that focuses on creating awareness for waste reduction, and Impact Bahrain for Women Empowerment that focuses on community development workshops in cooperation with several NGOs giving assistance to Bahraini Women.

Social

As part of SICO's commitment to education and skills training, the bank sponsored a number of events including a specialized trading simulation course hosted by the Bahrain Institute of Banking and Finance, a Career Day and Research Challenge that provides university students with hands on mentoring and training in investment analysis hosted by Bahrain's CFA, and the annual TradeQuest challenge, a competitive financial simulation designed to hone student skills in finance that SICO has been supporting for the past 11 years benefiting a total 2,200 students. SICO continued its cooperation with Al Mabarrah Al Khalifia's Rayaat Scholarship Program. In 2019, the bank fully financed an Accounting and Finance scholarship for a student to attend Bangor University at Bahrain Institute of Banking and Finance (BIBF). We also gave support to children with autism through the Bahrain Society for Children with Behavioral and Communication Disorders, an organization that aims to create public awareness on autism and provide both children and families with the educational resources that they need to become fully functioning members of society.

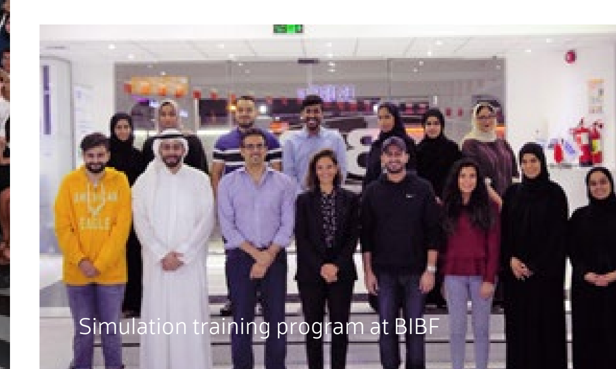
Governance

SICO is committed to upholding the highest standards of corporate governance. This entails complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value, and achieving organizational efficiency. The bank has Board-approved policies for risk management, compliance and internal controls, in accordance with the rules and guidelines from the Central Bank of Bahrain (CBB). SICO's Board of Directors consists of nine Directors, three of whom are Independent directors, and six are Executive directors, including the Chairman and Vice-Chairman.

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


Trade Quest trading challenge simulation at the Bahrain Bourse


Al Mabarrah Al Khalifia's Rayaat Scholarship Program


Simulation training program at BIBF

REGULATORY DISCLOSURES

2019

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of SICO BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the chairman's report set out on pages 10-12 of this annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

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

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

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

KPMG Fakhro
Partner registration number 213
2 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		Bahraini Dinars '000	
	Note	2019	2018
Assets			
Cash and bank balances	7a	56,555	35,484
Treasury bills	7a	4,261	10,416
Securities bought under repurchase agreements	7b	51,106	41,927
Investments at fair value through profit or loss	8	20,076	23,644
Investments at fair value through other comprehensive income	9	9,128	6,214
Investments at amortized cost		9,971	9,990
Investment property	10	1,915	1,955
Fees receivable	11	3,523	1,252
Other assets	12	8,576	3,142
Furniture, equipment and intangibles	13	1,671	1,240
Total assets		**166,782**	**135,264**
Liabilities and equity			
Liabilities			
Short-term bank borrowings	14a	3,770	3,385
Securities sold under repurchase agreements	14b	55,548	42,573
Customer accounts	15	41,340	23,135
Other liabilities	16	6,138	3,805
Payable to other unit holders in consolidated funds	6	622	6,701
Total liabilities		**107,418**	**79,599**
Equity			
Share capital	17	42,849	42,849
Treasury shares	17	(5,322)	(5,913)
Shares under employee share incentive scheme		(2,263)	(1,599)
Statutory reserve	18	8,034	7,362
General reserve	19	3,217	3,217
Investments fair value reserve		891	133
Retained earnings		11,958	9,616
Total equity		**59,364**	**55,665**
Total liabilities and equity		**166,782**	**135,264**

The consolidated financial statements were approved by the board of directors on 2 March 2020 and signed on its behalf by:

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

		Bahraini Dinars '000	
	Note	2019	2018
Net investment income	20	4,315	3,050
Net fee income	21	6,271	4,166
Brokerage and other income	22	2,392	2,332
Net interest income	23	1,405	1,008
Rental income from investment property		233	188
Total income		**14,616**	**10,744**
Staff cost	24	(5,651)	(4,267)
Other operating expenses	25	(2,820)	(2,383)
Share of profit of non-controlling unit holders in consolidated funds	6	(61)	(373)
Expected credit loss		(50)	(20)
Profit for the year		**6,034**	**3,701**
Basic and diluted earnings per share (fils)	31	**16.32**	**10.01**

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Bahraini Dinars '000	
	2019	2018
Profit for the year	**6,034**	**3,701**
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
- Net changes in fair value of FVOCI debt instruments	358	15
- Net amount transferred to profit or loss on sale of FVOCI debt instruments	20	5
- Net amount transferred to profit or loss on impairment	14	-
Items that will not be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVOCI equity instruments	402	57
Total other comprehensive income for the year	**794**	**77**
Total comprehensive income for the year	**6,828**	**3,778**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (continued)

							Bahraini Dinars '000	
2018	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Invest-ments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2018	**42,849**	**-**	**(1,599)**	**6,992**	**3,217**	**307**	**7,992**	**59,758**
Comprehensive income:								
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**3,701**	**3,701**
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	72	-	72
Net amount transferred to profit or loss on sale of FVOCI debt instruments	-	-	-	-	-	5	-	5
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	(251)	251	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(174)**	**251**	**77**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(174)**	**3,952**	**3,778**
- Transfer to charitable donation reserve	-	-	-	-	-	-	(30)	(30)
Transaction with owners recognized directly in equity:								
- Transfer to statutory reserve	-	-	-	370	-	-	(370)	-
- Dividends Paid	-	-	-	-	-	-	(1,928)	(1,928)
- Treasury shares purchased	-	(5,913)	-	-	-	-	-	(5,913)
Balance at 31 December 2018	**42,849**	**(5,913)**	**(1,599)**	**7,362**	**3,217**	**133**	**9,616**	**55,665**

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

SICO ANNUAL REPORT 2019

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		Bahraini Dinars '000	
	Note	2019	2018
Operating activities			
Net interest received		2,723	2,428
Net decrease / (increase) in placements with banks		-	4,974
Net sale of investments at fair value through profit or loss		6,138	6,450
Net (purchase) / sale of investments at fair value through other comprehensive income		(2,934)	(61)
Net sale of investments at amortized cost		19	18
Net decrease / (increase) in investment property		40	(1,955)
Net increase / (decrease) in customer accounts		18,205	(3,583)
Securities bought under repurchase agreements		(9,179)	(10,294)
Securities sold under repurchase agreements		12,975	10,185
Dividends received		425	1,050
Rental income received		233	188
Movement in brokerage accounts and other receivables		999	12,459
Movement in other liabilities		1,596	(496)
Payments for staff and related expenses		(4,918)	(4,139)
Payments for other operating expenses		(1,615)	(1,939)
Net cash generated from operating activities		**24,707**	**15,282**
Investing activities			
Net capital expenditure on furniture and equipment		(929)	(138)
Net cash used in investing activities		**(929)**	**(138)**
Financing activities			
Net increase / (decrease) in short-term bank borrowings		385	(2,270)
Treasury shares purchased		-	(5,913)
Dividend paid		(3,085)	(1,928)
(Redemption) / contribution by other unit holders in consolidated funds		(6,131)	236
Distribution to other unit holders in consolidated funds		(9)	3,441
Net cash used in financing activities		**(8,840)**	**(6,434)**
Net increase in cash and cash equivalents		**14,938**	**8,710**
Cash and cash equivalents at the beginning of the year		45,903	37,190
Cash and cash equivalents at the end of the year*	7	**60,841**	**45,903**

** Excludes ECL of BD 25 (2018: BD 3)*

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

Notes to the 31 December 2019 consolidated financial statements

1. Reporting entity

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

The primary objectives of the Bank are:

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

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgments

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

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

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

All figures in BD'000

2. Basis of preparation (continued)

(d) New standards, amendments and interpretations effective from 1 January 2019

The Bank has applied IFRS 16 with a transition date of 1 January 2019 which resulted in changes in accounting policies and adjustments to the amounts from those previously recognized in the financial statements as at 31 December 2018.

As permitted by the transitional provisions of IFRS 16, the Bank elected to use the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Set out below are the details of the specific IFRS 16 accounting policies applied in the current period and the IFRS 16 transition impact disclosures for the Bank.

(i) Changes in accounting policies

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

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

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

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

(ii) Measurement

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

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

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

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

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

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

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

(iv) Impact of adopting IFRS 16

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 to contracts that were previously identified as leases. The impact from the adoption of IFRS 16 as at 1 January 2019 has resulted in an increase in furniture, equipment and intangibles by BD 456 and an increase in and other liabilities by BD 456:

	Furniture, equipment and intangibles	Other liabilities
Closing balance under IAS 17 (31 December 2018)	1,240	3,805
Impact on re-measurements:		
Right-of-use asset	456	-
Lease liability	-	456
Opening balance under IFRS 16 on date of initial application of 1 January 2019	**1,696**	**3,349**

2. Basis of preparation (continued)

(d) New standards, amendments and interpretations effective from 1 January 2019 (continued)

(iv) Impact of adopting IFRS 16 (continued)

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The new standards and amendments to standards are not expected to have a significant impact on the Group's consolidated financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements except for changes arising from adoption of IFRS 16.

(a) Consolidation

(i) Subsidiaries

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

(ii) Non-controlling interests (NCI)

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Foreign currencies

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

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

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

Judgments

Classification of investments

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

Determination of control over investees – Investment funds

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

(d) Investment securities

(i) Classification

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

3. Significant accounting policies (continued)

(d) Investment securities (continued)

(i) Classification (continued)

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

(iv) Fair value measurement

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

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

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

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

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

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

(e) Impairment of financial assets

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

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

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

3. Significant accounting policies (continued)

(e) Impairment of financial assets (continued)

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

(f) De-recognition of financial liabilities

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

(g) Cash and cash equivalents

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

(h) Amortized cost measurement

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

(i) Impairment of non-financial assets

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

(j) Furniture, equipment and software

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

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

Software	10 years
Furniture and equipment	3-5 years

(k) Bank borrowings

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

(l) Repurchase agreements

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

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

(m) Customer accounts

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

(n) Investment Property

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

Recognition and Measurement

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

Depreciation

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

Derecognition

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

(o) Employee benefits

(i) Bahraini employees

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

(ii) Expatriate employees

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

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

(iii) Employee share incentive scheme

The Bank operates a discretionary share based plan, which is designed to provide competitive long term incentives and is a cash-settled share based payment scheme. The total amount is expensed over the vesting period and is determined by reference to the fair value of the shares at the grant date and re-measured at every year end over the vesting period.

(p) Provisions

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

(q) Fiduciary activities

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

(r) Settlement date accounting

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

(s) Offsetting

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

(t) Earnings per share

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

(u) Interest income and expense

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

(v) Fee and commission

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

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

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

(w) Net investment income

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

(x) Dividend income

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

(y) Brokerage and other income

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

(z) Segment Reporting

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

4. Financial risk management

(a) Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Risk management framework

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

All figures in BD'000

4. Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework (continued)

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

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

(b) Credit risk

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

Investments in debt securities

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

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

Management of credit risk

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

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

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

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

Exposure to credit risk

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

	2019	2018
Bank balances	56,555	35,484
Treasury bills	4,261	10,416
Securities bought under repurchase agreements	51,106	41,927
FVTPL debt securities	9,564	6,647
FVOCI debt securities	4,169	3,076
Fee receivable	3,523	1,252
Other receivables	8,340	2,883
	137,518	**101,684**

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

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

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

Risk Exposure Concentration

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

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

All figures in BD'000 107

4. Financial risk management (continued)
(b) Credit risk (continued)
Risk Exposure Concentration (continued)

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2019 was BD 15,576 (2018: BD 21,436), relating to “cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income”.

Geographical Exposure Distribution

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

2019	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	46,349	957	9,249	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	48,185	-	2,921	51,106
Investments at fair value through profit or loss	15,768	1,085	3,223	20,076
Investments at fair value through other comprehensive income	9,128	-	-	9,128
Investments at amortized cost	9,971	-	-	9,971
Investment property	-	1,915	-	1,915
Fees receivable	3,511	-	12	3,523
Furniture, equipment and intangibles	1,671	-	-	1,671
Other assets	8,563	1	12	8,576
Total assets	**147,407**	**3,958**	**15,417**	**166,782**
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	40,589	36	715	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	**106,667**	**36**	**715**	**107,418**

2018	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	28,287	152	7,045	35,484
Treasury bills	10,416	-	-	10,416
Securities bought under repurchase agreements	40,393	-	1,534	41,927
Investments at fair value through profit or loss	18,260	2,105	3,279	23,644
Investments at fair value through other comprehensive income	6,214	-	-	6,214
Investments at amortized cost	9,990	-	-	9,990
Investment property	-	1,955	-	1,955
Fees receivable	1,242	1	9	1,252
Furniture, equipment and intangibles	1,240	-	-	1,240
Other assets	3,128	12	2	3,142
Total assets	**119,170**	**4,225**	**11,869**	**135,264**
Liabilities				
Short-term bank borrowings	3,385	-	-	3,385
Securities sold under repurchase agreements	33,466	-	9,107	42,573
Customer accounts	22,526	93	516	23,135
Other liabilities	3,791	-	14	3,805
Payable to other unit holders in consolidated funds	6,701	-	-	6,701
Total liabilities	**69,869**	**93**	**9,637**	**79,599**

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

2019	Financial services	Others	Total
Total assets	**105,338**	**61,444**	**166,782**
Total liabilities	**78,017**	**29,401**	**107,418**
2018	**Financial services**	**Others**	**Total**
Total assets	**74,621**	**60,643**	**135,264**
Total liabilities	**56,419**	**23,180**	**79,599**

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

Particulars	Gross Exposure	Expected Credit Loss	Net Expo-sure
Bank balances	56,580	25	56,555
Securities bought under repurchase agreements	51,118	12	51,106
Investment Securities	9,142	14	9,128
Other Assets (Margin Lending)	9,518	19	9,499
Total	**126,358**	**70**	**126,288**

All figures in BD'000 109

4. Financial risk management (continued)

(b) Credit risk (continued)

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

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

Settlement risk

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

(c) Liquidity risk

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

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

The Group faces three types of liquidity risks as follows:

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

Management of liquidity risk

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

The residual contractual maturity of financial liabilities is as follows:

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

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

Liquidity risk is also managed through ensuring compliance with regulatory liquidity requirements. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are the ratios which the Bank computes as per CBB requirements. The ratios as of 31 December 2019 are as follows:

	As of 31 December 2019	Regulatory Limit
Liquidity Coverage Ratio	131%	100%
Net Stable Funding Ratio	148%	100%

The average LCR for the six months period ended 31 December 2019 was 137%.

(d) Market risk

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

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

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4. Financial risk management (continued)

(d) Market risk (continued)

(i) Equity Price Risk

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

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

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

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

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

	Investments at fair value through profit or loss		Investments at fair value through other comprehensive income	
	2019	2018	2019	2018
Increase of 1%	201	236	91	62
Decrease of 1%	(201)	(236)	(91)	(62)

(ii) Interest rate risk

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

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

Interest Rate Re-pricing Profile:

2019	Effective interest rate % p.a.	Within 1 year	Over1 year	Non-interest sensitive	Total
Bank balances	-	-	-	32,963	32,963
Call deposits*	-	2,112	-	-	2,112
Treasury bills	-	4,261	-	-	4,261
Short-term placements with banks	1.65%	21,480	-	-	21,480
Securities bought under repurchase agreements	2.66%	51,106	-	-	51,106
Investments at fair value through profit or loss	5.82%	1,620	7,943	10,513	20,076
Investments at fair value through other comprehensive income	6.65%	-	4,169	4,959	9,128
Investments at amortized cost**	-	-	9,971	-	9,971
Investment property	-	-	-	1,915	1,915
Fees receivable	-	-	-	3,523	3,523
Other assets	-	-	-	8,576	8,576
Furniture, equipment and intangibles	-	-	-	1,671	1,671
Total assets		**80,579**	**22,083**	**64,120**	**166,782**
Short-term bank borrowings	2.60%	3,770	-	-	3,770
Securities sold under repurchase agreements	2.40%	55,548	-	-	55,548
Customer accounts	-	-	-	41,340	41,340
Other liabilities	-	-	-	6,138	6,138
Payable to other unit holders in consolidated funds	-	-	-	622	622
Total liabilities		**59,318**	**-**	**48,100**	**107,418**
Equity		**-**	**-**	**59,364**	**59,364**
Total liabilities and equity		**59,318**	**-**	**107,464**	**166,782**
Interest rate sensitivity gap		21,261	22,083	(43,344)	-
Cumulative interest rate sensitivity gap		21,261	43,344	-	-

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4. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate re-pricing profile (continued)

2018	Effective interest rate % p.a.	Within 1 year	Over1 year	Non-interest sensitive	Total
Bank balances	-	-	-	15,830	15,830
Call deposits*	-	707	-	-	707
Treasury bills	-	10,416	-	-	10,416
Short-term placements with banks	3.24%	18,947	-	-	18,947
Securities bought under repurchase agreements	3.36%	41,927	-	-	41,927
Investments at fair value through profit or loss	6.45%	685	5,962	16,997	23,644
Investments at fair value through other comprehensive income	6.02%	-	3,076	3,138	6,214
Investments at amortized cost**	-	-	9,990	-	9,990
Investment property	-	-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	3,142	3,142
Furniture, equipment and intangibles	-	-	-	1,240	1,240
Total assets		**72,682**	**19,028**	**43,554**	**135,264**
Short-term bank borrowings	3.69%	3,385	-	-	3,385
Securities sold under repurchase agreements	3.20%	42,573	-	-	42,573
Customer accounts	-	-	-	23,135	23,135
Other liabilities	-	-	-	3,805	3,805
Payable to other unit holders in consolidated funds	-	-	-	6,701	6,701
Total liabilities		**45,958**	**-**	**33,641**	**79,599**
Equity		**-**	**-**	**55,665**	**55,665**
Total liabilities and equity		**45,958**	**-**	**89,306**	**135,264**
Interest rate sensitivity gap		26,724	19,028	(45,752)	-
Cumulative interest rate sensitivity gap		26,724	45,752	-	-

** At 31 December 2019 the effective interest rate on Bahraini Dinar call deposits is 1% (2018: 0.75%) and on USD call deposits is 0.75 % (2018: 0.45%).*

*** At 31 December 2019 the effective interest rate of investments at amortized cost is 6.65 % (2018: 6.72%).*

(iii) Foreign exchange risk

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

(e) Operational risk

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

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

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

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

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

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

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

(f) Capital Management

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

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

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

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4. Financial risk management (continued)

(f) Capital Management (continued)

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

Based on year end balances

	2019	2018
Risk weighted exposure		
Credit risk	56,530	44,684
Market risk	18,388	26,188
Operational risk	18,559	15,101
Total risk weighted assets	**93,477**	**85,973**
Common Equity (CET 1)	59,349	54,978
Additional Tier 1	70	20
Total regulatory capital	**59,419**	**54,998**
Capital adequacy ratio	**63.57%**	**63.97%**

The capital adequacy ratio as at 31 December 2019 has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

Capital allocation

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

5. Group subsidiaries and consolidated funds

Set out below are the Group's principal subsidiaries at 31 December 2019. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund.

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

Subsidiary	Percentage ownership	Year of incorporation	Country of incorporation	Principal activity
1-SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2-SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3-SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4-SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5-SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6-SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
7-SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO
8-SICO Financial Brokerage LLC	100%	2011	UAE	Brokerage services
9-SICO Fixed Income Fund	85%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks
10-SICO US Real Estate Corp	100%	2017	Cayman Island	Investment in income generating properties in various geographies in the United States.

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6. Payable to other unit holders in consolidated funds

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

	2019	2018
SICO Fixed Income Fund		
- Carrying Amount	622	1,326
- Profit share	61	24
SICO Kingdom Equity Fund		
- Carrying Amount	-	5,202
- Profit share	-	361
SICO US Real Estate Corp		
- Carrying Amount	-	173
- Profit/(loss) share	-	(12)

Further to a subscription by a new unit holder in the SICO Kingdom Equity Fund, the same is no longer subject to consolidation (refer to note 28 for unconsolidated funds details). During 2019, the Bank increased its stake in the US Real Estate Corp to 100% resulting in no liabilities towards the other unit holders.

SICO Fixed Income Fund

	2019	2018
Other unit holders' share	15.5%	35%
Cash and cash equivalents	593	588
Investment at fair value through profit or loss	4,101	3,736
Other assets	67	61
Short-term bank borrowings	(737)	(626)
Other liabilities	(13)	(11)
Net assets	**4,011**	**3,748**
Carrying amount of payable to other unit holders – %	622	1,326
Investment income	440	138
Interest income	5	(3)
Profit	391	69
Total comprehensive income	391	69
Profit allocated to other unit holders - %	**61**	**24**
Cash flows from operating activities	134	44
Cash flows (used in) financing activities	(129)	(260)
Net increase / (decrease) in cash and cash equivalents	**5**	**(216)**

7. (a) Cash and bank balances

	2019	2018
Cash and bank balances	32,966	15,830
Call deposits	2,112	707
Short-term placements with banks	21,502	18,950
Less:		
Expected credit loss	(25)	(3)
Total	**56,555**	**35,484**
Treasury bills	4,261	10,416
Total cash and cash equivalents for cash flow purposes	**60,816**	**45,900**

Cash and bank balances include bank balances amounting to BD 10,738 (2018: BD 4,902) held on behalf of discretionary customer accounts.

(b) Reverse repurchase agreements have been entered with clients amounting to BD 51,106 (2018: BD 41,927) for which client owned securities of BD 63,025 (2018: BD 45,534) are pledged as collateral.

8. Investments at fair value through profit or loss

	2019	2018
Quoted equity securities – (listed)		
- Consolidated funds	-	7,295
- Parent	2,230	1,621
Funds		
- Quoted	5,898	4,415
- Unquoted	2,384	3,667
Quoted debt securities		
- Parent	5,463	2,910
- Consolidated funds	4,101	3,585
Unquoted debt securities		
- Consolidated funds	-	151
	20,076	**23,644**

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9. Investments at fair value through other comprehensive income

	2019	2018
Equity securities		
- Quoted	4,959	3,074
- Unquoted	-	64
	4,959	**3,138**
Debt securities		
- Quoted	4,169	1,940
- Unquoted	-	1,136
	4,169	**3,076**
	9,128	**6,214**

10. Investment property

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

The details of the investment in properties is as follows:

	Amount
Cost	
At 1 January 2019	1,985
Additions	-
At 31 December 2019	**1,985**
Accumulated depreciation	
At 1 January 2019	(30)
Depreciation for the year	(40)
At 31 December 2019	**(70)**
Carrying amount	**1,915**

The fair value of investment property as at 31 December 2019 was BD 2,362 determined by an independent valuer using appropriate valuation techniques.

11. Fees receivable

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

	2019	2018
Management fees	1,233	852
Performance fees	2,225	368
Custody fees	65	32
	3,523	**1,252**

12. Other assets

	2019	2018
Receivables from clients	6,843	1,076
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	236	259
Interest receivable	634	570
Other receivables	363	737
	8,576	**3,142**

13. Furniture, equipment and intangibles

	Leased property right-of-use	Software	Furniture and Equipment & Others	Capital work in progress	2019 Total	2018 Total
Cost						
At 1 January	456	2,525	1,069	16	3,610	3,510
Additions	37	27	345	23	888	108
Disposals	-	-	(20)	-	(20)	(8)
At 31 December	**493**	**2,552**	**1,394**	**39**	**4,478**	**3,610**
Depreciation						
At 1 January	-	1,493	877	-	2,370	2,090
Charge for the year	149	208	100	-	457	288
Disposals	-	-	(20)	-	(20)	(8)
At 31 December	**149**	**1,701**	**957**	**-**	**2,807**	**2,370**
Net book value at 31 December 2019	**344**	**851**	**437**	**39**	**1,671**	**-**
Net book value at 31 December 2018	-	1,030	195	15	-	1,240
Cost of fully depreciated assets in use	**-**	**876**	**25**	**335**	**1,236**	**1,202**

Right-of-use of leased property relates to IFRS 16 which has been adopted from 1 January 2019.

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

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

At 1 January 2019	3,385
Borrowings made during the year	1,885
Borrowings settled during the year	(1,500)
At 31 December 2019	**3,770**

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

At 1 January 2019	42,573
Securities sold under repurchase agreements made during the year	25,717
Securities sold under repurchase agreements settled during the year	(12,742)
At 31 December 2019	**55,548**

The carrying value of the investment at amortized cost pledged as collateral amounts to BD 3,770 (2018: nil). Additionally, repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 61,648 (2018: BD 45,549) are pledged as collateral.

15. Customer accounts

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

16. Other liabilities

	2019	2018
Accrued expenses	1,808	1,033
Provision for employee indemnities	801	653
Employee share incentive scheme liability	2,171	1,713
Other payables	1,358	406
	6,138	**3,805**

17. Share capital

	2019	2018
Authorized share capital		
1,000,000,000 (2018: 1,000,000,000) shares of 100 fils each	100,000	100,000

	2019	2018
Issued and fully paid		
428,487,741 ordinary shares of 100 fils each	42,849	42,849

As at 31 December 2019, the Bank holds 38,563,894 of treasury shares (2018: 42,848,771). During the year, the Bank transferred treasury shares of 4,284,877 (2018: Nil) to the employee share incentive scheme.

Proposed appropriations

The board of directors proposed the following appropriations subject to shareholders and regulatory approvals.

	2019	2018
Cash dividend 10% (2018: 8%)	3,899	3,085

The shareholders are:	Nationality	2019		2018	
		Capital	% holding	Capital	% holding
Social Insurance Organization	Bahrain	15,922.5	37.16	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank BSC	Bahrain	3,667	8.56	3,667	8.56
BBK BSC	Bahrain	3,390	7.91	3,390	7.91
Investcorp Holdings BSC	Bahrain	2,366	5.52	2,366	5.52
Arab Banking Corporation BSC	Bahrain	2,366	5.52	2,366	5.52
Gulf Investment Corporation GSC	Kuwait	3,300	7.70	3,300	7.70
Employee Stock Ownership Plan (Volaw Trust)	Jersey	2,027	4.73	1,599	3.73
Al Salam Bank – Bahrain BSC	Bahrain	591	1.39	591	1.39
SICO BSC (c) (Treasury shares)	Bahrain	3,857	9.00	4,285	10
		42,849	**100**	**42,849**	**100**

18. Statutory reserve

In accordance with the Commercial Companies Law, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 603 (2018: BD 370).

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19. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2019, no appropriations to general reserve are recommended.

20. Net investment income

	2019	2018
Net gain on investments at fair value through profit or loss*	2,508	547
Loss on sale of Investments at fair value through other comprehensive income	(20)	(5)
Interest income from debt instruments	1,382	1,450
Dividend income	425	1,050
Other investment income	20	8
	4,315	**3,050**

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

	2019	2018
Realized gain on sale	1,280	690
Unrealized fair value gain / (loss)	1,228	(143)
	2,508	**547**

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

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

21. Fee income / (expense)

	2019	2018
Fee income from trust or other fiduciary activities		
- Management fee	3,551	3,099
- Performance fee	2,241	383
- Custody fee	406	426
- Investment banking fee	-	110
- Advisory & Underwriting fee	114	184
	6,312	4,202
Fee expense		
- Custody fee	(41)	(36)
Net fee income	**6,271**	**4,166**

22. Brokerage and other income

	2019	2018
Brokerage income	1,394	1,246
Foreign exchange gain	709	793
Other income	289	293
	2,392	**2,332**

23. Net interest income

	2019	2018
Interest income from:		
Placements, call deposits and reverse repos	2,680	2,157
Margin lending	152	131
	2,832	**2,288**
Interest expense on:		
Bank borrowings and repos	(1,427)	(1,280)
Net interest income	**1,405**	**1,008**

24. Staff cost

	2019	2018
Salaries, allowances and bonus	5,239	3,953
Social security costs	204	177
Other costs	208	137
	5,651	**4,267**

As at 31 December 2019, the Group employed 72 (2018: 66) Bahrainis and 38 (2018: 37) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 204 (2018: BD 177).

25. Other operating expenses

	2019	2018
Occupancy expenses	141	272
Communication expenses	81	67
Marketing expenses	189	160
Professional fees	208	182
Other operating expenses	1,703	1,384
Depreciation	498	318
	2,820	**2,383**

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26. Related party transactions

Transactions with funds owned by the Subsidiary Companies

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

	2019	2018
Fee and commission income	**1,035**	624
Fee receivable	**321**	244
Investments at fair value through profit or loss:		
-Khaleej equity fund	**1,195**	1,136
-SICO Kingdom equity fund	**2,539**	2,459
-Bahrain liquidity fund company	**1,150**	1,237

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

Transactions with shareholders

The Group obtained short-term borrowings from its bank shareholders for a total of BD 3,770 (2018: BD 1,885). The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilized credit facilities with certain of its shareholders that are local banks. All such transactions are in the ordinary course of business and on normal commercial terms.

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

	2019	2018
Fee and commission income	**988**	659
Fee receivable	**293**	236
Funds under management	**53,847**	65,356
Placements	**9,064**	3,019
Borrowings	**3,770**	1,885

Key Management Personnel

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

Compensation to key management personnel is as follows:

	2019	2018
Salaries and short term benefits	1,434	1,071
Post-employment benefits	62	53
Equity compensation benefits	255	113
	1,751	**1,237**

Attendance fees and remuneration to Board members and other related expenses amount to BD 251 (2018: BD 186)

27. Employee Share Ownership Plan

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

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

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

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

The Group has recognized an employee liability of BD 2,171 (2018: BD 1,713) on the shares granted until date. This liability has been determined on the value of the Group's net assets as at 31 December 2019 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

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

	2019 No. of shares issued	2018 No. of shares issued
As at 1 January	15,987,741	15,987,741
Shares added during the year	4,284,877	-
	20,272,618	**15,987,741**

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28. Involvement in unconsolidated structured entities

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

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

	2019	2018
Investments in funds		
Khaleej equity fund	1,195	1,136
SICO Kingdom Equity fund	2,539	2,459
Bahrain liquidity fund	1,150	1,237
	4,884	**4,832**

29. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in Khaleej Equity Fund a minimum of 10% of the net assets value at any time throughout its life. The Group has other investment commitments of Nil (2018: BD 106) and margin lending drawdown commitments of BD 3,279 (2018: BD 2,107).

Funds under management (net asset value)	2019	2018
Khaleej Equity Fund	17,615	15,270
SICO Gulf Equity Fund	2,378	307
Bahrain Liquidity Fund	39,513	42,469
SICO Kingdom Equity Fund	8,221	7,661
SICO Fixed Income Fund	4,011	3,749
Discretionary portfolio management accounts	736,994	629,631

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

The funds under discretionary portfolio management accounts were held in trust or in a fiduciary capacity and are not treated as assets of the Group and, accordingly, have not been included in the consolidated financial statements.

	2019	2018
Assets under custody	2,800,744	2,334,070

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2019, assets amounting to BD 2,800,744 (2018: BD 2,334,070) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 490,695 (2018: BD 354,487) were registered in the name of the Bank.

Legal claims

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

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

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

On the 30th of April 2019, the first instance court issued its judgment and all demands against SICO and its employees have been rejected in the first instance judgement. The first defendant, who is un-related to SICO, is obliged to pay damages to the plaintiff and which has been appealed by the first defendant. At this stage of the action, the Group believes there is no need for a provision to be created in these consolidated financial statements.

Contingencies

The Group has letters of guarantee in the amount of BD 5,646 (31 December 2018: BD 5,133) in favor of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

30. Net open foreign currency positions

	2019	2018
QAR	**16**	(85)
US Dollar	**37,250**	40,766
JOD	**51**	15
KWD	**318**	1,097
SAR	**6,660**	9,698
GBP	**1**	1
AED	**8,560**	6,321
OMR	**557**	(125)
EUR	**4**	-
EGP	**(4)**	3

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

31. Earnings per share

	2019	2018
Profit for the year	**6,034**	3,701
Weighted average number of equity shares (in 000's)	**428,487**	428,487
Less: Employee share incentive scheme shares	**(20,272)**	(15,988)
Less: Treasury shares	**(38,564)**	(42,848)
Weighted average number of shares as at 31 December	**369,651**	369,651
Earnings per share (in fils)	**16.32**	10.01

The Bank do not have any dilutive instruments.

32. Maturity profile of assets and liabilities

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

31 December 2019	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	56,555	-	-	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	51,106	-	-	51,106
Investments at fair value through profit or loss	3,851	5,200	11,025	20,076
Investments at fair value through other comprehensive income	-	-	9,128	9,128
Investments at amortized cost	-	-	9,971	9,971
Investment property	-	-	1,915	1,915
Fees receivable	3,523	-	-	3,523
Furniture, equipment and intangibles	280	1,029	362	1,671
Other assets	8,576	-	-	8,576
Total assets	**128,152**	**6,229**	**32,401**	**166,782**
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	41,340	-	-	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	**107,418**	**-**	**-**	**107,418**
Liquidity gap	**20,734**	**6,229**	**32,401**	**59,364**
Cumulative liquidity gap	**20,734**	**26,963**	**59,364**	**59,364**

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32. Maturity profile of assets and liabilities (continued)

31 December 2018	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	35,484	-	-	35,484
Treasury bills	10,416	-	-	10,416
Securities bought under repurchase agreements	41,927	-	-	41,927
Investments at fair value through profit or loss	9,600	3,698	10,346	23,644
Investments at fair value through other comprehensive income	-	-	6,214	6,214
Investments at amortized cost	-	-	9,990	9,990
Investment property	-	-	1,955	1,955
Fees receivable	1,252	-	-	1,252
Furniture, equipment and intangibles	3	296	941	1,240
Other assets	3,142	-	-	3,142
Total assets	**101,824**	**3,994**	**29,446**	**135,264**
Liabilities				
Short-term bank borrowings	3,385	-	-	3,385
Securities sold under repurchase agreements	42,573	-	-	42,573
Customer accounts	23,135	-	-	23,135
Other liabilities	3,805	-	-	3,805
Payable to other unit holders in consolidated funds	6,701	-	-	6,701
Total liabilities	**79,599**	**-**	**-**	**79,599**
Liquidity gap	**22,225**	**3,994**	**29,446**	**55,665**
Cumulative liquidity gap	**22,225**	**26,219**	**55,665**	**55,665**

33. Accounting classification and fair values

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

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

31 December 2018	Fair value through profit or loss	Fair value through other comprehensive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	35,484	35,484
Treasury bills	-	-	-	10,416	10,416
Securities bought under repurchase agreements	-	-	-	41,927	41,927
Investments at fair value through profit or loss	23,644	-	-	-	23,644
Investments at fair value through other comprehensive income	-	6,214	-	-	6,214
Investments at amortized cost	-	-	-	9,990	9,990
Investment property	-	-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	2,883	2,883
	23,644	**6,214**	**-**	**103,907**	**133,765**
Short-term bank borrowings	-	-	-	3,385	3,385
Securities sold under repurchase agreements	-	-	-	42,573	42,573
Customer accounts	-	-	-	23,135	23,135
Other liabilities	-	-	-	3,805	3,805
Payable to other unit holders in consolidated funds	-	-	6,701	-	6,701
	-	**-**	**6,701**	**72,898**	**79,599**

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

All figures in BD'000 133

33. Accounting classification and fair values (continued)

(ii) Fair value hierarchy

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

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

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

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

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

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	4,959	-	-	4,959
- Debt securities	4,169	-	-	4,169
Fair value through profit or loss:				
- Equities	2,230	-	-	2,230
- Debt securities	9,564	-	-	9,564
- Funds	7,450	-	832	8,282
Investments at amortized cost:				
- Debt securities	11,477	-	-	11,477
Liabilities				
- Payable to other unit holders in consolidated funds	(622)	-	-	(622)
	39,227	**-**	**832**	**40,059**

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	3,074	-	64	3,138
- Debt securities	1,940	1,136	-	3,076
Fair value through profit or loss:				
- Equity	8,916	-	-	8,916
- Debt securities	6,495	151	-	6,646
- Funds	6,041	1,131	910	8,082
Investments at amortized cost:				
- Debt securities	9,935	-	-	9,935
Liabilities				
- Payable to other unit holders in consolidated funds	(6,701)	-	-	(6,701)
	29,700	**2,418**	**974**	**33,092**

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

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

	Level 3 2018	Level 3 2019
At 1 January	974	1,280
Total gain:		
- in income statement	(69)	(76)
- in other comprehensive income	-	(230)
Purchases	-	-
Settlements	(73)	-
Transfers into / (out) of level 3		-
At 31 December	**832**	**974**

Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category, which relates to fair value through other comprehensive income financial assets is assessed as not significant to the other comprehensive income and total equity.

(iii) Valuation technique and significant unobservable input

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

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

34. Comparatives

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

Corporate Governance Review

Commitment

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

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

Shareholder Information

The Bank's shares are listed on the Bahrain Bourse as a closed company. As of 31 December 2019, the Bank had issued 428,487,741 ordinary shares of Bahraini fils 100 each. The last Annual General Meeting was held on 25 March 2019.

Responsibilities of the Board of Directors

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

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

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

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

Board Composition and Election

The Board's composition is guided by the Bank's Articles of Association. As of 31 December 2019, the Board consisted of nine Directors, three of which are Independent Directors and six are Executive Directors, including the Chairman and Vice-Chairman. The Bank recognises the need for the Board's composition to reflect a range of skills and expertise. Profiles of Board Members are listed later in this Review. The Company Secretary is Matthew B. Hansen. The classification of 'Executive' Directors, 'Non-executive' Directors and 'Independent' Directors is per the definitions stipulated by the CBB. Directors are elected by the shareholders at the AGM, subject to prior approval by the CBB, for a period of three years, after which they shall be eligible for re-election for a further three-year period.

Independence of Directors

In line with the requirements of the CBB's HC Module, the Bank has put in place Board-approved criteria to determine 'Test of Independence' using formal requirements as specified in the CBB rule book and other relevant requirements as assessed by the Board of SICO. The purpose of the Test is to determine whether the Director is 'Independent of management, and any business or other relationships, which could materially interfere with the Director's ability to exercise objective, unfettered, or independent judgement; or the Director's ability to act in the best interests of SICO'. Based on an assessment carried out in 2019, the Board of Directors resolved that the three Non-executive Directors of SICO met the relevant requirements of the 'Test of Independence', and accordingly, they were classified as 'Independent' Directors and Committee members of SICO's Board of Directors.

Board and Committee Evaluation

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

Remuneration of Directors Policy

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

Board Meetings and Attendance

According to the Bahrain Commercial Companies Law and CBB rules, Board meetings will be conducted at least four times a year (on a quarterly basis). All Board members must attend at least 75% of all Board meetings within a calendar year. At least five Directors must attend each Board meeting, including the Chairman or the Vice-Chairman. During 2019, four Board meetings were held in Bahrain.

Directors' Attendance: January to December 2019

Board Meetings

Board members	4th Mar 2019 #135 - SICO	14th May 2019 #136 - SICO	4th Sep, 2019 #137 - SICO	13th Nov, 2019 #138 - SICO
Shaikh Abdulla bin Khalifa Al Khalifa (Chairman)	✓	✓	✓	✓
Hussain Al Hussaini (Vice Chairman)	✓	✓	✓	✓
Fahad Murad	✓	✓	✓	✓
Waleed K. Al-Braikan	✓	✓	✓	✓
Anwar Abdulla Ghuloom Ahmadi	✓	✓	✓	-
Mohammed Abdulla Isa	✓	✓	✓	✓
Prakash Mohan	✓	✓	✓	✓
Khurram Ali Mirza	✓	✓	✓	-
Emad Al Saudi	✓	✓	✓	✓

Investment Committee Meetings

Board members	#30, 29th Jan 2019 - SICO	#31, 23rd Apr 2019 - SICO	#32, 17th Jun 2019 - SICO	#33, 15th Oct 2019 - SICO
Shaikh Abdulla bin Khalifa Al Khalifa (Chairman of Investment Committee)	✓	✓	✓	✓
Hussain Al Hussaini	✓	✓	✓	✓
Prakash Mohan	✓	✓	✓	✓

Audit & Risk Committee Meetings

Board members	#61, 19th Feb 2019 - SICO	#62, 2nd May 2019 - SICO	#63, 3rd Sep 2019 - SICO	#64, 12th Nov 2019 - SICO
Waleed K. Al-Braikan (Chairman of the Audit and Risk Committee)	✓	✓	✓	✓
Anwar Abdulla Ghuloom Ahmadi	✓	-	✓	✓
Emad Al Saudi	✓	✓	✓	✓

Nomination, Remuneration and Corporate Governance Committee Meetings

Board members	#27, 8th Jan 2019 - SICO	#28, 31st Jan 2019 - SICO	#29, 10th Oct 2019 - SICO	#30, 24th Dec 2019 - SICO
Fahad Murad (Chairman of Nomination, Remuneration, and Corporate Governance Committee)	✓	✓	✓	✓
Mohammed Abdulla Isa	✓	✓	✓	✓
Khurram Ali Mirza	✓	✓	✓	✓

Board Committees

Investment Committee

Objective

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

Audit and Risk Committee

Objective

- Review the Bank's accounting and financial practices.
- Review the integrity of the Bank's financial and internal controls and financial statements.
- Recommend the appointment, compensation and oversight of the Bank's External Auditors.
- Recommend the appointment of the Internal Auditor.
- Review the Bank's Compliance procedures and Regulatory matters.
- Provide active oversight on the risk management framework, approve risk policies and limits, and ensure adequacy of risk controls.

Nomination, Remuneration and Corporate Governance Committee

Objective

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

Management

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

Management committees

Managers	Asset Management Committee	Assets, Liabilities and Investment Committee	Internal Control Committee
Chief Executive Officer	Chairperson	Chairperson	Chairperson
Chief Capital Markets Officer			
Chief Operating Officer			
Chief Financial Officer			
Head of Equities Asset Management			
Head of Fixed Income Asset Management			
Head of Treasury		x	
Head of Proprietary Investments		x	
Head of Internal Audit	x	x	x
Head of Risk Management	x	x	
Head of Internal Control			x
Head of Compliance		x	

Note:

Shaded = Voting committee members

x = Non-voting member

Asset Management Committee

Objective

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

Assets, Liabilities, and Investments Committee (ALIC)

Objective

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

Internal control committee (ICC)

Objective

- To oversee the Internal Control functions carried out in SICO by various departments. The remit of ICC is to look into strengthening the internal control culture throughout the company by ensuring that each department head takes ownership, responsibility and accountability for internal control. The Committee is entrusted with the responsibility to consult and advise the Board of Directors in the assessment and decision making concerning the Bank's system of risk management, internal control and corporate governance.

Management Profiles

Najla Al Shirawi

Chief Executive Officer

Najla Al Shirawi has more than 22 years of investment banking experience. Having been part of SICO since 1997, she was appointed CEO in 2014 following her appointment as deputy CEO in 2013. Najla served with Geneva-based Dar Al-Maal Al-Islami Trust, where she established private banking operations for the Group in the Gulf region. Najla is a Board member at the Bahrain Economic Board (EDB) and a Chairperson on the Board of Directors for two SICO subsidiaries: SICO Funds Services Company (SFS) in Bahrain and SICO Financial Brokerage in Abu Dhabi. She is also an Independent Board Member of Eskan Bank BSC(c), Bahrain and a Board Member of the Deposit Protection Scheme, Bahrain, the Bahrain Associations of Banks, and the Bahrain Institute of Banking and Finance. She holds an MBA from the American College in London and a BA in Civil Engineering from University of Bahrain.

Fadhel Makhlooq

Chief Capital Markets Officer

With over 37 years of professional experience, Fadhel Makhlooq joined SICO in 2004 as Head of Brokerage before being appointed Head of Investments & Treasury in 2008. He was re-appointed Head of Brokerage in 2010 and then assumed the position of Chief Capital Markets Officer in 2018. Prior to joining SICO, he worked for a number of leading financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase). He currently also serves as Board Member of SICO Financial Brokerage. Fadhel holds an MBA from Glamorgan University, UK.

Anantha Narayanan

Chief Operating Officer

With over 29 years of diversified experience in the areas of operations, audit, and risk in the banking industry, Anantha joined SICO in 2008. Prior to joining SICO, he worked for Credit Agricole, BBK, Commercial Bank of Oman/Bank Muscat, and PricewaterhouseCoopers. Anantha is a Chartered Accountant and Cost Accountant (India), a Certified Information Systems Auditor (USA), Financial Risk Manager (USA), and an Associate Member of the Institute of Financial Studies (UK). He holds a BSc Honours from the University of Manchester, UK.

K. Shyam Krishnan

Chief Financial Officer

K. Shyam Krishnan has 29 years of experience in finance, accounting, audit, investments and risk management, with the majority of his career spent in conventional and Sharia-compliant banking. Shyam currently also serves as a Board Member of SICO Financial Brokerage. Prior to joining SICO in 2015, he was Group Head of Finance at Al Salam Bank-Bahrain. Before this, he was Head of Hedge Funds' Operational Risk Management at Investcorp, Bahrain and Audit Supervisor at the Bahrain office of Ernst & Young. He is a Chartered Accountant and Management Accountant from India and a Chartered Financial Analyst, Certified Internal Auditor and also a Certified Information Systems Auditor. He holds a Bachelor of Commerce from Madras University, India.

Shakeel Sarwar

Head of Equities Asset Management

Shakeel Sarwar joined SICO in 2004 and, over the length of his career, has accumulated over 25 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with Riyad Bank's Asset Management Division and was part of a team that managed over USD 3 billion in Saudi equities. He has also held positions with ABN Amro Asia Securities in the UK and Pakistan. Shakeel holds an MBA in Banking and Finance from IBA, Karachi, Pakistan.

Ali Marshad

Head of Fixed Income Asset Management

Ali Marshad has over 14 years of experience in asset management, investments, treasury and brokerage. Joining SICO in 2008 as an Analyst in the Investments & Treasury division, Ali then headed up the newly established Fixed Income Desk in 2012 before being promoted to Head of Fixed Income in 2015. Prior to joining SICO, he worked in the UK as an Analyst with Mercer Investment Consulting and as a Performance Analyst with UBS Global Asset Management - London. A Chartered Financial Analyst, Ali holds a BSc (Honours) in Banking, Finance & Management from Loughborough University, UK.

Wissam Haddad

Head of Investment Banking and Real Estate

Wissam Haddad has 18 years of experience in investment banking, private equity and corporate finance. Prior to joining SICO in 2014, he was a Director with Gate Capital in Dubai and had previously held senior positions with UAE-based Najd Investments, Unicorn Capital, Emirates NBD's NBD Sana Capital, Saudi National Commercial Bank's NCB Capital, and East-gate Capital among others. Wissam holds a BCom degree from Concordia University, Canada.

Jithesh K. Gopi

Head of Proprietary Investments

Jithesh Gopi has over 25 years of experience in investment management, research and analytics. Since 2013, he worked with Al Rajhi Capital in Riyadh as Head of Research, Head of Asset Management, Director of Research and Financial Institutions, and Director of Corporate Development and Proprietary Investments. In 2006, he joined SICO as Senior Analyst and as Head of Research covering over 50 companies in major sectors. Jithesh holds B.Sc. in Mechanical Engineering from the College of Engineering, Trivandrum, India and an MBA from the Asian Institute of Management in Manila, Philippines. He is also a CFA charterholder and has completed the Asian International Executive Program at INSEAD Singapore.

Mariam Isa

Head of Brokerage

Mariam Isa has 15 years of experience in regional equity trading and sales. She joined SICO in 2005. Before becoming the Head of Brokerage, she held the positions of Chief Broker. Mariam has also worked as a Senior Officer in the Placement Department at Gulf Finance House. She holds an MBA in Islamic Finance from University College of Bahrain and has a n Associate Diploma in Accounting from University of Bahrain; and a Treasury & Capital Market Diploma from BIBF, and has completed the Leadership Development Program, University of Virginia, USA.

Salman Al Sairafi

Head of Global Markets

With more than 17 years of experience in financial services and technology, Salman Al Sairafi joined SICO in 2020 as head of the newly established Global Markets division. Prior to joining SICO, he held the role of Chief Investment Officer and Board Member at Capital Growth Management in Bahrain and was Senior Investment Advisor at United Consulting Group in Saudi Arabia. Prior to that, he headed the Fixed Income and Money Markets desk at NCB Capital in Saudi Arabia. Salman has also held various other positions in Bahrain and the UK in the fields of consulting and R&D. Salman is Chairman of the Board at Dar Al Ma'rifa in Bahrain and is both a Chartered Financial Analyst and Chartered Alternative Investment Analyst. He holds a B.Eng in Information Systems Engineering and an M.Sc in Advanced Computing from Imperial College London and is a former Chevening Scholar.

Shaikha Mohammed Kamal

Head of Market Making

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

Nishit Lakhotia

Head of Research

Nishit Lakhotia has nearly 16 years of experience in the fields of investment research, risk management, hedge funds and private equity. He has been involved in sell side Research in SICO since 2009 actively covering sectors such as telecommunications, consumers, aviation, and construction across the GCC. Previously, Nishit worked for an Iceland-based private equity firm focusing on India's infrastructure sector and a US-based global hedge fund. Nishit is a Chartered Financial Analyst, a Chartered Alternative Investment Analyst, and a Financial Risk Manager from the Global Association of Risk Professionals. He holds an MBA in Finance from the Narsee Monjee Institute of Management Studies, Mumbai, India.

Husain Najati

Head of Treasury

Husain Najati has over 15 years of experience in financial control, fixed income and foreign exchange trading. Husain joined SICO in 2006 as a Financial Controller where he was responsible for accounting support for operational management. In 2008, Husain became a Senior Dealer in the Investment and Treasury Department, responsible for money market, FX, and fixed income management and monitoring investments across primary and secondary markets. Husain holds a Dealing Certificate from the ACI Financial Markets Association in addition to a Treasury and Capital Markets Diploma from the Bahrain Institute for Banking & Finance. He also holds a B.Sc. in Banking and Finance form the University of Bahrain.

Nadeen Oweis

Head of Corporate Communications

Nadeen Oweis joined SICO in 2008 and has accumulated over 20 years of professional experience. Prior to joining SICO, Nadeen oversaw corporate communications and public relations for Microsoft in Bahrain. Before this, she handled regional accounts for Lowe Contexture. She also held posts at Proctor & Gamble Jordan and managed the advertising and promotions account for Radio Fann FM in Jordan. Nadeen holds an MA in Diplomatic Studies from the Jordan Institute of Diplomacy, a BA in Law from the University of Jordan, and a Certificate of Digital Marketing from Columbia Business School.

Haitham K. Haji

Head of Distribution and Business Development

Haitham Haji holds over 21 years of experience within the fields of investment, treasury, research and business development. Previously, Haitham was CEO of Investrade Company B.S.C.. Haitham served as a consultant with Gatehouse Bank in the UK advising on GCC-based investments, Director and Senior Relationship manager for Credit Suisse Bahrain, and Investment Placement Director with ARCAPITA Bank. Haitham began his career with Bank of Bahrain and Kuwait in Operations, Research and Business Development and as Treasury and Investment Manager. Haitham holds a BA in Public Administration from the University of Kent and an MBA from Durham Business School.

Fatima Mansoor

Head of Client Relations

With more than 14 years of experience in regional equity trading and client relations, Fatima Mansoor joined SICO in 2006 as a broker, assuming the role of senior broker in 2008. She moved to the Client Relations Department in 2017 and was appointed head of the department in 2019. Fatima holds a B.SC in Banking and Finance from the University of Bahrain and an MBA in Finance from the New York Institute of Technology.

Nadia Albinkhalil

Head of HR & Administration

Nadia Albinkhalil more than 25 years of experience and has been with SICO since inception, during which time she established the HR & Administration Department and had been responsible for Board meeting administration. Prior to joining SICO, she provided administrative support for the Private Banking Unit of Chase Manhattan Bank. Nadia holds a Diploma in Office Management from Bahrain University.

Husain Ahmed

Head of Operations

Husain has 14 years of banking experience, having joined SICO in 2006. Before becoming Acting Head of Operations in 2019, he held the position of Vice President of Operations at SICO. Husain holds an MBA from Arabian Gulf University and a BSc in Business Informatics from AMA University. Husain has also received numerous anti-money laundering and back-office operation training certifications.

Mohammed Ibrahim

Head of Information Technology

Mohammed Ibrahim has over 19 years of experience in the field of information technology (IT) including IT project management, business analysis, complex system builds and interfaces, business continuity planning, and information security. Prior to joining SICO in 2007 he was Training Head and Technical Consultants Team Lead at the Bahrain Institute of Technology and Technical and Training Manager at YAT Group, Egypt. Mohammed is a Certified Information Systems Security Professional (CISSIP), a Master Certified Internet Web Professional (MCIW), a Microsoft Certified Solutions Expert, and a Microsoft Certified Trainer. He holds a Bachelor of Science and Education degree and a Postgraduate Diploma in Science and Education from Alexandria University, Egypt.

Simone Del Nevo

Head of Legal

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

Mohammed Juma

Head of Compliance and MLRO

Mohammed Juma holds over 16 years of experience in compliance, investment and operations management. Mohammed joined SICO in 2016 as Head of Compliance and MLRO where he is responsible for monitoring SICO Group's operational adherence with the guidelines of regulatory authorities. Previously, Mohammed was Head of Compliance and MLRO with the International Investment Bank and JS Bank Limited in Bahrain. Mohammed holds a BA in Banking and Finance from the University of Bahrain and has completed the Leadership Grooming Executive Program with the Ivy Business School in Canada and Hong Kong. He is a Certified Compliance Professional and a Certified Anti-Money Laundering Specialist.

Joseph Thomas

Head of Internal Audit

Joseph Thomas has over 17 years of experience in internal audits, assurance engagements, and other financial advisory services. Joseph joined SICO in 2015 after having been Head of Internal Audit at Global Banking Corporation and holding a post with the Risk Consulting division of KPMG Bahrain. He began his career with Bharat Overseas Bank in India, followed by an internal audit role at the South Indian Bank. He later served as Audit Manager and Partner at a Dubai-based auditing firm. Joseph is a Chartered Accountant and a Certified Internal Auditor. He holds a Bachelor of Commerce degree from Mahatma Gandhi University in India.

Srikanth Sethuraman

Acting Head of Risk

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

Matthew Hansen

Corporate Secretary

Matthew Hansen became a consultant for SICO in 2013, and he has served as the Corporate Secretary for SICO's Board of Directors since 2015. He is the General Manager of Peak Consultancy W.L.L., which is a business advisory firm in Bahrain. From 2004 to 2013 he was the Chief Legal Counsel for The Family Office BSC (c), the first multi-family office company in the Middle East. Matthew was the Legal Counsel for Bahrain Middle East Bank E.C. He has also been an associate attorney at the law firms of Baker & McKenzie (Bahrain), Hughes Hubbard & Reed LLP (New York), and Hawkins Delafield & Wood LLP (New York). Matthew received his Bachelor of Arts from Haverford College in Pennsylvania, and his Juris Doctor from St. John's University School of Law in New York. He has been a member of the New York State Bar Association since 1995.

Naser Obaid

Chief Executive Officer

SICO Funds Services Company BSC (c) (SFS)

Naser Obaid has over 23 years of experience in the financial services industry across the region. Prior to joining SFS in 2019, he was a Financial Advisor to the Chairman at NBB Capital and BBIH Group. Naser previously held positions at a number of leading trust and fund service providers including Chief Executive Officer at Crestbridge Bahrain, Executive Director and Member of Senior Management at Ohad Trust, and Assistant Vice President at TAIB Bank. He has also held positions in Deloitte & Touche and KPMG in Bahrain and Yemen respectively. Naser holds a BA in Commerce from Osmania University as well as an MA in Accountancy and Management Audit from Bangalore University.

Bassam A. Khoury

General Manager SICO Financial Brokerage LLC

Bassam has over 34 years of international experience in brokerage, investments, and financial consultancy. He joined SICO in 2008 as Head of Brokerage before leaving in 2010 to join QInvest, Qatar as Head of Regional Brokerage. Prior to re-joining SICO in 2013 as General Manager of SICO Financial Brokerage, Bassam was Chief Executive Officer of Bahrain-based ABC Securities. Previously, he worked with Banque Saudi Fransi in Saudi Arabia, BMB Investment Bank and Lehman Brothers in Bahrain, a private family office in Paris, and M Sternburg & Company in the USA. Bassam holds a BSc degree in Business Administration & Economics from King's College, New York, USA.

Governance Framework

SICO's Corporate Governance framework comprises of Board and Committee Charters, Code of Business Conduct, operational policies and procedures, internal controls and risk management systems, compliance procedures, delegated authority limits (DAL), internal and external audit, effective communications and transparent disclosure and measurement and accountability.

Code of Business Conduct

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

Recruitment of Relatives Policy

The Bank has in place policies that govern the recruitment and appointment of relatives to the Bank. Existing employees are required to alert the Human Resource Department of any relatives, or relationship of other employees or candidates being interviewed. Failure to do so will be seen as a breach of conduct and subject to disciplinary action as per the Bank's policy.

Compliance and Anti-Money Laundering

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

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

Corporate Communications

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

Related Party Transactions & Conflict of Interest

The Directors make every practicable effort to arrange their personal and business affairs to avoid a conflict of interest with the Bank. The Directors disclose their interests in other entities or activities to the NRCG committee on an annual basis, inform the Bank of any conflict of interest whenever it arises and abstain from voting on any related subject matter. The Bank reviewed all such transactions during 2019 and there were no transactions involving potential conflicts of interest which need to be brought to the shareholders' attention. The related party transaction details are disclosed in Note 26 of the Consolidated Financial Statements.

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

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

Compliance with the CBB's High-Level Controls Module

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

SICO is in compliance with the module except for the following –

HC-1.4.6 and HC-1.4.8, which stipulate that the chairman of the Board of Directors should be an independent director, SICO Chairman Shaikh Abdulla bin Khalifa Al Khalifa is considered an Executive Director as he represents SICO's major shareholder. However, this does not compromise the high standards of corporate governance as the bank follows strict policies to manage conflict of interest in Board decisions.

HC-1.8.2, HC-4.2.2 and HC-5.3.2 state that the Corporate Governance Committee, Nomination Committee and Remuneration Committee must include only 3 independent directors. The Chairman of the Nomination, Remuneration and Corporate Governance Committee is an independent director, however, the remaining two members are executive directors. The bank is of the opinion that this does not compromise the high standards of corporate governance as the bank has implemented measures to manage potential conflict of interest.

HC-6.5.49 stipulates that every 5 years, the audit committee must commission an independent external quality assurance review of the internal audit function. Currently, SICO plans for the same before the end of 2020.

HC-6.5.51, requires management to ensure that all internal audit findings and recommendations are resolved within six months for high risk issues and twelve months for others from the issue date of the subject internal audit report. Some of the findings have not been resolved within the stipulated time frame, however, relevant management is working on addressing this issue.

SICO REMUNERATION POLICY & RELATED DISCLOSURES

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

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

Remuneration strategy

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

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

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

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

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

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

NRCGC role and focus

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

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

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

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

NRCGC Member Name	Number of meetings attended
Fahad Murad Chairman of the NRCG committee	4
Mohammed Abdulla Isa	4
Khurram Mirza	4

The aggregate remuneration to NRCGC members during the year in the form of sitting fees amounted to BD 12,000 [2018: BD 9,000].

External consultants

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

Scope of application of the remuneration policy

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

Board remuneration

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

Variable remuneration for staff

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

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

Key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity, risk diversification, strategy implementation and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRCGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRCGC.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives, and is not to be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environment, apart from value-adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits, but take different amounts of risk on behalf of the bank, are treated differently by the remuneration system.

Risk assessment framework

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

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

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

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

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

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

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

Risk adjustments

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

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

There will be considerable contraction of the Bank's total variable remuneration

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

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

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

Malus and clawback framework

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

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

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

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

Components of variable remuneration

Variable remuneration has following main components:

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

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

Deferred compensation

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

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

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

Details of remuneration paid

(a) Board of Directors

BD 000's	2019	2018
• Sitting Fees	69	78
• Remuneration	170	100
• Others	12	8

(b) Employee remuneration

2019 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	10	859,365	29,640	351,000	157,300	1,397,305
Approved persons in control functions	16	788,169	27,150	163,200	43,300	1,021,819
Other material risk takers	27	710,949	19,680	196,800	63,200	990,629
Other employees	38	722,295	26,259	121,860	26,140	896,554
Subsidiaries						
Business lines	6	238,552	3,682	16,013	4,003	262,250
Other employees	18	354,004	7,941	49,659	8,060	419,664
Total	**115**	**3,673,334**	**114,352**	**898,532**	**302,003**	**4,988,221**

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

Notes:

The amounts reported above represent actual awards for 2019 and 2018 rather than accruals and changes in value of prior period awards. Accordingly, the numbers and amounts above may not necessarily agree with numbers/ amounts reported in the financial statements.

(c) Deferred awards

2019 BD 000'	Shares	Amount
Opening balance	16,135,313	2,339,620
Awarded during the period	2,703,605	416,355
Paid out / released during the period	(1,743,934)	(252,870)
Service, performance and risk adjustments	-	-
Changes in value of unvested opening awards	-	(129,522)
Closing balance	**17,094,984**	**2,632,628**
2018 BD 000'	**Shares**	**Amount**
Opening balance	15,851,700	2,219,238
Awarded during the period	1,580,340	229,149
Paid out / released during the period	(1,296,727)	(181,542)
Service, performance and risk adjustments	-	-
Changes in value of unvested opening awards	-	(72,775)
Closing balance	**16,135,313**	**2,339,620**

Notes :

The above table summarises the movement in all categories of share awards (i.e. fixed and variable remuneration) issued by the Bank to its employees.

The amounts and number of shares reported above include the gross value of awards and are not based on the proportion based charge recognized in the financial statements over the vesting period of awards.

Risk and Capital Management Disclosures

Executive summary

This Risk and Capital Management Disclosures encompass the qualitative and quantitative disclosures required by the Central Bank of Bahrain (CBB) in compliance with Basel III guidelines.

The information presented herein pertains to SICO BSC (c) consolidated with its subsidiaries (together termed as “SICO” or the “Bank”).

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

The disclosures have been prepared in accordance with the Public Disclosure Module (“PD”) of the CBB Rule Book, Volume I for Conventional Banks. These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the bank’s Consolidated Financial Statements for the same period. These disclosures have been reviewed by the bank’s external auditors KPMG, based on agreed upon procedures as required under Para PD-A.2.4 of the PD Module.

CONTENTS

1. Overview and structure of risk management

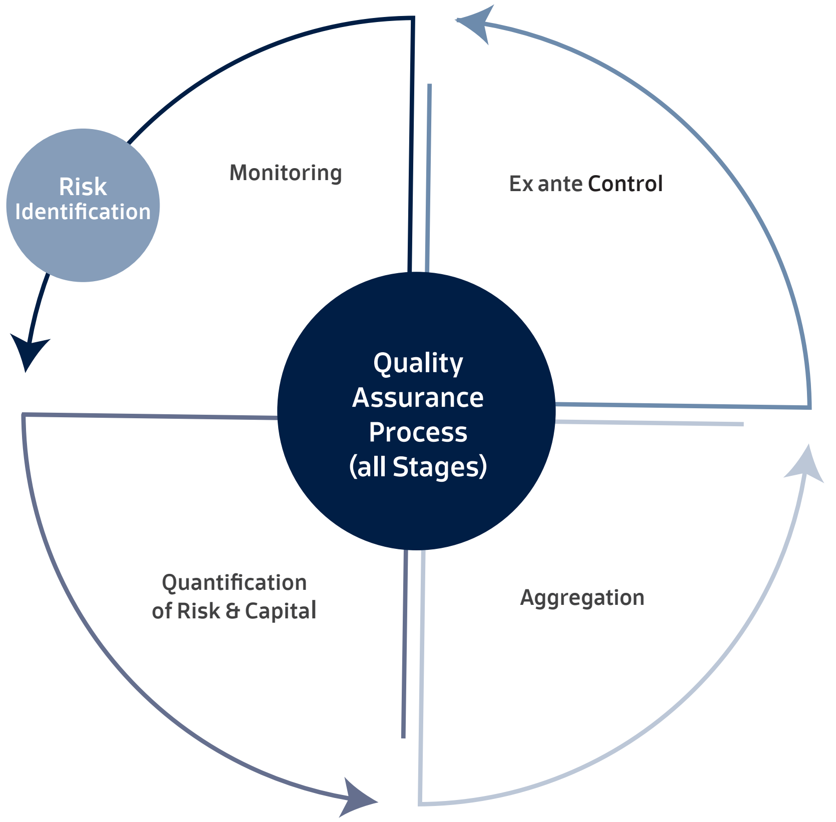
Risk management is the systematic process of identifying, assessing and mitigating the risks to which SICO is exposed. Risk management is essential to the bank’s success, as risk is inherent in its activities. Risks are mitigated by establishing appropriate controls and ensuring that effective monitoring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

The major risk types to which SICO is exposed are:

- Credit risk
- Concentration risk
- Market risk
- Operational risk
- Liquidity risk
- Fiduciary risk
- Legal and regulatory risk
- Reputational risk
- Strategic risk

The bank maintains a strong focus on its risk management framework, capital management and risk governance structure and adopts a structured, consistent and disciplined methodology to align business strategy, processes, people, technology and knowledge to evaluate and manage its risks.

The stages in the risk management process are as follows:



Risk identification: Identification of the risks that impact SICO's various business activities.

Quantification of risks and capital coverage: This step involves quantifying the risks identified in the risk identification process. It creates the objective basis for decision-making and enables the board and senior management to make decisions regarding SICO's risk-bearing capacity within this framework.

Aggregation: Once risks have been identified and quantified, individual risks are aggregated to determine SICO's risk exposure and impact.

Ex-ante control: SICO has established various tolerance limits based on the overall risk strategy of the bank. These limits are revised periodically, taking into account changing market and economic conditions. SICO has established a comprehensive limit framework to monitor its exposure to all significant risks.

Risk monitoring and ex-post control: The risk monitoring process ensures that SICO's risk profile remains in line with its risk tolerance. In this context, there is a standardised procedure for dealing with increasing levels of limit utilisation and limit breaches.

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

2. Risk governance structure

SICO has established a strong organisational structure, including disciplined control functions, to support the bank's business strategy and risk management.

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

Board of Directors (BOD): The BOD is primarily responsible for approving the bank's risk strategy, appetite and policies to manage risks that arise from SICO's business activities. These policies are consistent with the bank's broader business strategies, capital strength, management expertise and ability to control risk.

Board Investment Committee (BIC): The BIC is the second stage where decision making surrounding SICO's investment and credit activities is considered. This committee approves investments within its discretionary powers as delegated by the BOD, and in some cases the BIC recommends proposals to the BOD for approval.

Audit and Risk Committee (ARC): The ARC is responsible for reviewing the bank's accounting and financial practices to ensure the integrity of the bank's financial statements and adequacy of risk management, compliance and internal control frameworks. The committee also oversees the Internal Audit function. The committee provides active oversight of the risk management framework, approves risk policies and limits and ensures the adequacy of risk controls.

Nominations, Remuneration and Corporate Governance Committee (NRCGC): The NRCGC contributes to the control framework by nominating qualified Board Members and candidates for key management positions. It also approves remunerations that factor in the risk taken by the business and oversees corporate governance-related issues.

Assets, Liabilities and Investment Committee (ALIC): ALIC acts as the principal policy-making body at the management level which is responsible for overseeing the bank's capital and financial resources. It is also responsible for managing the balance sheet and all proprietary investment activities, including investment strategy, along with asset, country and sector allocations. The committee is specifically responsible for managing balance sheet risk, capital and dividend planning, forecasting and monitoring interest rate risk positions, liquidity and fund management. The committee is also responsible for formulating and reviewing the bank's investment policies (subject to approval by the BOD), strategies and performance measurement and assessment.

Assets Management Committee (AMC): AMC is a management committee that oversees the fiduciary responsibilities carried out by the Asset Management unit in managing clients' discretionary portfolios as well as the funds operated and managed by SICO. It also reviews the investment strategy of the bank's funds and portfolios and reviews asset allocations, subscriptions and redemptions and adherence to client guidelines.

Internal Control Committee (ICC): The ICC is a management committee that oversees the internal control functions carried out by SICO's various departments. The remit of ICC is to strengthen internal control culture throughout the company and ensure adequacy of controls in the various processes followed in the bank.

Risk Management Department (RMD): RMD is responsible for establishing a sound risk management framework to assist the bank in the realisation of its business objectives. It also provides oversight of risk management and risk controls across the organisation by coordinating and communicating with each business unit to manage the risks that arise for its business activities. It also ensures that the principles and requirements of managing risk are consistently adopted throughout the bank.

Compliance Unit: The unit is responsible for internal compliance, regulatory compliance and KYC and AML functions. It ensures compliance with internal and external rules and regulations and is responsible for implementing the compliance framework across the entire bank.

Internal Control Unit: The unit is responsible for ensuring the internal control framework of the bank's business units is adequate and recommends changes wherever deemed. The unit is also responsible for ensuring that all policies and procedures are followed correctly.

Internal Audit Unit: The unit provides an additional line of defence within the bank's risk management and control framework. Internal Audit is primarily responsible for providing independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the bank is appropriate and effectively applied by all business units, control functions and senior management.

3. CBB and basel guidelines

CBB Rulebook

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

Basel III framework

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

Basel III measures aim to:

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

The Basel III Guidelines are based on the following three framework pillars:

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

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

Pillar 1

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

Below are the approaches used for deriving the CAR:

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

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

Pillar 2

This pillar sets out the supervisory review and evaluation process of an institution's risk management framework as well as its capital adequacy assessment through the ICAAP framework.

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

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

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

Pillar 3

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

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

Scope of Application

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

The principal subsidiaries that are fully consolidated in the SICO financial statements are SICO Funds Services Company BSC (c) ("SFS"), incorporated in Bahrain which provides custody and fund administration services; SICO Financial Brokerage LLC, incorporated in Abu Dhabi which provides providing brokerage services in the UAE; and SICO US Real Estate Corp (USA) which is the holding company for US real estate investments.

The Bank has controlling interest in SICO Fixed Income Fund ("SFIF"); and therefore, consolidates the SFIF financials as per the requirements of IFRS 10.

4. Capital structure and capital adequacy

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

a. The bank's paid-up capital consists only of ordinary shares that have proportionate voting rights, and the bank does not have any other type of capital instruments.
b. The bank's Tier 1 capital, which consists of Common Equity Tier 1, comprises share capital, share premium, reserves, retained earnings, eligible reserves and unrealised losses arising from fair valuing equity securities classified under fair value through other comprehensive income.
c. The bank does not maintain any additional Tier 1 (AT1).
d. The bank's Tier 2 capital comprises of general provisions recognized under IFRS 9 Expected Credit Losses.
e. The bank has prepared its capital structure in accordance with the CBB's Basel III capital adequacy framework.
f. The bank has no subsidiaries and/or investments that are required to be deducted from its capital.
g. The bank has no restrictions on the transfer of funds or regulatory capital within the group, other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

4.1. Capital structure

Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	42,849
Less: Employee stock incentive program funded by the bank (outstanding)	-2,263
Less: Treasury Shares	-5,322
General Reserve	3,217
Legal/Statutory reserves	7,273
Share Premium	761
Retained Earnings brought forward	5,924
Current interim cumulative net income/losses	6,034
Securitisation exposures subject to deduction	-
Accumulated other comprehensive income and losses	876
Less: Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	-
Total Common Equity Tier 1 Capital (A)	**59,349**
Other Capital (AT1 & Tier 2)	
Instruments issued by parent company	-
Instruments issued by banking subsidiaries to third parties	-
Share premium	-
Assets revaluation reserve - property, plant and equipment	-
General loan loss provisions	-
Expected Credit Losses (ECL) Stages 1 & 2	70
Total AT1 & Tier 2 (B)	**70**
Total Available Capital (C) = (A) + (B)	**59,419**
Credit risk weighted exposures	56,530
Market risk weighted exposures	18,388
Operational risk weighted exposures	18,559
Total Risk weighted exposures (D)	**93,477**
CET1 Capital Ratio (A) / (D)	**63.49%**
Total Capital Adequacy Ratio (C) / (D)	**63.57%**

4.2. Capital adequacy ratio

Consolidated and subsidiaries above 5% of Group capital

Subsidiaries	Total capital adequacy ratio	Tier 1 capital ratio
SICO Consolidated (Group)	63.57%	63.49%
SICO Fund Services Company BSC ©	439.27%	439.27%
SICO Financial Brokerage LLC	4.11	2.75

** SICO Financial Brokerage LLC (UAE) CAR has been computed using the capital charges as outlined in Emirates Securities and Commodities Authority (ESCA) regulations, wherein the minimum required ratio is 1.0 with anything above 1.25 considered healthy.*

4.3. Internal capital adequacy assessment process

The bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the bank's business activities and maintain a well-capitalised status under regulatory requirements. The bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess overall capital adequacy considering the risks and the bank's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include liquidity risk, interest rate risk in the banking book, concentration risk, reputational risk and others. The ICAAP also keeps in perspective the bank's strategic plans, growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the bank's capital adequacy to determine capital requirements and planning to ensure that the bank is adequately capitalised in line with the overall risk profile. The bank has complied with regulatory capital requirements throughout the year.

4.4. Regulatory capital disclosures

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

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

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

5. Credit risk

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

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

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

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

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

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

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

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

The Bank maintains collective impairment provisions in line with the requirements under IFRS 9. The collective impairment provision is a forward-looking calculation and is established based on various factors. These factors include credit risk ratings of the counterparty, historical default rates adjusted considering multiple scenarios of the future macroeconomic outlook, loss ratios given an event of default and rating migrations.

5.1. Gross credit exposures

As at 31st December 2019	Credit exposure before CRM	Eligible CRM	Credit exposure after CRM	Average Risk Weight	Risk weighted exposure	Capital requirement @ 12.5%
Cash items		-			-	-
Claims on sovereigns	40,634	-	40,634	0%	-	-
Claims on Bahraini PSE	500	-	500	0%	-	-
Claims on banks	67,202	11,911	55,291	31.32%	17,318	2,165
Claims on corporates	22,426	12,497	9,929	100.13%	9,942	1,243
Claims on investment firms	10		10	50.00%	5	1
Regulatory retail portfolios	6,837	6,837	0		0	0
Investments in securities	10,791		10,791	117.22%	12,650	1,581
Holdings in real estate	4,366		4,366	200.00%	8,732	1,092
Other assets	7,884		7,884	100.00%	7,884	986
Total Funded	**160,649**	**31,245**	**129,404**		**56,530**	**7,066**
Off-Balance Sheet exposures	7,285		7,285	100.00%	7,285	911

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

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

5.2. Maturity profile

As at 31st Dec 2019	Less than 1 year	Over 1 year to 5 years	5-10 year	10-20 years	Above 20 years	Total
Cash and cash equivalents	35,075	-	-	-	-	**35,075**
Treasury bills	4,261	-	-	-	-	**4,261**
Placements with banks	21,480	-	-	-	-	**21,480**
Securities bought under repurchase agreements	51,106	-	-	-	-	**51,106**
Investments at fair value through profit or loss	1,243	6,318	1,844	-	10,671	**20,076**
Investments at fair value through other comprehensive income	-	-	4,169	-	4,959	**9,128**
Investments at amortized cost	-	1,169	8,802	-	-	**9,971**
Investments in properties	-	-	1,915	-	-	**1,915**
Furniture, equipment and intangibles	49	1,017	605	-	-	**1,671**
Fees receivable	3,523	-	-	-	-	**3,523**
Other assets	8,076	-	500	-	-	**8,576**
Total gross credit exposures	**124,813**	**8,504**	**17,835**	**-**	**15,630**	**166,782**
Commitments	3,279					**3,279**
Contingents	5,645					**5,645**

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

5.3. Sectoral Distribution

As at 31st Dec 2019	Financial	Sovereign	Diversified Funds	Real Estate	Others	Total
Cash and Bank balances	34,960	92	0	0	3	35,055
Treasury bills	0	4,261	0	0	0	4,261
Placements with banks	21,500	0	0	0	0	21,500
Securities bought under repurchase agreements	28,144	20,950	0	0	2,012	51,106
Investments at fair value through profit or loss	4,278	3,081	7,734	2,658	2,325	20,076
Investments at fair value through other comprehensive income	3,516	3,388	0	718	1,506	9,128
Investments at amortized cost	0	9,971	0	0	0	9,971
Investments in properties	0	0	0	1,915	0	1,915
Fees receivable	0	0	0	0	3,523	3,523
Other assets	0	0	0	0	10,247	10,247
Total assets	**92,398**	**41,743**	**7,734**	**5,291**	**19,616**	**166,782**

5.4. Geographical distribution

As at 31st December 2019	Middle East and Asia	North America	Europe	Total
Cash and bank balances	46,349	957	9,249	56,555
Treasury bills	4,261	-	-	4,261
Placements with banks	-	-	-	0
Securities bought under repurchase agreements	48,185	-	2,921	51,106
Investments at fair value through profit or loss	15,768	1,085	3,223	20,076
Investments at fair value through other comprehensive income	9,128	-	-	9,128
Investments at amortized cost	9,971	-	-	9,971
Investments in properties	-	1,915	-	1,915
Fees receivable	3,511	-	12	3,523
Furniture, equipment and intangibles	1,671	0	0	1,671
Other assets	8,563	1	12	8,576
Total assets	**147,407**	**3,958**	**15,417**	**166,782**

Large exposure limits

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

Counterparty	Country	Amount	Exposure as a % to eligible capital base
Central Bank of Bahrain	Bahrain	15,576	26%
Al Salam Bank	Bahrain	10,086	17%
Euroclear Bank	Belgium	9,249	16%

6. Market risk

Market risk is the risk of loss in the value of any financial instrument due to an adverse fluctuation in equity prices, interest rates and foreign exchange rates, whether arising out of factors affecting specific instruments or the market in general.

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

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

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

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

- **Equity price risk**
- **Interest rate risk**
- **Currency risk**

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

	Market Risk Weighted Assets			
	During the year to date period		As at	Capital Requirement @ 12.5%
	Minimum	Maximum	31-Dec-19	
Interest Rate Position Risk	635	1,085	1,085	136
Equities Position Risk	236	1,766	356	44
Foreign Exchange Risk	30	159	30	4
Total min capital required for market risk			1,471	184
Multiplier			12.5	12.5
Total			**18,388**	**2,300**

6.1. Equity price risk

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

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

Equity positions in banking book

	Gross Exposure	Risk Weighted Assets	Capital requirement @ 12.5%
Equity investments			
- Listed	3340	3340	417
- Unlisted	-	-	-
Investment in rated funds	-	-	-
Investment in unrated funds - listed/unlisted	7,451	9,310	1,164
Total	**10,791**	**12,650**	**1,581**

6.2. Interest rate risk

Interest rate risk is the risk where changes in market interest rates might adversely affect the bank's financial condition. Investments in debt instruments, lending to counterparties through repos, bank placements, as well as bank borrowings and repo borrowings give rise to interest rate risk. The Treasury Unit monitors and manages these exposures to mitigate this risk.

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

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

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

As at 31st December 2019	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non- interest sensitive	Total
Cash and bank balances	-	-	-	32,963	**32,963**
Call deposits	-	2,112	-	-	**2,112**
Treasury bills	1.29%	4,261	-	-	**4,261**
Short-term placements with banks	1.65%	21,480	-	-	**21,480**
Securities bought under repurchase agreements	2.66%	51,106	-	-	**51,106**
Investments at fair value through profit or loss	5.82%	1,620	7,943	10,513	**20,076**
Investments at fair value through other comprehensive income	6.65%	-	4,169	4,959	**9,128**
Investments at amortized cost	6.65%	-	9,971	-	**9,971**
Investments in properties	-	-	-	1,915	**1,915**
Fees receivable	-	-	-	3,523	**3,523**
Other assets	-	-	-	8,576	**8,576**
Furniture, equipment and intangibles	-	-	-	1,671	**1,671**
Total Assets		80,579	22,083	64,120	**166,782**
Short-term bank borrowings	2.60%	3,770	-	-	**3,770**
Securities sold under repurchase agreements	2.40%	55,548	-	-	**55,548**
Customer accounts		-	-	41,340	**41,340**
Other liabilities	-	-	-	6,138	**6,138**
Payable to unit holders in consolidated funds	-	-	-	622	**622**
Total Liabilities		59,318	-	48,100	**107,418**
Total Equity				59,364	**59,364**
Total Liability and Equity		59,318	-	107,464	**166,782**
Interest rate sensitivity Gap		21,261	22,083	(43,344)	
Cumulative Interest rate sensitivity gap		21,261	43,344	-	

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

6.2(b) Interest rate risk in the banking book

A 50 bps, 100 bps and 200 bps increase/decrease in market interest rates would affect the value of the fixed rate debt instruments in the banking book as follows:

Amount in BD '000					
50 bps increase	100 bps increase	200 bps increase	50 bps decrease	100 bps decrease	200 bps decrease
-366.4	-732.8	-1,465.7	366.4	732.8	1,465.7

The interest rate risk on the bank's placements, reverse-repo loans and short-term borrowings is considered minimal, and hence no sensitivity analysis has been presented. Moreover, on the liabilities side, customer liabilities are not interest rate sensitive. The short-term borrowings are at fixed rates wherein the interest rate risk is considered minimal and therefore, no sensitivity analysis has been presented.

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

6.3. Currency risk

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

7. Operational risk

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

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

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

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

	2016	2017	2018
Gross income	7,673	9,993	12,029
Average gross income (A)			9,898
Alpha (B)			15%
(C) = (A) * (B)			1,485
Risk weighted exposures (D) = (C) * 12.5)			**18,559**
Capital requirement @ 12.5% of (D)			**2,320**

8. Other risks

8.1. Concentration risk

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

The bank complies strictly with the extensive exposure norms prescribed by the CBB in the Credit Risk Management Module of the CBB's rule book.

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

8.2. Liquidity risk

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

The bank's Treasury Unit manages this risk by monitoring settlement obligations and maintaining sufficient liquid assets, including call deposits and short-term placements, with the bank's liquidity position being monitored on a daily basis. Maturity mismatches of its maturity profile are also monitored and reported to the ALIC and board. Moreover, the bank's investment book, which is also majorly invested in liquid assets, provides support to the bank's liquidity profile. Liquidity risk is also managed through ensuring compliance with regulatory liquidity requirements. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are the ratios followed by the bank as per CBB requirements.

8.3. Fiduciary risks

Fiduciary risk is defined as the risk that arises where funds entrusted to a financial institution through investments or trusts or agency accounts are: (i) not properly managed, (ii) not used for the intended purposes, (iii) not properly recorded and accounted for and (iv) not achieving value-for-money objectives.

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

Asset Management: The bank has a range of controls to support the quality of the investment process, supervised by the Asset Management Committee (AMC). There are operating policies and procedures and Investment Guidelines, coupled with dedicated buy-side research and other guidelines to support this activity. There are also strict operational controls to protect clients' assets, a staff code of conduct and 'Chinese walls' to avoid any conflicts of interest.

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

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

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

8.4. Business continuity

SICO has in place business continuity plans (BCPs) to ensure the bank's business operations and functions are carried out in case of any disturbance or unexpected events affecting business operations. The BCP provides each business line with the necessary guidelines and procedures in case of an emergency or disaster. The bank has established a business continuity centre at a different location within the Kingdom of Bahrain, which maintains a fully operational status and is capable of carrying out the majority of the bank's operational activities. The effectiveness of the business continuity centre has been tested by conducting actual business from the BCP site as required under CBB regulations.

8.5. Compliance risk

Compliance risk relates to current and prospective risk to earnings or capital arising from the violation of or non-compliance with laws, regulations, rules, prescribed practices, contractual agreements or ethical standards. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential and even the cessation of operations. The bank ensures adherence to all applicable regulations provided by various regulatory authorities, including regulations by the CBB and Bahrain Bourse. In addition, the bank's internal policies ensure that its practices are in line with best market practices.

8.6. Legal risk

Legal risk is risk from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. There are ongoing lawsuits against the company and based on our assessment, we do not consider the need for the creation of any provision in the consolidated financial statements with respect to these lawsuits.

APPENDIX 1

Step 1: Balance sheet under the regulatory scope of consolidation

This step in not applicable to the bank since there is no difference between the regulatory consolidation and the accounting consolidation.

APPENDIX 2

Step 2: Reconciliation of published financial balance sheet and regulatory reporting

	Published financial statements 31-Dec-19	Consolidated PIR data* 31-Dec-19
Assets	**BD ‹000**	**BD ‹000**
Cash and cash equivalents	56,555	56,580
of which cash and balances at central banks		92
of which placements with banks and financial institutions		21,502
Treasury bills	4,261	4,261
Securities bought under repurchase agreement	51,106	51,118
Investments at fair value through profit and loss	20,076	20,076
Investments at fair value through other comprehensive income	9,128	9,128
Investments at amortized cost	9,971	9,971
Investment in properties	1,915	1,915
Fees receivable	3,523	3,523
Other assets	8,576	8,587
of which loans and advances (margin receivables)		6,220
of which interest receivable		634
of which other assets		1,733
Furniture, equipment and intangibles	1,671	1,671
Total assets	**166,782**	**166,830**

	Published financial statements 31-Dec-19	Consolidated PIR data* 31-Dec-19
Liabilities		
Short-term bank borrowings	3,770	3,770
Securities sold under repurchase agreement	55,548	55,548
Customer accounts	41,340	41,340
Other liabilities	6,138	6,131
of which Interest payable		85
of which other liabilities		6,046
Payable to other unitholders (Other liabilities)	622	622
Total liabilities	**107,418**	**107,411**
Shareholders› Equity		
Share capital - eligible for CET1	42,849	42,849
Shares under employee share incentive scheme	(2,263)	(2,263)
Treasury shares	(5,322)	(5,322)
Statutory reserves	8,034	8,034
of which share premium		761
of which legal reserve		7,273
General reserves	3,217	3,217
Investments fair value reserves	891	876
of which unrealized gains from fair valuing equities		476
of which unrealized gains from other financial instruments		400
Retained earnings	11,958	11,958
of which retained earnings brought forward from previous year		5,924
of which net profits for the current period		6,034
Expected credit losses (Stages 1 & 2)		70
Total shareholder equity	**59,364**	**59,419**
Total liabilities and equity	**166,782**	**166,830**

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

APPENDIX 3

Step 3: Composition of Capital Common Template (transition)

	Composition of capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	42,849		
2	Retained earnings	5,924		
3	Accumulated other comprehensive income (and other reserves)	876		
4	Not applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**59,349**		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Investment in CET1 of subsidiaries	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal crossholdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		

	Composition of capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		
26	National specific regulatory adjustments	-		
	Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-2015 treatment	-		
	Investment in financial entities where ownership is < 10% of issued common share capital	-		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common Equity Tier 1**	**-**		
29	**Common Equity Tier 1 capital (CET1)**	**59,349**		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-		
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	-		
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-		
38	Reciprocal crossholdings in Additional Tier 1 instruments	-		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-		

	Composition of capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
41	National specific regulatory adjustments	-		
	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-2015 treatment	-		
	Of which: [insert name of adjustment]	-		
	Of which:	-		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	**Additional Tier 1 capital (AT1)**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**59,349**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-		
49	Of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	-		
	Expected credit losses (stage 1 & 2)	70		
51	Tier 2 capital before regulatory adjustments	-		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal crossholdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
57	**Total regulatory adjustments to Tier 2 capital**	**70**		
58	**Tier 2 capital (T2)**	**70**		
59	**Total capital (TC = T1 + T2)**	**59,419**		

	Composition of capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
	Risk weighted assets in respect of amounts subject to pre-2015 treatment	-		
	Of which: significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible	-		
60	**Total risk weighted assets**	**93,477**		
	Capital ratios			
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**63.49%**		
62	**Tier 1 (as a percentage of risk weighted assets)**	**63.49%**		
63	**Total capital (as a percentage of risk weighted assets)**	**63.57%**		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9%		
65	Of which: capital conservation buffer requirement	2.5%		
66	Of which: bank specific countercyclical buffer requirement (N/A)	0%		
67	Of which: D-SIB buffer requirement (N/A)	0%		
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)**	**63.49%**		
	National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	9%		
70	CBB Tier 1 minimum ratio	10.5%		
71	CBB total capital minimum ratio	12.5%		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-		
73	Significant investments in the common stock of financials	-		
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-		
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-		
77	Cap on inclusion of provisions in Tier 2 under standardized approach (1.25% of Credit Risk-weighted Assets)	-		
78	NA	-		
79	NA	-		

	Composition of capital and mapping to regulatory reports	Component of regulatory capital (BD '000s)	Amounts subject to pre-2015 treatment	Source based on reference no. of the balance sheet under the regulatory scope of consolidation from step 2
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)			
80	Current cap on CET1 instruments subject to phase out arrangements	-		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		
82	Current cap on AT1 instruments subject to phase out arrangements	-		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on T2 instruments subject to phase out arrangements	-		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-		

APPENDIX 4

Disclosure template for main feature of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments		
1	Issuer	SICO BSC (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SICO BI EQUITY (BLOOMBERG ID)
3	Governing law(s) of the instrument	Commercial Companies Law, Bahrain
	Regulatory treatment	
4	Transitional CBB rules	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognized in regulatory capital (currency in mil, as of most recent	
	reporting date)	BD 40.59 million
9	Par value of instrument	100 fils per share
10	Accounting classification	Shareholders› equity
11	Original date of issuance	1995
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA

Disclosure template for main features of regulatory capital instruments		
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type	NA
	immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA