REGULATORY DISCLOSURES

KPMG

Independent auditors' report

To the Shareholders of
SICO BSC (c)
Manama
Kingdom of Bahrain

Opinion

We have audited the 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 2022, 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 of the current period. 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) and (e) of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group's portfolio of quoted equity , debt and fund investments at fair value make up 11% 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 misstatements, or to be subject to significant risk of judgement 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 has the greatest impact on our overall audit strategy and allocation of resources in the planning and completing our audit.	– **Our procedures included:** • Agreeing the valuation of investments in the portfolio to the externally quoted prices; • Agreeing investments holding in the portfolio to independently received third party confirmations; and • Evaluating the adequacy of the Group's disclosure by reference to the requirements of the relevant accounting standards.

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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 identified above 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 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 Standards, 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 judgement and maintain professional scepticism 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, actions taken to eliminate threats or safeguards applied.

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 of the current period 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 Central Bank of Bahrain (CBB) Rule Book, we report that:

a. the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b. the financial information contained in the 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 on the terms of the Bank'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

KPMG Fakhro
Partner Registration Number 213
27 February 2023

Consolidated statement of financial position

As at 31 December 2022

	Note	2022	2021
		000' Bahraini Dinars	
Assets			
Cash and bank balances	7a	46,237	74,831
Treasury bills	7a	14,338	2,998
Securities bought under repurchase agreements	7b	155,886	117,938
Investments at fair value through profit or loss	8	23,119	26,948
Investments at fair value through other comprehensive income	9	10,244	10,614
Investments at amortized cost		14,664	9,935
Fees receivable	10	2,062	5,714
Other assets	11	9,659	12,431
Property and equipment		2,099	242
Intangible assets and goodwill	12	1,674	1,870
Total assets		**279,982**	**263,521**
Liabilities and equity			
Liabilities			
Short-term bank borrowings	13a	5,048	8,411
Securities sold under repurchase agreements	13b	162,989	125,210
Customer accounts	14	29,722	47,149
Other liabilities	15	9,822	9,245
Payable to other unit holders in consolidated funds	6	2,419	2,694
Total liabilities		**210,000**	**192,709**
Equity			
Share capital	16	44,134	42,849
Shares under employee share incentive scheme	16	(2,263)	(2,263)
Statutory reserve	17	9,343	8,982
General reserve	18	3,217	3,217
Investments fair value reserve		885	1,540
Retained earnings		14,666	14,540
Equity attributable to the shareholders of the Bank		69,982	68,865
Non-controlling interests		-	1,947
Total equity		**69,982**	**70,812**
Total liabilities and equity		**279,982**	**263,521**

The consolidated financial statements were approved by the Board of Directors on 27 February 2023 and signed on its behalf by:

Abdulla Bin Khalifa Al Khalifa
Chairman

Hisham Al Kurdi
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 2022

	Note	2022	2021
		000' Bahraini Dinars	
Net investment income	19	1,041	4,438
Net fee income	20	8,297	8,752
Brokerage and other income	21	2,476	2,680
Net interest income	22	2,627	1,841
Total income		**14,441**	**17,711**
Staff cost	23	(6,876)	(7,190)
Other operating expenses	24	(3,978)	(3,612)
Share of loss / (profit) of non-controlling unit holders in consolidated funds	5	19	(389)
Profit for the year		**3,606**	**6,520**
Profit attributable to:			
Shareholders of the Bank		3,551	6,391
Non-controlling interests		55	129
		3,606	**6,520**
Basic and diluted earnings per share (fils)		**8.45**	**15.18**

Abdulla Bin Khalifa Al Khalifa
Chairman

Hisham Al Kurdi
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 2022

	000' Bahraini Dinars	
	2022	2021
Profit for the year	3,606	6,520
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	(263)	(134)
Items that will not be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVOCI equity instruments	(66)	682
Total other comprehensive income for the year	**(329)**	**548**
Total comprehensive income for the year	**3,277**	**7,068**
Total comprehensive income attributable to:		
Shareholders of the Bank	3,222	6,939
Non-controlling interests	55	129
	3,277	**7,068**

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 2022

									000' Bahraini Dinars
2022	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total owners' equity	Non-controlling interest	Total equity
Balance at 1 January 2022	**42,849**	**(2,263)**	**8,982**	**3,217**	**1,540**	**14,540**	**68,865**	**1,947**	**70,812**
Comprehensive income:									
Profit for the year	-	-	-	-	-	3,551	3,551	55	3,606
Other comprehensive income:									
Net change in fair value of FVOCI instruments	-	-	-	-	(329)	-	(329)	-	(329)
Total other comprehensive income	**-**	**-**	**-**	**-**	**(329)**	**-**	**(329)**	**-**	**(329)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(329)**	**3,551**	**3,222**	**55**	**3,277**
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	(326)	326	-	-	-
Transfer to charitable donation reserve	-	-	-	-	-	(65)	(65)	-	(65)
Transaction with owners recognised directly in equity:									
Transfer to statutory reserve	-	-	361	-	-	(361)	-	-	-
Stock dividend (note 16)	1,285	-	-	-	-	(1,285)	-	-	-
Cash dividend for 2021 (note 16)	-	-	-	-	-	(2,142)	(2,142)		(2,142)
Acquisition of NCI without a change in control (note 12)	-	-	-	-	-	102	102	(2,002)	(1,900)
Balance at 31 December 2022	**44,134**	**(2,263)**	**9,343**	**3,217**	**885**	**14,666**	**69,982**	**-**	**69,982**

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

Consolidated statement of changes in equity (Continued)

For the year ended 31 December 2021

									000' Bahraini Dinars	
2021	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total owners' equity	Non-controlling interest	Total equity
Balance at 1 January 2021	42,849	(5,322)	(2,263)	8,330	3,217	992	10,520	58,323	-	58,323
Comprehensive income:										
Profit for the year	-	-	-	-	-	-	6,391	6,391	129	6,520
Other comprehensive income:										
Net change in fair value of FVOCI instruments	-	-	-	-	-	548	-	548	-	548
Total other comprehensive income	-	-	-	-	-	**548**	-	**548**	-	**548**
Total comprehensive income for the year	-	-	-	-	-	**548**	**6,391**	**6,939**	**129**	**7,068**
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	-	-	-	-	-
Transfer to charitable donation reserve	-	-	-	-	-	-	(40)	(40)	-	(40)
Transaction with owners recognised directly in equity:										
Transfer to statutory reserve	-	-	-	652	-	-	(652)	-	-	-
Dividends paid for 2020 (note 16)	-	-	-	-	-	-	(2,142)	(2,142)	-	(2,142)
Acquisition of a subsidiary	-	5,322	-	-	-	-	463	5,785	1,818	7,603
Balance at 31 December 2021	**42,849**	**-**	**(2,263)**	**8,982**	**3,217**	**1,540**	**14,540**	**68,865**	**1,947**	**70,812**

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

Consolidated statement of cash flows

For the year ended 31 December 2022

		000' Bahraini Dinars	
	Note	2022	2021
Operating activities			
Net interest received		2,849	3,277
Net sale of investments at fair value through profit or loss		1,756	408
Net sale / (purchase) of investments at fair value through other comprehensive income		370	(891)
Net movement in investments at amortized cost		(4,729)	18
Net decrease in investment property		-	427
Net (decrease) / increase in customer accounts		(17,427)	12,264
Securities bought under repurchase agreements		(37,948)	(44,122)
Securities sold under repurchase agreements		37,779	50,804
Dividends received		711	640
Recovery on previously written off investment		1,009	-
Movement in brokerage accounts and other receivables		18,424	6,357
Movement in other liabilities		1,610	1,326
Payments for staff and related expenses		(7,909)	(5,301)
Payments for other operating expenses		(5,475)	(1,788)
Net cash (used in) / generated from operating activities		**(8,980)**	**23,419**
Investing activities			
Net capital expenditure on furniture and equipment		(2,599)	(295)
Acquisition of subsidiary, net cash acquired		-	5,109
Net cash (used in) / generated from investing activities		**(2,599)**	**4,814**
Financing activities			
Net decrease in short-term bank borrowings		(3,363)	(3,700)
Net increase in placements		-	(1,039)
Dividend paid		(2,142)	(2,142)
Contribution by other unit holders in consolidated funds		745	990
Distribution to other unit holders in consolidated funds		(926)	(25)
Net cash used in financing activities		**(5,686)**	**(5,916)**
Net (decrease) / increase in cash and cash equivalents		**(17,265)**	**22,317**
Cash and cash equivalents at the beginning of the year		77,847	55,530
Cash and cash equivalents at the end of the year*	7	**60,582**	**77,847**

** Excludes expected credit loss of BD 7 (2021: BD 18)*

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

Notes to the consolidated financial statements

For the year ended 31 December 2022

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.

On 18 September 2022, the Group completed the acquisition of the remaining 27.29% interest in SICO Capital PJSC, thereby increasing its ownership from 72.71% to 100% (refer to note 12 for details).

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; and
- to offer financial advisory and underwriting services, such as advising corporations and family businesses on going public and structuring transactions for privatisation 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 information of the Group has been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law 2006.

(b) Basis of measurement

The consolidated financial statements have been prepared under 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 recognised 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 recognised in the consolidated financial statements are described in note 3(d).

(d) New accounting policy, standards, amendments and interpretations effective from 1 January 2022

There are no new standards, amendments to the standards, which became effective as of 1 January 2022, that were relevant and had a material impact on the consolidated financial statements

(e) New standards and amendments not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following new standards, amendments and interpretations to standards that are relevant to the Group are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRS 17 Insurance contracts
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)

3. Significant accounting policies

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

(a) Consolidation

(i) Subsidiaries

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

(ii) Non-controlling interests ("NCI")

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

3. Significant accounting policies (continued)

(b) 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. Some of the subsidiaries' functional currencies are either in US Dollars or 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 of the Bank do not result in exchange differences.

(c) Foreign currencies

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

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

(i) Estimates

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

Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management.

Impairment assessment of Goodwill and intangibles

The Group reviews its goodwill and intangibles on an annual basis to determine whether an impairment loss should be recorded in the statement of profit or loss, where assumptions and judgements are made in computing the recoverable value. Further details on impairment of non-financial assets are included in note 3(i).

(ii) 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, amortised 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.

(e) 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.

Investments at amortised 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 recognised when the Group becomes a party to the contractual provisions of the instrument. Investment securities are derecognised 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 recognised at fair value, with transaction costs recognised directly in the statement of profit or loss. They are subsequently remeasured to fair value at each reporting date with any resultant gain or loss recognised in the statement of profit or loss.

Investments at fair value through other comprehensive income ("FVOCI") are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition. Unrealised gains and losses arising from changes in the fair values of FVOCI investments are recognised 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 recognised 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 recognised 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 maximise the use of the relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

(f) Recognition and de-recognition of financial liabilities

The Group recognises and measures financial liability initially at fair value. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3. Significant accounting policies (continued)

(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) Amortised cost measurement

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised 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 recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

(j) Property, equipment and intangibles

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

Software	5-10 years
Furniture and equipment	3-5 years

(k) Leases

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.

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.

(i) Measurement

The Bank recognises 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 amortised 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.

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

The Bank has elected not to recognise 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 recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

(l) Bank borrowings

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

(m) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. 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 recognised 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.

(n) Customer accounts

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

(o) Employee benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation 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 IAS 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the balance sheet date.

(iii) Employee share incentive scheme

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

(p) Provisions

A provision is recognised 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 recognised 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 recognised amounts and intends to settle either on a net basis, or to realise 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 recognised 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 recognised 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 are estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of fee recognised, will not occur when the associated uncertainty is resolved.

Performance fee is recognised 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 relates mainly to custody fee which is expensed as the service is provided.

(w) Net investment income

Net investment income includes all realised and unrealised fair value changes on investment at fair value through profit or loss and realised portion on the debt investment at fair value through other comprehensive income and the related dividend. This also includes interest income from fixed income investments.

(x) Dividend income

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

3. Significant accounting policies (continued)

(y) Brokerage and other income

Brokerage and other income consist of brokerage income, other income and foreign exchange income. This income is recognised 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 maker in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, investment banking, real estate, 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.

(aa) Statutory reserve

In accordance with the Commercial Companies Law, 10% of the net profit is appropriated to a statutory reserve, until it reaches 50% of the paid-up share capital. This reserve is not normally distributable except on liquidation.

(ab) General reserve

General reserve is appropriated from retained earnings and available for distribution.

(ac) Treasury shares

When share capital of the Company is repurchased, the amount of consideration paid is recognised as a change in equity. Repurchased shares classified as treasury shares are carried at cost and are presented as a deduction from equity. Gains/losses on disposal of treasury shares are recognised in equity.

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 Board Audit, Risk and Compliance Committee.

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

The Audit, Risk and Compliance 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, Risk and Compliance 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, Risk and Compliance 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 the 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.

(i) 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 life-time tenor of the securities. Management believes there is no further credit risk provision required in excess of the normal impairment on debt securities

(ii) Management of credit risk

The Group limits its credit risk by applying well-defined credit policies and procedures laid down by the Board and the Audit, Risk and Compliance Committee.

The Group manages the counterparty risks for brokerage clients by conducting a credit evaluation of the clients and counterparty brokers of the Gulf Cooperation Council ("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 the Board, as appropriate. Additionally, the Group strictly adheres to the large exposure norms prescribed by the CBB.

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

4. Financial risk management (continued)

(ii) Management of credit risk (continued)

Exposure to credit risk

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

	2022	2021
Bank balances	46,237	74,831
Treasury bills	14,338	2,998
Securities bought under repurchase agreements	155,886	117,938
FVTPL debt securities	7,276	8,304
FVOCI debt securities	5,136	4,835
Fee receivable	2,062	5,714
Other assets	9,242	12,094
	240,177	**226,714**

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 CBB. 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 margin lending on the Saudi Stock Exchange is undertaken in accordance with the regulations issued by the Capital Market 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.

REPO transactions are short term in nature and generally backed by liquid high quality collateral (mainly Government and Quasi-Government bonds along with investment grade securities) and with substantial hair-cuts. The lending is subject to daily margin management and monitoring within the realms of the Group's internal risk management framework.

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

Risk exposure concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic,

political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

The maximum credit exposure to any client, counterparty or group of closely related counterparties as of 31 December 2022 was BD 81,925 (2021: BD 39,974), relating to "cash and cash equivalents, securities brought under repurchase agreements, 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:

2022	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	43,145	252	2,840	46,237
Treasury bills	14,338	-	-	14,338
Securities bought under repurchase agreements	150,108	-	5,778	155,886
Investments at fair value through profit or loss	15,108	4,876	3,135	23,119
Investments at fair value through other comprehensive income	10,143	101	-	10,244
Investments at amortized cost	14,664	-	-	14,664
Fees receivable	1,929	-	133	2,062
Other assets	9,431	5	223	9,659
Property and equipment	2,099	-	-	2,099
Intangible assets & goodwill	1,674	-	-	1,674
Total assets	**262,639**	**5,234**	**12,109**	**279,982**
Liabilities				
Short-term bank borrowings	5,048	-	-	5,048
Securities sold under repurchase agreements	87,927	-	75,062	162,989
Customer accounts	28,408	334	980	29,722
Other liabilities	9,322	-	500	9,822
Payable to other unit holders in consolidated funds	2,419	-	-	2,419
Total liabilities	**133,124**	**334**	**76,542**	**210,000**

4. Financial risk management (continued)

(ii) Management of credit risk (continued)

Geographical exposure distribution (continued)

2021	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	68,703	771	5,357	74,831
Treasury bills	2,998	-	-	2,998
Securities bought under repurchase agreements	111,882	-	6,056	117,938
Investments at fair value through profit or loss	19,449	3,845	3,654	26,948
Investments at fair value through other comprehensive income	10,614	-	-	10,614
Investments at amortized cost	9,935	-	-	9,935
Fees receivable	5,664	-	50	5,714
Other assets	12,422	4	5	12,431
Property and equipment	242	-	-	242
Intangible assets & goodwill	1,870	-	-	1,870
Total assets	**243,779**	**4,620**	**15,122**	**263,521**
Liabilities				
Short-term bank borrowings	8,411	-	-	8,411
Securities sold under repurchase agreements	105,348	-	19,862	125,210
Customer accounts	35,853	10,390	906	47,149
Other liabilities	9,235	-	10	9,245
Payable to other unit holders in consolidated funds	2,694	-	-	2,694
Total liabilities	**161,541**	**10,390**	**20,778**	**192,709**

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

2022	Financial services	Others	Total
Total assets	**200,157**	**79,825**	**279,982**
Total liabilities	**181,826**	**28,174**	**210,000**

2021	Financial services	Others	Total
Total assets	**181,967**	**81,554**	**263,521**
Total liabilities	**162,037**	**30,672**	**192,709**

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

	2022			2021		
Particulars	Gross exposure	ECL	Net exposure	Gross exposure	ECL	Net exposure
Bank balances	46,244	7	46,237	74,849	18	74,831
Securities bought under repurchase agreements	155,905	19	155,886	117,960	22	117,938
Investment securities	5,136	6	5,130	4,835	6	4,829
Other assets (margin lending)	6,000	64	5,936	10,461	69	10,395
Total	**213,285**	**96**	**213,189**	**208,105**	**115**	**207,990**

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 other comprehensive income statement.

All investments at amortised costs are exposures to the domestic sovereign debt. No credit loss is expected to materialise 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 – the 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 – the need to compensate for low liquidity of investments or markets and non-receipt of expected inflows of funds; and
- Call risk - due to crystallisation of contingent, off balance sheet liabilities and inability to undertake profitable business opportunities when desirable.

4. Financial risk management (continued)

(c) Liquidity risk (continued)

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 to closely supervise the liquidity management and associated risks.

The residual contractual maturity of financial liabilities is as follows:

2022	Less than 1 year	Gross outflow	Carrying value
Short-term bank borrowings	5,058	5,058	5,048
Securities sold under repurchase agreements	164,122	164,122	162,989
Customer accounts	29,722	29,722	29,722
Other liabilities	9,822	9,822	9,822
Payable to other unit holders in consolidated funds	2,419	2,419	2,419
	211,143	**211,143**	**210,000**

2021	Less than 1 year	Gross outflow	Carrying value
Short-term bank borrowings	8,420	8,420	8,411
Securities sold under repurchase agreements	125,309	125,309	125,210
Customer accounts	47,149	47,149	47,149
Other liabilities	9,245	9,245	9,245
Payable to other unit holders in consolidated funds	2,694	2,694	2,694
	192,817	**192,817**	**192,709**

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 the CBB requirements. The ratios as of 31 December 2021 are as follows:

	As of 31 December 2022	As of 31 December 2021
Liquidity Coverage Ratio	**268%**	**170%**
Net Stable Funding Ratio	**136%**	**139%**

The average LCR for the year ended 31 December 2022 was 231% (31 December 2021: 212%).

(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 fair value through profit or loss ("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.

(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.

Equity price risk – sensitivity

All of the Group's listed equity investments are listed on recognized regional and global stock exchanges. For such investments classified at FVOCI, a 1% increase in the fair value at the reporting date would have increased equity by BD 51 (2021: BD 58); an equal change in the opposite direction would have decreased equity by BD 51 (2021: a decrease of BD 58). For such investments classified as at FVTPL, the impact of a 1% increase in the index at the reporting date on profit or loss would have been an increase of BD 62 (2021: BD 82). An equal change in the opposite direction would have decreased profit or loss by BD 62 (2021: BD 82).

(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 minimises 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 Standardised 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.

4. Financial risk management (continued)

(ii) Interest rate risk (continued)

Interest rate re-pricing profile

2022	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Bank balances		-	-	22,062	22,062
Call deposits*		3,013	-	-	3,013
Treasury bills	5.04%	14,338	-	-	14,338
Short-term placements with banks	5.27%	21,162	-	-	21,162
Securities bought under repurchase agreements	5.45%	155,886	-	-	155,886
Investments at fair value through profit or loss	5.45%	174	7,102	15,843	23,119
Investments at fair value through other comprehensive income	6.81%	-	5,136	5,108	10,244
Investments at amortised cost	6.56%	-	14,664	-	14,664
Fees receivable		-	-	2,062	2,062
Other assets		-	-	9,659	9,659
Property and equipment		-	-	2,099	2,099
Intangible assets and goodwill		-	-	1,674	1,674
Total assets		**194,573**	**26,902**	**58,507**	**279,982**
Short-term bank borrowings	4.85%	5,048	-	-	5,048
Securities sold under repurchase agreements	4.75%	162,989	-	-	162,989
Customer accounts		-	-	29,722	29,722
Other liabilities		-	-	9,822	9,822
Payable to other unit holders in consolidated funds		-	-	2,419	2,419
Total liabilities		**168,037**	**-**	**41,963**	**210,000**
Equity		**-**	**-**	**69,982**	**69,982**
Total liabilities and equity		**168,037**	**-**	**111,945**	**279,982**
Interest rate sensitivity gap		26,536	26,902	(53,438)	-
Cumulative interest rate sensitivity gap		26,536	53,438	-	-

Interest rate re-pricing profile

2021	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Bank balances		-	-	48,693	48,693
Call deposits*		1,028	-	-	1,028
Treasury bills	1.49%	2,998	-	-	2,998
Short-term placements with banks	1.88%	25,110	-	-	25,110
Securities bought under repurchase agreements	1.24%	117,938	-	-	117,938
Investments at fair value through profit or loss	5.51%	703	7,601	18,644	26,948
Investments at fair value through other comprehensive income	6.78%	-	4,835	5,779	10,614
Investments at amortised cost**	6.45%	-	9,935	-	9,935
Fees receivable		-	-	5,714	5,714
Other assets		-	-	12,431	12,431
Property and equipment		-	-	242	242
Intangible assets and goodwill		-	-	1,870	1,870
Total assets		**147,777**	**22,371**	**93,373**	**263,521**
Short-term bank borrowings	0.57%	8,411	-	-	8,411
Securities sold under repurchase agreements	0.62%	125,210	-	-	125,210
Customer accounts		-	-	47,149	47,149
Other liabilities		-	-	9,245	9,245
Payable to other unit holders in consolidated funds		-	-	2,694	2,694
Total liabilities		**133,621**	**-**	**59,088**	**192,709**
Equity		**-**	**-**	**70,812**	**70,812**
Total liabilities and equity		**133,621**	**-**	**129,900**	**263,521**
Interest rate sensitivity gap		14,156	22,371	(36,527)	-
Cumulative interest rate sensitivity gap		14,156	36,527	-	-

** At 31 December 2022 the effective interest rate on Bahraini Dinar call deposits is 4.1% (2021: 1%) and on USD call deposits is 3.6% (2021: 1%).*

(iii) Foreign exchange risk

Foreign exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. Most of the Bank's foreign currency exposures are in GCC currencies and US 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 Kuwaiti Dinar are effectively pegged to the US Dollar, currency risk is minimal.

4. Financial risk management (continued)

(e) Operational risk

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

The Bank follows a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organisational structure, policies and procedures guidelines and segregation of duties, approval authorities, reconciliations and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provide 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 to enable seamless processing and reduce operational errors and optimise productivity.

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 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 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 recognised and the Bank recognises 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 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 subsidiaries. The Bank has complied with regulatory capital requirements throughout the year.

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

Based on year end balances

	2022	2021
Risk weighted exposure		
Credit risk	43,046	66,860
Market risk	22,123	28,365
Operational risk	26,737	23,186
Total risk weighted assets	**91,906**	**118,411**
Common Equity (CET 1)	69,242	68,111
Tier 2	90	109
Total regulatory capital	**69,332**	**68,220**
Capital adequacy ratio	**75.44%**	**57.61%**

The capital adequacy ratio as at 31 December 2022 has been calculated in accordance with Basel III and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardised approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market risk is computed using the Standardised 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 maximise 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 2022. 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 the 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.

5. Group subsidiaries and consolidated funds (continued)

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

Subsidiary	Percentage ownership	Year of in-corporation	Country of incorpora-tion	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 Funds Company IX BSC (c)	100%	2022	Bahrain	Umbrella company for SICO mutual funds
9. SICO Financial Brokerage LLC	100%	2011	UAE	Brokerage services
10. SICO Kingdom Equity Fund (Decrease from 70 % from last year)	67%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi
11. SICO Fixed Income Fund (increase from 72% from last year)	74%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks
12. SICO Capital Company (increase from 72.71% from last year)	100%	2008	Saudi Arabia	Brokerage services, Investment Banking, Asset Management & Custodial Services

Except where mentioned, percentage ownership is same compared to 31 December 2021.

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.

	2022	2021
Payables to other unit holders in the consolidated funds:		
SICO Fixed Income Fund	1,097	1,283
SICO Kingdom Equity Fund	1,322	1,411
Share of profit / (loss) on non-controlling unit holders in consolidated funds		
SICO Fixed Equity Fund	(46)	17
SICO Kingdom Equity Fund	27	372
	(19)	**389**

SICO Fixed Income Fund

	2022	2021
Other unit holders' share	26%	28%
Cash and cash equivalents	829	925
Investment at fair value through profit or loss	4,148	4,580
Other assets	58	66
Short-term bank borrowings	(770)	(914)
Other liabilities	(14)	(14)
Net assets	**4,251**	**4,643**
Carrying amount of payable to other unit holders	**1,097**	**1,283**
Investment income	(132)	105
Net interest income	7	12
Profit / (loss)	(181)	61
Total comprehensive income	**(181)**	**61**
(Loss) / profit allocated to other unit holders	**(46)**	**17**
Cash flows from operating activities	115	(128)
Cash flows used in financing activities	(211)	531
Net (decrease) / increase in cash and cash equivalents	**(96)**	**403**

SICO Kingdom Equity Fund

	2022	2021
Other unit holders' share	33%	30%
Cash and cash equivalents	306	189
Investment at fair value through profit or loss	3,748	4,523
Other assets	-	-
Short-term bank borrowings	-	-
Other liabilities	(98)	49
Net assets	**3,956**	**4,761**
Carrying amount of payable to other unit holders	**1,322**	**1,411**
Investment income	183	1,326
Interest income	-	-
Profit & Loss	82	1,230
Total comprehensive income	**82**	**1,230**
Profit allocated to other unit holders	**27**	**372**
Cash flows from operating activities	906	46
Cash flows used in financing activities	(789)	127
Net increase in cash and cash equivalents	**117**	**173**

7. (a) Cash and bank balances

	2022	2021
Cash and bank balances	22,062	48,694
Call deposits	3,013	1,028
Short-term placements with banks	21,169	25,127
Cash and bank balances (a)	46,244	74,849
Expected credit loss	(7)	(18)
Total cash and bank balances	**46,237**	**74,831**
Treasury bills (b)	14,338	2,998
Total cash and cash equivalents for cash flow purposes (a)+(b)	**60,582**	**77,847**

Cash and bank balances include bank balances amounting to BD 14,353 (2021: BD 17,054) held on behalf of discretionary customer accounts.

(b) Securities bought under repurchased agreements

Reverse repurchase agreements have been entered with clients amounting to BD 155,886 (2021: BD 117,938) for which client owned securities of BD 211,417 (2021: BD 152,838) are pledged as collateral.

8. Investments at fair value through profit or loss

	2022	2021
Quoted equity securities		
- Parent	2,479	3,659
- Consolidated funds	3,748	4,523
Funds		
- Quoted	6,530	8,328
- Unquoted	3,086	2,134
Quoted debt securities		
- Parent	3,128	3,724
- Consolidated funds	4,148	4,580
	23,119	**26,948**

9. Investments at fair value through other comprehensive income

	2022	2021
Equity securities		
- Quoted	5,108	5,779
Debt securities		
- Quoted	5,136	4,835
	5,136	**4,835**
	10,244	**10,614**

10. Fees receivable

Fees receivable mainly represent management, custody and performance fee receivable by the Group from its Discretionary Portfolio Management Account ("DPMA") clients and managed funds.

	2022	2021
Management fees	1,855	1,394
Performance fees	26	4,119
Custody fees	119	98
Others	62	103
	2,062	**5,714**

11. Other assets

	2022	2021
Receivables from clients	6,065	10,328
Interest receivable	1,909	682
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	417	337
Other receivables	768	584
	9,659	**12,431**

12. Intangible assets and goodwill

	2022	2021
Intangibles – software	934	1,030
Goodwill and other intangibles	740	840
	1,674	**1,870**

On 15 March 2021, the Bank acquired 72.7% stake in SICO Capital ("SC") by way of a share swap between SICO and Bank Muscat SAOG with 38,563,894 of SICO's treasury shares swapped for 4,362,491 shares of SCC. The acquisition of SC will broaden SICO's regional presence and service offerings in the region's largest market, Saudi Arabia. The business combination has been accounted for using the acquisition method.

The acquisition of SC resulted in a goodwill of BD 140 and intangibles of BD 800. The intangibles comprises of BD 500 assigned to the expected benefits arising from the license to conduct business in Saudi Arabia and BD 300 was assigned to customer relationship with a useful life of three years, with a remaining unamortised balance of BD 100 as of 31 December 2022 (31 December 2021:BD 200).

During the year, the Group completed the acquisition of the remaining 27.29% interest in SC thereby increasing its ownership from 72.71% to 100%. The carrying amount of this non-controlling interest of 27.29% as on the date of acquisition amounted to BD 2,002 thousand. The difference between the carrying value and consideration paid has been recognised in the equity as transaction with the owners of the Group.

12. Intangible assets and goodwill (continued)
Goodwill impairment analysis

The recoverable amount of goodwill is based on value-in-use, calculated by discounting cash flow projections which are based on financial forecasts approved by management, projected for 5 years to arrive at the terminal value. A growth rate at a minimum of 5% and discount rate of 8.5% have been applied to the estimated cash flows.

A sensitivity analysis was conducted by increasing the discount rate by 2% and reducing earnings by 10% to assess the impact on the recoverable amount as compared to the carrying value of the CGU. The carrying value of goodwill and intangibles with indefinite life is lower than the reduced recoverable amount in the sensitivity analysis, further confirming no indications of impairment.

13. Short-term bank borrowings and securities sold under repurchase agreements
(a) The following represents the movement in short-term bank borrowings:

	2022	2021
At 1 January	8,411	7,400
Borrowings made during the year	9,977	8,481
Borrowings settled during the year	(13,340)	(7,470)
At 31 December	**5,048**	**8,411**

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

	2022	2021
At 1 January	125,210	74,406
Repo made during the year	69,083	53,468
Repo settled during the year	(31,304)	(2,664)
At 31 December	**162,989**	**125,210**

Repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 202,171 (2021: BD 150,591) are pledged as collateral.

The carrying value of the investments at amortised cost pledged as collateral amounts to BD 7,611 (2021: 7,628)

14. Customer accounts

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

15. Other liabilities

	2022	2021
Accrued expenses	2,521	3,734
Provision for employee leaving indemnities	1,195	1,168
Employee share incentive scheme liability	2,653	2,636
Other payables	3,453	1,707
	9,822	**9,245**

16. Share capital

	2022	2021
Authorised share capital		
1,000,000,000 (2021: 1,000,000,000) shares of 100 fils each	100,000	100,000

	2022	2021
Issued and fully paid		
428,487,741 ordinary shares of 100 fils each (2021: 428,487,741 ordinary shares of 100 fils each)	42,849	42,849
12,854,632 Bonus shares issue	1,285	-
441,342,373 ordinary shares of 100 fils each (2021: 428,487,741 ordinary shares of 100 fils each)	44,134	42,849

The shareholders annual general ordinary and extra ordinary meetings for the year 2021 held on 23 March 2022 approved the increase of issued and fully paid capital by the issue of bonus shares at 3% amounted to BD 1,285.

Proposed appropriations

The Board of Directors proposed the following appropriations subject to shareholders and regulatory approvals.

	2022	2021
Cash dividend 5% (2021: 5%)	2,207	2,142
Stock dividend nil (2021: 3%)	-	1,285

The shareholders are:	Nationality	2022		2021	
		Capital	% holding	Capital	% holding
Social Insurance Organisation	Bahrain	22,236	50.38	21,589	50.38
Bank Muscat	Oman	5,800	13.14	4,448	10.38
National Bank of Bahrain BSC	Bahrain	5,523	12.52	5,362	12.52
Ahli United Bank BSC	Bahrain	3,777	8.56	3,667	8.56
BBK BSC	Bahrain	3,491	7.91	3,390	7.91
Arab Banking Corporation BSC	Bahrain	1,219	2.76	2,366	5.52
Employee Stock Ownership Plan	Bahrain	2,088	4.73	2,027	4.73
		44,134	**100**	**42,849**	**100**

16. Share capital (continued)

Shares under employee share incentive scheme

	2022		2021	
	Number of shares	Amount	Number of shares	Amount
Employee share incentive scheme (refer to note 26)	20,880,797	2,263	20,272,618	2,263
	20,880,797	**2,263**	**20,272,618**	**2,263**

The movement in the number of shares is due to the issue of bonus shares during the year.

17. 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 361 (2021: BD 652).

18. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2022, no appropriations to general reserve are recommended.

19. Net investment income

	2022	2021
Net (loss) / gain on investments at fair value through profit or loss*	(2,128)	2,322
Interest income from debt instruments	1,449	1,468
Other investment income**	1,009	-
Dividend income	711	648
	1,041	**4,438**

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

	2022	2021
Realised gain on sale	774	1,132
Unrealised fair value (loss) / gain	(2,902)	1,190
	(2,128)	**2,322**

The realised 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 unrealised 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.

*** Other investment income represents a non-recurring income relating to a recovery of a written-off investment in the prior years.*

20. Net fee income

	2022	2021
Fee income from trust or other fiduciary activities		
- Management fee	5,430	4,248
- Performance fee	2,060	3,621
- Custody fee	577	568
- Advisory & Underwriting fee	275	362
	8,342	**8,799**
Fee expense		
- Custody fee	(45)	(47)
Net fee income	**8,297**	**8,752**

21. Brokerage and other income

	2022	2021
Brokerage income	1,465	1,645
Foreign exchange gain	513	760
Other income	498	275
	2,476	**2,680**

22. Net interest income

	2022	2021
Interest income from:		
Placements, call deposits and reverse repos	5,556	2,249
Margin lending	560	531
	6,116	**2,780**
Interest expense on:		
Bank borrowings and repos	(3,489)	(939)
Net interest income	**2,627**	**1,841**

23. Staff cost

	2022	2021
Salaries, allowances and bonus	6,136	6,225
Post-employment benefit	188	189
Share based payments	145	136
Social security costs	304	253
Other costs	103	387
	6,876	**7,190**

As at 31 December 2022, the Group employed 80 (2021: 74) Bahrainis and 68 (2021: 56) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 304 (2021: BD 253).

24. Other operating expenses

	2022	2021
Occupancy expenses	295	225
Communication expenses	63	63
Marketing expenses	331	150
Professional fees	346	431
Technology related expenses	1,598	1,056
Depreciation	837	661
Other operating expenses	508	1,026
	3,978	**3,612**

25. Related party transactions

The following are the related party transactions during the period. All these transactions are in the ordinary course of business and on normal commercial terms.

Transactions with funds owned by the subsidiary companies.

Transactions with funds owned by the subsidiary companies namely SICO Funds Company BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC (c), SICO Funds Company VI BSC (c), SICO Funds Company VIII BSC (c), SICO Funds Company IX BSC (c), SICO Ventures Company WLL and SICO Capital are as follows:

	2022	2021
Fee income	1,008	1,350
Fee receivable	248	949
Fee payable	21	-
Repurchase agreement	-	2,775
Investment in own funds	4,014	2,780
Funds under management	68,382	75,436

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 (2021: BD 8,411). During the year ended 31 December 2022 the Group entered into Repos with its bank shareholders and as of 31 December 2022, had 3,373 (2021: BD 52,264) of repurchase agreements with these related parties. 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.

	2022	2021
Fee income	1,424	3,293
Fee receivable	385	2,634
Fee payable	392	-
Securities sold under repurchase agreements	3,373	52,263
Funds under management	64,462	101,146
Investments	2,625	3,819
Placements	11,175	7,178
Borrowings	3,770	8,411

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 members of the Board of Directors, Chief Executive Officer, Chief Capital Markets Officer, Chief Operating Officer, Chief Financial Officer and head of departments.

Compensation to key management personnel is as follows:

	2022	2021
Salaries and short term benefits	3,382	3,186
Post-employment benefits	426	204
Equity compensation benefits	165	388
	3,973	3,778

Attendance fees and remuneration to Board members and other related expenses amount to BD 226 (2021: BD 292).

26. 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.

26. Employee Share Ownership Plan (continued)

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 five years. 50% of the liability can be settled after five 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 most recent audited 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 recognised an employee liability of BD 2,653 (2021: BD 2,636) on the shares granted until date. This liability has been determined on the value of the Group's net assets as at 31 December 2022 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 due to issue of stock dividend during the year. Total number of shares issued under the scheme is 20,880,797 (2021: 20,272,618).

27. Involvement in unconsolidated structured entities

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	• To generate fees from managing assets on behalf of third-party investors. • These vehicles are financed through issuance 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.

	2022	2021
Investments in funds		
Khaleej Equity Fund	1,191	1,683
Bahrain Liquidity Fund Company	1,038	1,097
	2,229	**2,780**

28. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in SICO Khaleej Equity Fund a minimum of 10% of the net assets value at any time throughout its life. The Group has other investment commitments of BD 725 (2021: BD 1,885) and margin lending drawdown commitments of BD 3,992 (2021: BD 1,488).

Assets under management (net asset value)	2022	2021
SICO Khaleej Equity Fund	27,639	28,165
SICO Gulf Equity Fund	4,371	3,257
Bahrain Liquidity Fund Company	35,646	37,666
SICO Kingdom Equity Fund	3,956	4,663
SICO Fixed Income Fund	4,251	4,642
Al Masha'ar REIT Fund	42,963	50,620
Al Qasr Real Estate Fund	12,345	31,698
Riyadh Real Estate Fund	8,136	8,012
Discretionary portfolio management accounts	1,439,122	1,379,630
Total Net Asset Value **	**1,578,429**	**1,548,353**

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 the consolidated financial statements.

*** On a gross basis (including leverage of BD 216,430), SICO's total AUMs stands at BD 1,794,859 (2021: BD 1,701,226).*

	2022	2021
Assets under custody	3,302,805	3,105,858

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2022, assets amounting to BD 3,302,805 (2021: BD 3,105,858) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 777,971 (2021: BD 633,907) were registered in the name of the Bank.

Contingencies

The Group has letters of guarantee in the amount of BD 3,593 (31 December 2021: BD 3,593) 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.

29. Net open foreign currency positions

	2022	2021
QAR	113	463
US Dollar	23,248	20,477
JOD	9	21
KWD	249	445
SAR	12,314	15,874
GBP	1	1
AED	6,579	8,021
OMR	98	1,306
EUR	14	2
EGP	(1)	(2)

All GCC currencies except KWD are effectively pegged to US Dollar.

30. Earnings per share

	2022	2021
Profit for the year	3,551	6,391
Weighted average number of equity shares (in 000's)	441,342	441,342
Less: Employee share incentive scheme shares	(20,881)	(20,273)
Weighted average number of shares as at 31 December	420,461	421,069
Earnings per share (in fils)	8.45	15.18

The Bank does not have any dilutive instruments.

31. 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 2022	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	46,237	-	-	46,237
Treasury bills	14,338	-	-	14,338
Securities bought under repurchase agreements	155,886	-	-	155,886
Investments at fair value through profit or loss	8,214	4,903	10,002	23,119
Investments at fair value through other comprehensive income	-	5,137	5,107	10,244
Investments at amortised cost	2,972	7,110	4,582	14,664
Fees receivable	2,062	-	-	2,062
Other assets	9,659	-	-	9,659
Property and equipment	54	2,045	-	2,099
Intangible assets and goodwill	67	301	1,306	1,674
Total assets	**239,489**	**19,496**	**20,997**	**279,982**
Liabilities				
Short-term bank borrowings	5,048	-	-	5,048
Securities sold under repurchase agreements	162,989	-	-	162,989
Customer accounts	29,722	-	-	29,722
Other liabilities	9,822	-	-	9,822
Payable to other unit holders in consolidated funds	2,419	-	-	2,419
Total liabilities	**210,000**	**-**	**-**	**210,000**
Liquidity gap	**29,489**	**19,496**	**20,997**	**69,982**
Cumulative liquidity gap	**29,489**	**48,985**	**69,982**	

31 December 2021	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	74,831	-	-	74,831
Treasury bills	2,998	-	-	2,998
Securities bought under repurchase agreements	117,938	-	-	117,938
Investments at fair value through profit or loss	11,276	5,051	10,621	26,948
Investments at fair value through other comprehensive income	-	4,426	6,188	10,614
Investments at amortised cost	-	4,983	4,952	9,935
Investment property	-	-	-	-
Fees receivable	5,714	-	-	5,714
Other assets	12,431	-	-	12,431
Property and equipment	133	109	-	242
Intangible assets and goodwill	240	460	1,170	1,870
Total assets	**225,561**	**15,029**	**22,931**	**263,521**
Liabilities				
Short-term bank borrowings	8,411	-	-	8,411
Securities sold under repurchase agreements	125,210	-	-	125,210
Customer accounts	47,149	-	-	47,149
Other liabilities	9,054	-	-	9,054
Payable to other unit holders in consolidated funds	2,694	-	-	2,694
Total liabilities	**192,518**	**-**	**-**	**192,518**
Liquidity gap	33,043	15,029	22,931	71,003
Cumulative liquidity gap	33,043	48,072	71,003	

32. Accounting classification and fair values

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

31 December 2022	Fair value through profit or loss	Fair value through other comprehen-sive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	46,237	46,237
Treasury bills	-	-	-	14,338	14,338
Securities bought under repurchase agreements	-	-	-	155,886	155,886
Investments at fair value through profit or loss	23,119	-	-	-	23,119
Investments at fair value through other comprehensive income	-	10,244	-	-	10,244
Investments at amortised cost	-	-	-	14,664	14,664
Fees receivable	-	-	-	2,062	2,062
Other assets	-	-	-	9,242	9,242
	23,119	**10,244**	**-**	**242,429**	**275,792**
Short-term bank borrowings	-	-	-	5,048	5,048
Securities sold under repurchase agreements	-	-	-	162,989	162,989
Customer accounts	-	-	-	29,722	29,722
Other liabilities	-	-	-	9,822	9,822
Payable to other unit holders in consolidated funds	-	-	2,419	-	2,419
	-	**-**	**2,419**	**207,581**	**210,000**

31 December 2021	Fair value through profit or loss	Fair value through other comprehen-sive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	74,831	74,831
Treasury bills	-	-	-	2,998	2,998
Securities bought under repurchase agreements	-	-	-	117,938	117,938
Investments at fair value through profit or loss	26,948	-	-	-	26,948
Investments at fair value through other comprehensive income	-	10,614	-	-	10,614
Investments at amortised cost	-	-	-	9,935	9,935
Fees receivable	-	-	-	5,713	5,713
Other assets	-	-	-	12,094	12,094
	26,948	**10,614**	**-**	**223,509**	**261,071**
Short-term bank borrowings	-	-	-	8,411	8,411
Securities sold under repurchase agreements	-	-	-	125,210	125,210
Customer accounts	-	-	-	47,149	47,149
Other liabilities	-	-	-	9,245	9,245
Payable to other unit holders in consolidated funds	-	-	2,694	-	2,694
	-	**-**	**2,694**	**190,015**	**192,709**

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

(ii) Fair value hierarchy

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

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

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

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

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

As at 31 December 2022	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
Equities	4,731	377	-	5,108
Debt securities	5,136	-	-	5,136
Fair value through profit or loss:				
Equities	6,227	-	-	6,227
Debt securities	7,276	-	-	7,276
Funds	6,530	-	3,086	9,616
	29,900	**377**	**3,086**	**33,363**

As at 31 December 2021	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
Equities	5,402	377	-	5,779
Debt securities	4,835	-	-	4,835
Fair value through profit or loss:				
Equities	8,182	-	-	8,182
Debt securities	8,304	-	-	8,304
Funds	8,328	-	2,134	10,462
	35,051	**377**	**2,134**	**37,562**

32. Accounting classification and fair values (continued)

The Group recognises 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:

	2022	2021
At 1 January	2,134	1,143
Total gain:		
- in income statement	(241)	712
- in other comprehensive income	-	-
Purchases	1,193	-
Settlements	-	-
Transfers into/ (out) of level 3	-	279
At 31 December	**3,086**	**2,134**

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.

33. Comparatives

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

34. Net stable funding ratio

In August 2018, the CBB issued its regulations on Liquidity Risk Management (Module LM). The main objective of the NSFR is to promote the resilience of the banking system by improving the funding profile of banks by ensuring they have sufficient level of stable funding in relation to their assets and commitments. The NSFR thus promotes banks to rely on funding from stable sources and long-term borrowing in order to reduce the risks of disruptions which might impact the bank's liquidity position.

As per the CBB's Module LM, banks are required to meet the minimum NSFR of at least 100% on a continuous basis.

Further details on the calculation of the NSFR is presented in the following tables.

	Unweighted values (before applying factors)				
31 December 2022	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available stable funding (ASF):					
Capital:					
Regulatory capital	69,183	-	-	94	69,277
Retail deposits and deposits from small business customers:					
Less stable deposits	-	11,804	-	-	10,624
Other liabilities:					
All other liabilities not included in above categories	-	200,299	-	-	2,709
Total ASF					**82,610**
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	32,526	-	-	-	2,546
Performing loans and securities:					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	24,949	-	-	12,475
Other assets:					
All other assets not included in the above categories	12,989	198,528	-	-	45,506
Off-balance sheet items	8,310	-	-	-	416
Total RSF					**60,943**
NSFR %					136%

34. Net stable funding ratio (continued)

31 December 2021	Unweighted values (before applying factors): No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available stable funding (ASF):					
Capital:					
Regulatory capital	67,781	-	-	130	67,911
Retail deposits and deposits from small business customers					
Less stable deposits	-	13,451	-	-	12,106
Other liabilities:					
All other liabilities not included in above categories	-	175,441	2,993	-	4,406
Total ASF	-	-	-	-	**84,423**
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	20,592	-	-	-	2,155
Performing loans and securities:					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	28,542	-	-	14,271
Other assets:					
All other assets not included in the above categories	7,915	194,000	-	-	44,076
Off-balance sheet items	6,966	-	-	-	348
Total RSF	**-**	**-**	**-**	**-**	**60,850**
NSFR %	-	-	-	-	139%

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
Mohammed Abdulla	3
Khurram Mirza	3
Dana Raees	3

The total amount of NRCG siting fees for 2022 is BD 9,000 [2021: BD 12,000]

External consultants

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

Scope of application of the remuneration policy

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

Board remuneration

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

Variable remuneration for staff

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

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

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

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

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

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

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

Remuneration of control functions

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

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

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same shortrun 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.

Risk assessment framework (continued)

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.

Components of variable remuneration (continued)
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%-100%	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'	2022	2021
• Sitting Fees	85	95
• Remuneration	141	197

(b) Employee remuneration

2022 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	11	1,071,716	42,555	272,400	83,600	1,470,271
Approved persons in control functions	17	924,906	30,780	95,160	30,540	1,081,386
Other material risk takers	31	905,186	26,586	142,320	29,280	1,103,372
Other employeers	45	883,330	29,934	86,400	18,300	1,017,964
Subsidiaries						
Business Line	6	286,097	4,064	18,171	4,106	312,438
Other employees	18	424,743	8,808	52,549	6,800	492,900
Total	**128**	**4,495,978**	**142,727**	**667,000**	**172,626**	**5,478,331**

2021 BD 000'	Number Of staff	Total Fixed remuneration		Variable remuneration		Total Remuneration
		Cash	Shares	Upfront Cash	Deferred Shares	
Approved persons in business lines	12	1,027,334	40,695	478,300	233,700	1,780,029
Approved persons in control functions	14	834,855	31,482	217,600	87,400	1,171,337
Other material risk takers	30	779,848	24,510	154,000	44,000	1,002,358
Other employeers	42	788,839	26,700	259,000	118,000	1,192,539
Subsidiaries						
Business Line	6	278,719	7,203	32,418	14,854	333,194
Other employees	18	397,824	7,785	66,541	9,160	481,310
Total	**122**	**4,107,419**	**138,375**	**1,207,858**	**507,114**	**5,960,767**

Notes:

The amounts reported above represent actual awards for 2021 and 2020 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

2022 BD 000'	Shares	Amount
Opening Balance	20,991,293	3,400,589
Awarded during the period	1,970,969	315,353
Bonus Shares for vested shares	510,206	51,020
Paid out / released during the period	(4,833,734)	(744,395)
Service, performance and risk adjustment	-	-
Changes in Value of unvested opening awards	-	40,370
Closing balance	**18,638,734**	**2,982,197**

2021 BD 000'	Shares	Amount
Opening Balance	17,180,324	2,611,409
Awarded during the period	3,984,502	645,489
Paid out / released during the period	(173,533)	(26,377)
Service, performance and risk adjustment	-	-
Changes in Value of unvested opening awards	-	(170,068)
Closing balance	**20,991,293**	**3,400,589**

Notes :

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

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

Risk and Capital Management Disclosures

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.

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1. Overview and Structure of Risk Management

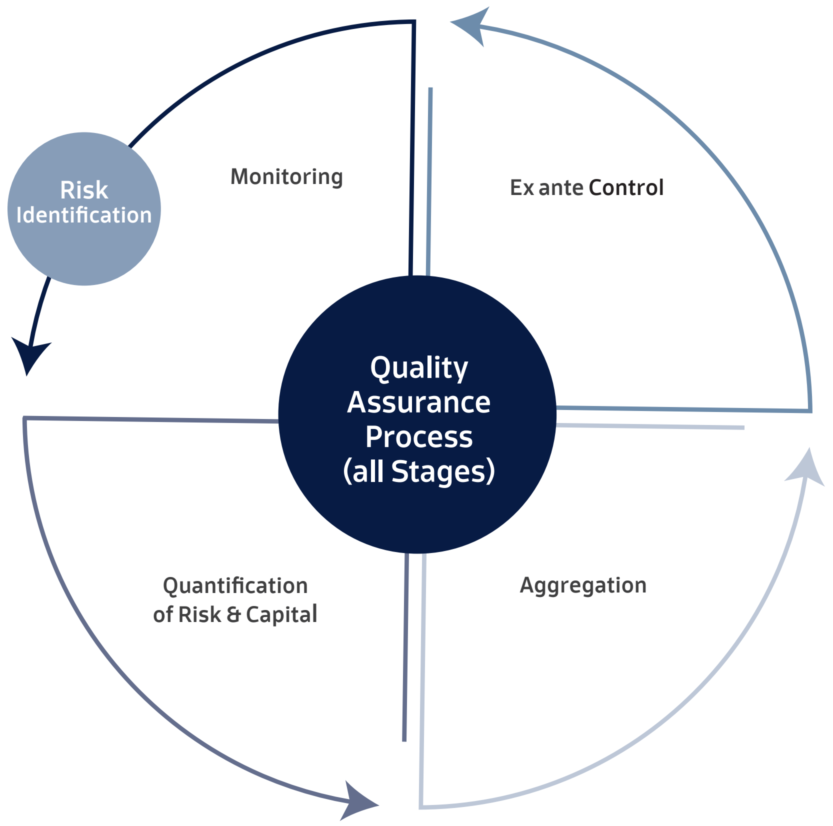
Risk management is the systematic process of identifying, assessing and mitigating the risks to which SICO is exposed. Risk management is essential to the Bank's success, as risk is inherent in its activities, and risks are mitigated by establishing appropriate controls and ensuring that effective monitoring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

The major risk types to which SICO is exposed are:

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

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

2. RISK GOVERNANCE STRUCTURE

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

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

- **Board of Directors (BOD):** The BOD is primarily responsible for approving the Bank's risk strategy, risk appetite and risk policies to manage risks that arise from SICO's business activities. These policies are consistent with the Bank's broader business strategies, capital strength, management expertise and ability to control risk.
- **Board Audit, Risk & Compliance Committee (BARCC):** The BARCC is responsible for reviewing the Bank's accounting and financial practices to ensure integrity of the Bank's financial statements and adequacy of risk management, compliance and internal control frameworks. The committee also oversees the Internal Audit function. The committee provides active oversight on the risk management framework, approves risk policies and limits and ensures adequacy of risk controls.
- **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.
- **Nominations, Remuneration and Corporate Governance Committee (NRCGC):** The NRCGC contributes to the control framework by nominating qualified Board Members and key management positions. It also approves the remunerations that factor in the risk taken by the business and oversees corporate governance-related issues.
- **Assets, Liabilities and Investment Committee (ALIC):** ALIC acts as the principal policy-making body at the management level which is responsible for overseeing the Bank's capital and financial resources. It is also responsible for managing the balance sheet and all proprietary investment activities, including investment strategy, and asset, country and sector allocations. The committee is specifically responsible for managing the balance sheet risk, capital and dividend planning, forecasting and monitoring interest rate risk positions, liquidity and fund management. The committee is also responsible for formulating and reviewing the Bank's investment policies (subject to approval by the BOD), strategies and performance measurement and assessment.
- **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 the internal control culture throughout the company and to ensure adequacy of controls in the various processes followed in the Bank.
- **Risk Management Department (RMD):** RMD is responsible for establishing a sound risk management framework to assist the Bank in the realisation of its business objectives. It also provides oversight of risk management and risk controls across the organisation by coordinating and communicating with each business unit to manage the risks that arise for its business activities. It also ensures that the principles and requirements of managing risk are consistently adopted throughout the Bank.
- **Compliance Unit:** The unit is responsible for internal compliance, regulatory compliance and KYC and Anti Money Laundering functions. It ensures compliance with internal and external rules and regulations and is responsible for implementing the compliance framework across the entire Bank.
- **Internal Control Unit:** The unit is responsible for ensuring the internal control framework of the Bank's business units is adequate and recommends changes wherever deemed. The unit is also responsible for ensuring that all policies and procedures are followed correctly.
- **Internal Audit Unit:** The unit provides an additional line of defence within the Bank's risk management and control framework. Internal Audit is primarily responsible for providing independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Bank is appropriate and effectively applied by the business units, control functions and Senior Management.

3. CBB and Basel guidelines

CBB Rulebook

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

BASEL III Framework

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

Basel III measures aim to:

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

The Basel III Guidelines are based on three pillar framework as follows:

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

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

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

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

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

Pillar 3

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

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 basis.

The principal subsidiaries that are fully consolidated in the SICO's financial statements are SICO Funds Services Company BSC (c) ("SFS"), incorporated in Bahrain and providing custody and fund administration services; SICO Financial Brokerage LLC, incorporated in Abu Dhabi and providing brokerage services in the UAE; and SICO Capital, a full service investment banking firm based in Riyadh, Saudi Arabia that offers a comprehensive range of financial services to individual, institutional and corporate clients across Asset Management, Investment Banking and Brokerage lines of business.

The Bank has controlling interest in SICO Fixed Income Fund ("SFIF") and SICO Kingdom Equity Fund ("SKEF"); and therefore consolidates the SKEF and SFIF financials as per 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 also need to be considered:

a. The Bank's paid-up capital consists only of ordinary shares that have proportionate voting rights, and the Bank does not have any other type of capital instruments.
b. The Bank's Tier 1 capital, which consists of Common Equity Tier 1, comprises share capital, share premium, reserves, retained earnings, eligible reserves and unrealised losses arising from fair valuing investment 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 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	44,134
Less: Employee stock incentive program funded by the bank (outstanding)	(2,263)
Less: Treasury Shares	-
General Reserve	3,217
Legal / Statutory reserves	8,582
Share Premium	761
Retained Earnings Brought forward	11,115
Current interim cumulative net income / losses	3,551
Securitisation exposures subject to deduction	-
Accumulated other comprehensive income and losses	885
Total minority interest in banking subsidiaries given recognition in CET1 capital	-
Less: Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	-
Less: Goodwill	(140)
Less: Intangibles other than mortgage servicing rights	(600)
Total Common Equity Tier 1 Capital (A)	**69,242**
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	90
Total AT1 & Tier 2 (B)	**90**
Total Available Capital (C) = (A) + (B)	**69,332**
Credit risk weighted exposures	43,046
Market risk weighted exposures	22,123
Operational risk weighted exposures	26,737
Total Risk weighted exposures (D)	91,905
CET1 Capital Ratio (A) / (D)	75.34%
Total Capital Adequacy Ratio (C) / (D)	**75.44%**

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)	75.44%	75.34%
SICO Fund Services Company BSC (c)	567.32%	567.32%
SICO Financial Brokerage LLC*	5.72	3.95
SICO Capital**	3.25	3.25

** 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.*

*** SICO Capital CAR has been computed by using the Capital Adequacy Model provided by Saudi's Capital Market Authority, wherein the minimum required ratio is 1.0.*

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 to 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 the 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 other risks. 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 requirement 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 as follows:

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

5. CREDIT RISK

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

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

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

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

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

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

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

Credit risk is monitored and controlled by policies and procedures that are put in place by RMD and that have been approved by 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 Dec 2022	Gross credit exposure	Eligible CRM	Credit exposure after CRM	Average Risk Weight	Credit Risk Weighted Assets	Capital requirement @ %12.5
Cash items	-	-	-	-	-	-
Claims on sovereigns	53,539	-	53,539	0%	-	-
Claims on Bahraini PSE	500	-	500	-	-	-
Claims on banks	127,213	81,053	46,160	31%	14,372	1,797
Claims on corporates	60,037	56,963	3,073	96%	2,955	369
Claims on Investment Firms	10,084	10,084	-	-	-	-
Regulatory retail portfolios	1,204	1,180	24	-	18	2
Investments in securities	9,917	-	9,917	109%	10,853	1,357
Holdings in real estate	3,871	-	3,871	200%	7,742	968
Other assets	12,472	5,367	7,105	100%	7,105	888
Total Funded	**268,752**	**144,563**	**124,189**		**43,046**	**5,381**
Off Balance Sheet exposures	5,952	-	5,952	100%	5,952	744

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

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

5.2 MATURITY PROFILE

As at 31st Dec 2022	Less than 1 year	Over 1 year to 5 years	5-10 years	10-20 years	Above 20 years	Total
Cash and cash balances	46,237	-	-	-	-	46,237
Treasury bills	14,338	-	-	-	-	14,338
Securities bought under repurchase agreements	155,886	-	-	-	-	155,886
Investments at fair value through profit or loss	8,214	11,034	2,879	-	991	23,119
Investments at fair value through other comprehensive income	-	9,860	383	-	-	10,244
Investments at amortized cost	2,970	7,112	3,808	-	774	14,664
Fees receivable	2,062	-	-	-	-	2,062
Other assets	9,659	-	-	-	-	9,659
Property and equipment	53	2,046		-	-	2,099
Intangible assets and Goodwill	66	301	1,307	-	-	1,674
Total gross credit exposures	**239,485**	**30,354**	**8,377**	**-**	**1,766**	**279,982**
Commitments	4,717	-	-	-	-	4,717
Contingents	3,593	-	-	-	-	3,593

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 December 2022	Financial	Sovereign	Diversified Funds	Real Estate	Others	Total
Cash and Bank balances	46,225	12	-	-	-	46,237
Treasury bills	-	14,338	-	-	-	14,338
Placements with banks	-	-	-	-	-	-
Securities bought under repurchase agreements	134,133	19,162	-	135	2,456	155,886
Investments at fair value through profit or loss	8,495	2,813	3,286	2,752	5,772	23,119
Investments at fair value through other comprehensive income	2,391	5,415	-	1,255	1,182	10,244
Investments at amortized cost	-	14,664	-	-	-	14,664
Investment Property	-	-	-	-	-	-
Fees receivable	1,237	617	-	12	196	2,062
Other assets	776	1	-	26	8,857	9,659
Property and equipment	-	-	-	-	2,099	2,099
Intangible assets and goodwill	-	-	-	-	1,674	1,674
Total assets	**193,258**	**57,023**	**3,286**	**4,181**	**22,235**	**279,982**

5.4 GEOGRAPHICAL DISTRIBUTION

As at 31st December 2022	Middle East and Asia	North America	Europe	Total
Cash and bank balances	43,145	252	2,840	46,237
Treasury bills	14,338	-	-	14,338
Securities bought under repurchase agreements	150,108	-	5,778	155,886
Investments at fair value through profit or loss	15,108	4,876	3,135	23,119
Investments at fair value through other comprehensive income	10,143	101	-	10,244
Investments at amortized cost	14,664	-	-	14,664
Fees receivable	1,929	-	133	2,062
Other assets	9,431	5	223	9,659
Property and equipment	2,099	-	-	2,099
Intangible assets and goodwill	1,674	-	-	1,674
Total assets	**262,639**	**5,234**	**12,109**	**279,982**

5.5 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 rule book. 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), lending collateralized by GCC Government securities and inter-bank nature. These exposures are reported to the CBB on quarterly basis as part of the PIR in accordance with the requirement of rule CM-2.6.1 of the Credit Risk Management module of the Rulebook.

Counterparty	Country	Amount	Exposure as a % to eligible capital base
GFH + KHCB	Bahrain	81,925	118.2%
SAYACORP	Bahrain	43,508	62.8%
CBB	Bahrain	25,495	36.8%
AL SALAM BANK	Bahrain	13,165	19.0%

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

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

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

- Equity price risk
- Interest rate risk
- Currency risk

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

	Market Risk Weighted Assets			
	During the year to date period			
	Minimum	Maximum	As at 31-Dec-22	Capital Requirement @ 12.5%
Interest Rate Position Risk	750	880	752	94.00
Equities Position Risk	996	1,474	996	124.50
Foreign Exchange Risk	16	78	22	2.75
Total min capital required for market risk	-	-	1,770	221.25
Multiplier	-	-	13	12.50
Total	-	-	**22,123**	**2,765.63**

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.

	Gross Exposure	Risk Weighted Assets	Capital requirement @ %12.5
Equity investments			
- Listed	2182	2182	273
- Unlisted	-	-	-
Investment in rated funds	-	-	-
Investment in unrated funds - Listed/Unlisted	7,735	8,671	1,084
- Listed	5,863	5,863	733
- Unlisted	1,872	2,808	351
Total	**9,917**	**10,853**	**1,357**

6.2 INTEREST RATE RISK

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

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

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

6.2(a) INTEREST RATE RISK SENSITIVE ASSETS AND LIABILITIES

As at 31st December 2022	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non- interest sensitive	Total
Cash and Bank balances	-	-	-	22,062	**22,062**
Call deposits*	-	3,013	-	-	**3,013**
Treasury bills	5.04%	14,338	-	-	**14,338**
Short-term placements with banks	5.27%	21,162	-	-	**21,162**
Securities bought under repurchase agreements	5.45%	155,886	-	-	**155,886**
Investments at fair value through profit or loss	5.45%	174	7,102	15,843	**23,119**
Investments at fair value through other comprehensive income	6.81%	-	5,136	5,108	**10,244**
Investments at amortized cost**	6.56%	-	14,664	-	**14,664**
Fees receivable	-	-	-	2,062	**2,062**
Other assets	-	-	-	9,659	**9,659**
Property and Equipment	-	-	-	2,099	**2,099**
Intangible assets and goodwill	-	-	-	1,674	**1,674**
Total Assets	-	**194,573**	**26,902**	**58,507**	**279,982**
Short-term bank borrowings	4.85%	5,048	-	-	**5,048**
Securities sold under repurchase agreements	4.75%	162,989	-	-	**162,989**
Customer accounts	-	-	-	29,722	**29,722**
Other liabilities	-	-	-	9,822	**9,822**
Payable to unit holders in consolidated funds	-	-	-	2,419	**2,419**
Total Liabilities	**-**	**168,037**	**-**	**41,963**	**210,000**
Total Equity	**-**	**-**	**-**	**69,982**	**69,982**
Total Liability and Equity	**-**	**168,037**	**-**	**111,945**	**279,982**
Interest rate sensitivity Gap	-	26,536	26,902	(53,438)	**-**
Cumulative Interest rate sensitivity gap	-	**26,536**	**53,438**	**-**	**-**

*At 31 December 2022 the effective interest rate on Bahraini Dinar call deposits is 4.1% (2021: 1%) and on USD call deposits is 3.6% (2021: 1%).

The Bank also applies stress testing to monitor interest rate shocks on its banking book on a periodic basis. The result is presented to the CBB on a semi-annual 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 negatively/positively 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
(288)	(575)	(1,151)	288	575	1,151

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, the 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 reviews such positions.

7. OPERATIONAL RISK

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

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

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

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

	2019	2020	2021
Gross income	14,636	10,432	17,711
Average gross income (A)			14,260
Alpha (B)			15%
(C) = (A) * (B)			2,139
Risk weighted exposures (D) = (C) * 12.5			**26,737**
Capital requirement @ 12.5% of (D)			**3,342**

8. OTHER RISKS

8.1 CONCENTRATION RISK

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

The Bank complies strictly with the large exposure norms prescribed by the CBB in the 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. The Bank's liquidity position is monitored on a daily basis, and maturity mismatches of its maturity profile are also monitored and reported to the ALIC and Board. Moreover, the bank's investment book which is also majorly invested in liquid assets provides support to the Bank's liquidity profile. 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 follows as per CBB requirements.

8.3 FIDUCIARY RISKS

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

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

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

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

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

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

8.4 BUSINESS CONTINUITY

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

8.5 COMPLIANCE RISK

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

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. Currently, there are no on-going lawsuits against the company and based on our assessment, we do not consider the need for the creation of any provision in these consolidated financial statements with respect to the 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, as they are identical.

APPENDIX 2

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

	Published financial statements 31-Dec-22 BD '000	Consolidated PIR data* 31-Dec-22 BD '000
Assets		
Cash and cash equivalents	46,237	46,244
of which Cash and balances at central banks	25,075	25,075
of which Placements with banks and financial institutions	21,162	21,169
Treasury bills	14,338	14,338
Securities bought under repurchase Agreement	155,886	155,905
Investments at fair value through profit and loss	23,119	23,119
Investments at fair value through other comprehensive income	10,244	10,244
Investments at Amortized Cost	14,664	14,664
Fees receivable	2,062	2,062
Other assets	9,659	9,723
of which loans and advances (margin receivables)	5,867	5,931
of which interest receivable	1,909	1,909
of which other assets	1,883	1,883
Property and equipment	2,099	2,099
Intangible assets and goodwill	1,674	1,674
Total assets	**279,982**	**280,072**
Liabilities		
Short-term bank borrowings	5,048	5,048
Securities sold under repurchase agreement	162,989	162,989
Customer Accounts	29,722	29,722
Other liabilities	9,822	9,822
of which Interest payable	1,143	1,143
of which other liabilities	8,679	8,679
Payable to other unit holders (Other liabilities)	2,419	2,419
Total liabilities	**210,000**	**210,000**
Shareholders' Equity		
Share Capital - eligible for CET1	44,134	44,134
Shares under employee share incentive scheme	(2,263)	(2,263)
Treasury shares	-	-

	Published financial statements 31-Dec-22 BD '000	Consolidated PIR data* 31-Dec-22 BD '000
Statutory reserve	9,343	9,343
of which share premium	761	761
of which legal reserve	8,582	8,582
General reserve	3,217	3,217
Investments fair value reserve	885	885
of which unrealized gains from fair valuing equities	781	781
of which unrealized gains from other financial instruments	104	104
Retained earnings	14,666	14,666
of which retained earnings brought forward from previous year	11,115	11,115
of which net profits for the current period	3,551	3,551
Expected Credit Losses (Stages 1 & 2)	-	90
Total shareholder' equity	**69,982**	**70,072**
Total liabilities and equity	**279,982**	**280,072**

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

APPENDIX 3

Step 3: Composition of Capital Common Disclosure Template as of 31st December 2022

	Composition of capital and mapping to regulatory reports	Component o regulatory capital (BD '000)
	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	41,871
2	Retained earnings	14,666
3	Accumulated other comprehensive income (and other reserves)	13,445
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**	**69,982**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	140
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	600
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 cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-
	Investment in financial entities where ownership is < 10% of issued common share capital	-
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)**	**69,242**

	Composition of capital and mapping to regulatory reports	Component o regulatory capital (BD '000)
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	-
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
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)**	**68,025**
	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)	90
51	Tier 2 capital before regulatory adjustments	-
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-

	Composition of capital and mapping to regulatory reports	Component o regulatory capital (BD '000)
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
57	**Total regulatory adjustments to Tier 2 capital**	**90**
58	**Tier 2 capital (T2)**	**90**
59	**Total capital (TC = T1 + T2)**	**69,332**
	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**	**91,905**
	Capital ratios	
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**75.34%**
62	**Tier 1 (as a percentage of risk weighted assets)**	**75.34%**
63	**Total capital (as a percentage of risk weighted assets)**	**75.44%**
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)**	**75.44%**
	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)	90
77	Cap on inclusion of provisions in Tier 2 under standardized approach (1.25% of Credit Risk weighted Assets)	-
78	NA	-
79	NA	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)	
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-

APPENDIX 4

Step 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
3	(BLOOMBERG ID)	Commercial Companies Law, Bahrain
	Regulatory treatment	
4	Transitional CBB rules	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	BD 41.87 million
9	Par value of instrument	100 fils per share
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1995
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA