

COMPASS

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SICO Chairman's Review of 2016

"A resilient performance by our core business lines."



Shaikh Abdulla bin Khalifa Al Khalifa
Chairman of the Board of SICO

Introducing SICO's financial results for 2016, Shaikh Abdulla bin Khalifa Al Khalifa, Chairman of the Board, said: "As predicted, this was another tough and testing twelve months, marked by continued economic and market volatility, a regional liquidity crunch, and subdued investor sentiment. It was also a year of the unexpected. Surprises such as the outcome of the Brexit referendum, results of elections in the US and Europe, and the devaluation of the Chinese currency, raised new concerns and heightened uncertainty. Against such a challenging backdrop, SICO posted

another positive financial performance."

Financial Results

The Bank reported a net consolidated profit for fiscal year 2016 of BD 2.3 million compared with BD 2.8 million in 2015, a decrease of 18.0 per cent due primarily to the continued volatility of regional and global equity markets during the year. Operating income reduced by 6.0 per cent to BD 7.9 million from BD 8.4 million the previous year. Total expenses including staff overheads, general administration and other operating expenses, totalled BD 5.3 million compared with BD 5.5 million in 2015. Basic earnings per share in 2016 were Bahraini fils 5.5 versus 6.6 fils for the previous year.

As at 31 December 2016, total balance sheet footings stood at BD 147.1 million compared with BD 112.8 million at the end of the previous year. SICO continued to maintain a strong capital base, ending the year with shareholders' equity of BD 58.1 million net of BD 2.1 million dividends distributed earlier in the year (2015: BD 58.4mn), and a very strong consolidated capital adequacy ratio of 61.4 per cent. Investments at fair value through profit or loss were BD 28.0 million (end-2015: BD 14.3mn).

Assets under management increased by 19 per cent to BD 395.9 million (US\$ 1.1bn) from BD 332.3 million (US\$ 881.5 mn) in 2015; while assets under custody with the Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – increased by 11.8 per cent to BD 1.9 billion (US\$ 5.0bn) from BD 1.7 billion (US\$ 4.5bn) at the end of 2015.

Business performance

"However, it should be noted that the Bank's financial results are not wholly reflective of the resilient performance of our core business lines during 2016," Shaikh Abdulla pointed out. "Highlights include the structuring and delivery of a sophisticated array of new innovative investment banking solutions and transactions by Corporate Finance, Market Making and Fixed Income Asset Management. In addition, total assets under management exceeded US\$ 1 billion for the first time.

"From a strategic perspective, we further diversified our product offering during the year, with the addition of real estate-related business activities. Our entry into alternative investments asset management, which is not directly

correlated to the performance of regional capital markets, will further diversify SICO's revenue generators and provide a new source of recurring income that will help us to withstand the impact of ongoing market volatility."

Future Outlook

Looking ahead, Shaikh Abdulla commented: "The Board is cautiously optimistic about SICO's prospects in 2017, although we recognise that it will be another highly-challenging and unpredictable year. However, OPEC's resolution to curb crude output, and the Fed's decision to raise interest rates, are positive steps towards improved global economic activity, which should be supported by a likely rebound in commodities. For the GCC and MENA, fiscal reforms and economic transformation plans by governments should help drive private sector activity, thereby improving corporate profitability. Coupled with stable oil prices, this should provide a welcome boost for regional markets.

"As our track record shows, SICO is an inherently prudent, solid and pioneering wholesale bank; and the Board has full confidence in the ability of our high-calibre Management team to rise to all future challenges, implement our strategy and business plan, and continue providing shareholders with an acceptable risk-adjusted return," Shaikh Abdulla pointed out.

Bahrain Liquidity Fund significantly boosts turnover on Bahrain Bourse since launch

Since its introduction in June 2016, the BD 41 million Bahrain Liquidity Fund has contributed to a substantial increase in volumes traded on the Bahrain Bourse. Immediately following its launch, the Fund made a significant impact, with average daily trading on the Bourse improving by 67 per cent over the first five months of 2016. Since its launch, the fund's total contribution to the Bourse's turnover was 65 per cent. The turnover of the Bahrain Bourse grew by 2 per cent in 2016, in sharp contrast to the decline posted by all other GCC markets, with the majority witnessing a reduction of between 20 and 30 per cent.

The Fund acts as a market maker, providing two-way quotes on most of the listed stocks with a reasonable spread, to enable investors to actively trade their preferred stocks. By improving liquidity, the Fund will help to address one of the primary concerns that has caused stocks listed on Bahrain Bourse to trade at a discount to their regional peers, albeit the prevailing attractive valuations. Restricted liquidity causes securities to trade at a discount to their underlying value and regional peers; the Fund aims to help reduce that discount over the medium to long term. The Fund will also help in attracting new investors and deepening Bahrain's capital markets,

by assisting local businesses to raise capital through access to alternative sources of financing other than bank lending, by which to fund their companies' growth objectives at reasonable valuations.

Ms. Najla M. Al Shirawi, Chief Executive Officer of SICO, commented: "We are naturally delighted with the performance of the Bahrain Liquidity Fund during 2016, which exceeded market expectations. We would like to thank the seed investors, the Central Bank of Bahrain and the Bahrain Bourse, for their respective contributions and unprecedented support in realising this initiative.

"It should also be noted that average traded value on the Bahrain Bourse increased more than five-fold from BD 192 thousand in January 2016 to BD 1 million in January 2017. In that month, the Fund's average traded value was BD 362 thousand, representing 36 per cent of total traded value on the Bourse. When normalised for the unusual trading activity on shares of Khaleeji Commercial Bank, average traded value on the Bahrain Bourse in January 2017 was BD 745 thousand – an increase of almost three times – of which the Bahrain Liquidity Fund represented 48 per cent."

Eskan Bank Realty Income Trust listed on Bahrain Bourse



Eskan Bank GM Dr. Khalid Abdulla rings the opening bell at the Bahrain Bourse in the presence of BHB CEO Shaikh Khalifa bin Ebrahim Al Khalifa, SICO CEO Ms. Najla Al Shirawi and other officials, to mark the start of trading in units of the Eskan Bank Realty Income Trust.

Following the successful IPO of the Eskan Bank Realty Income Trust, with a subscription level of 95.5 per cent, units of this real estate investment trust commenced trading on the Bahrain Bourse (BHB) on 2 January 2017.

Congratulating Eskan Bank on the listing, BHB Chief Executive Shaikh Khalifa bin Ebrahim Al Khalifa, said: "The commencement of trading of Bahrain's first Sharia-

compliant retail real estate investment trust underlines the ongoing initiatives by the Central Bank of Bahrain and the Bahrain Bourse to bring new products and services to the exchange. These are designed to improve the Bourse's liquidity and depth, thereby strengthening its competitiveness and enhancing its appeal to local, regional and international investors, both institutional and individual."

Eskan Bank General Manager Dr. Khalid Abdulla said: "We would like to thank all our partners for their contribution to the successful offering, subscription and listing of the Eskan Bank Realty Income Trust. This provides investors with the opportunity to share in the Bank's significant property development activities, and benefit from commercial and residential rental income across diversified assets. Such a landmark financial instrument will add to the breadth of investment opportunities in the Kingdom of Bahrain."

Ms. Najla Al Shirawi, Chief Executive of SICO, which is the mandated lead manager for the offering, as well as the sub-investment manager and dedicated market maker, commented: "The introduction of this new alternative investment asset class will add greater depth to the Kingdom's real estate sector, while helping to improve liquidity on the Bahrain Bourse. Our involvement illustrates SICO's commitment to broaden the range of investment products available to investors in the local market."

The Eskan Bank Realty Income Trust has an attractive target of 6.5 per cent in net distributable income payable semi-annually, and is expected to offer lower risk and volatility than stocks and bonds due to long-term rents, prime-asset backing, and no current leverage. Additionally, it offers investors the opportunity to share in a stable diversified property portfolio, plus liquidity by being able to easily convert units to cash. The Trust's property portfolio comprises a mix of retail, commercial and residential space with a combined occupancy rate of over 85 per cent.

SICO and Trucial sign partnership for new US real estate fund



Pictured at the signing ceremony are SICO CEO Ms. Najla Al Shirawi (centre), Trucial Managing Partner Mr. Maissan Al Maskati (left) and SICO Head of Corporate Finance Mr. Wissam Haddad (right).

SICO has entered into a strategic partnership with Trucial Investment Partners, a specialist asset management and advisory firm based in the Dubai International Finance Centre. Under this partnership, which was signed by SICO

Chief Executive Ms. Najla Al Shirawi and Trucial Managing Partner Mr. Maissan Al Maskati, the two institutions will co-seed and co-manage the planned SICO Trucial US Real Estate Income Fund, which is due to be launched during the second quarter of 2017.

Commenting on the agreement, Ms. Najla Al Shirawi said: "Following the successful IPO of Bahrain's first real estate investment trust (REIT) with SICO acting as Co-Investment Manager, we are delighted to announce our partnership

with Trucial Investment Partners on our maiden foray into the US real estate sector. This marks an important milestone in SICO's strategic evolution, providing our clients with unique alternative investment opportunities, as well as adding new products through which we aim to diversify our revenue streams and enhance recurring income."

According to Mr. Maissan Al Maskati: "We are excited about our partnership with SICO and look forward to working together. With the experience and track record of investing in the US real estate market, Trucial Investment Partners have designed a proven strategy focused on specific real estate and geographic segments within the United States, thereby allowing us to deliver superior yields and returns to our investors. Through our North American platform, Trucial USA, we also offer a local capability to execute and support this strategy."

According to Mr. Wissam Haddad: "The unleveraged, Sharia-compliant SICO Trucial US Real Estate Income Fund, which has a target size of US\$ 50 million, will focus on income-generating residential multi-family and single-family properties in attractive conurbations outside major US 'gateway' cities, which have growing populations, high yields and rising capital values. Smaller ticket real estate acquisitions will result in higher diversification of assets across a larger number of locations."

Brokerage grows client base and market share

Despite trading volumes of MENA markets declining by an even greater level than 2015, SICO's Brokerage business grew its client base and increased market share, and continued to make a positive contribution to the bottom line.

Bahrain

Through its focus on serving active institutional investors with large trading books, SICO maintained its status as the leading broker on the Bahrain Bourse for the 18th consecutive year. The Bank handled 7,131 transactions (market share 33.66%) involving 755.14 million shares (share 51.41%) with a total value of BD 136.22 million (share 54.73%) on the Bourse.

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

The Bank also remained the most active fixed income broker for Bahraini dinar bonds and Sukuks, and accounting for over 95 per cent of all secondary market transactions. The fixed income trading desk enjoyed record volumes, with US\$ 1.28 billion exchanging hands during the year. A dedicated fixed income dealer, backed by a sales force, was appointed; while other new initiatives included the provision of repo facilities to clients, encouraging them to borrow at low rates and invest in higher-yielding securities in the regional fixed income market, thereby spurring secondary market transactions.

SICO Performance on Bahrain Bourse 2016

	Amount (BD)	Market share	Ranking
Total value of shares traded	BD136.22 million	54.73%	1
Total volume of shares traded	755,14 million	51.41%	1
Total number of transactions	7,131	33.66%	1

SICO UAE

Despite a very difficult market environment, the Bank's Abu Dhabi-based brokerage subsidiary – SICO UAE – made good progress in implementing its new institutionally-focused strategy during 2016. Due to concerted marketing activities, the Company attracted new regional institutional clients and opened new relationships across the MENA region. The Company's value traded on both UAE equity markets – Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) – increased by 15.95 per cent over 2015, compared with the markets' value traded dropping by 13.75 per cent.

95%
SICO SHARE OF FIXED
INCOME TRANSACTIONS
ON THE BHB



Mr. Mohammed Abdulla Isa receives the trophy at the awards ceremony

Recognition for BBK Securities Offering

BBK's offering of BD 100 million perpetual tier 1 convertible capital securities on a privileged basis to shareholders, for which SICO was Mandated Lead Manager, was recognised as one of the top three 'Financial Institution Financing Deals of the Year' at the Bonds, Loans & Sukuks Middle East Awards 2016. Mr. Mohammed Abdulla Isa, BBK General Manager - Financial Planning & Control, and SICO Board Member, received the trophy at an awards ceremony held during December 2016 in Dubai.

The subscribed capital securities totalled BD 86.1 million, which represents over 86 per cent of the total subscription offering, exceeded the issuer's minimum threshold of BD 60 million by a considerable margin. This first-ever BHD-denominated tier 1 perpetual securities issuance incorporated unique features including a conversion to equity only option, no contractual write-down, and tradability on the Bahrain Bourse.

In addition to strengthening BBK's regulatory capital base and capital adequacy buffers, the capital increase will be used for enhancing the Bank's capacity to grow its asset base primarily through core lending activities. It will also fund the Bank's ambitious strategy of future expansion and diversification.

SICO executes first Islamic repurchase agreement (repo)

SICO has executed its first Islamic repurchase agreement (repo) transaction valued at US\$ 8.6 million, involving a pool of US dollar and Bahraini dinar Sukuks provided as collateral. This new Sharia-compliant instrument aims to provide clients with short-term financing by means of a collateralised Murabaha governed by an Agency Agreement. Borrowers will typically instruct their agent to purchase and sell commodities on their behalf, with payment to be made on a deferred basis.

The availability of a Sharia-compliant repo will help Islamic banks to manage their liquidity more cost-effectively and with greater flexibility, while also meeting more stringent regulatory requirements. It will provide them with a source of financing that can be extended to working capital and investment opportunities, while helping to maximise profits. This first-of-its-kind instrument to be offered by a conventional bank in Bahrain will also enable Islamic banks to make better use of their Sukuk assets.

According to Mr. Ali Marshad, Head of Fixed Income at SICO: "Basel III requirements are making banks take more seriously the need to manage their short-term funding; and also putting greater pressure on regulators to agree on Islamic repo structures. The appetite for such instruments in the GCC region is increasing, with Islamic banks in the UAE offering a variation of Sharia-compliant contracts to replicate the benefits of conventional repos."

Asset Management posts another strong performance

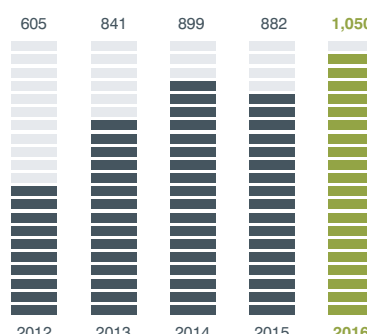
SICO's Asset Management business maintained its strong growth momentum during 2016, with total assets under management (AUM) exceeding US\$ 1 billion for the first time. At the end of the year, total AUM stood at BD 396 million (US\$ 1,050 million) compared with BD 332 million (US\$ 882 mn) at the end of the previous year.

Total Equity AUM increased to BD 296 million (US\$ 786 mn) at the end of 2016 compared with BD 269 million (US\$ 714 mn) at the end of the previous year. The Bank has three equity funds – Khaleej Equity Fund, SICO Gulf Equity Fund and SICO Kingdom Equity Fund – which have all outperformed their respective benchmarks and peers since inception. SICO also manages Dubai Islamic Bank's Al Islami GCC Equity Fund; the ex-Kuwait portion of the Al Ahli Gulf Equity Fund on behalf of Ahli Bank of Kuwait; and the Bahraini, Qatari and Omani elements of Riyad Bank's GCC ex-Saudi Equity Fund; all of which have been consistent high-performers.

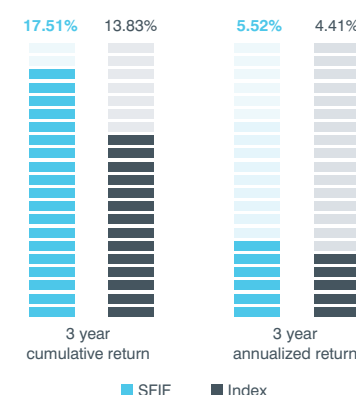
Fixed Income AUM increased by 9.0 per cent to BD 50 million (US\$ 133 mn), outpacing the 2.0 per cent growth witnessed in emerging market fund flows. The SICO Fixed Income Fund returned 6.0 per cent versus 4.8 per cent by the Barclays GCC USD Bond Index, marking the third consecutive year of positive performance, and paid a dividend of 2.5 per cent for 2016. During this period, the Fund has also continued to outperform its benchmark despite defensive positioning, and targeting consistent and sustainable returns, whilst offering liquidity and preserving capital.

Retail was added as a new alternative asset class in 2016, following the successful closing of the subscription offering for units in the Eskin Bank Realty Income Trust. The property portfolio of the Trust, covering office, retail and residential segments, is valued at BD 20 million (US\$ 53mn). SICO is the mandated Sub-Investment Manager for the trust.

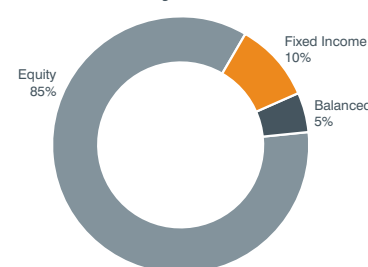
AUM Growth - US\$ million



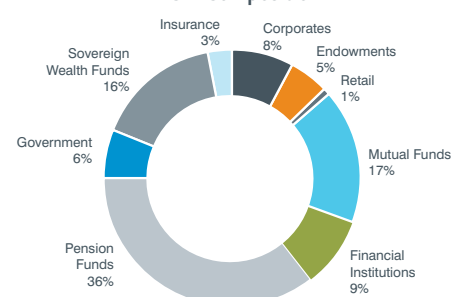
Fixed Income Fund Returns



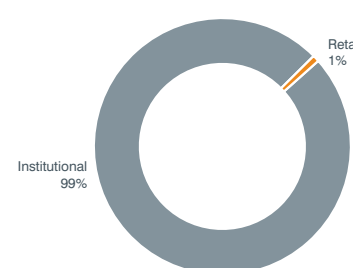
AUM by Asset Class



AUM Composition



AUM Breakdown



New initiatives to strengthen institutional capability

During 2016, SICO took a number of steps to further strengthen its institutional capability. This included establishing three new Management-level committees covering internal control, research and equal opportunities; and upgrading the Bank's IT infrastructure.

The Internal Control Committee is responsible for strengthening the internal control culture throughout the Bank by ensuring that departmental heads take ownership and accountability for internal control in their areas of responsibility. The Committee also advises the Board of Directors on

assessment and decision-making concerning SICO's framework of internal control, risk management and corporate governance. The remit of the Research Committee

Is to enhance the oversight and governance of the Research division's activities on an ongoing basis. It will also be a platform to discuss the division's macro and micro views on the region, sectors, and companies listed on GCC bourses. The Equal Opportunities Committee is responsible for overseeing equal employment opportunities between male and female employees of the Bank.

SICO has also established a new Bank Charter on Equal Opportunities which supports the strategies and plans of the Supreme Council for Women to empower women and consolidate the principle of equal opportunity. It recognises the fact that promoting diversity and inclusion practices in the workplace contributes to the success and competitiveness of companies. The Charter also takes into consideration key women's empowerment principles as issued by 'UN Women' and the 'United Nations Global Compact'.

Major IT infrastructure upgrade

During 2016, SICO continued to strengthen its information and communications technology (ICT) platform. Key developments included a major upgrade and migration to a hyper-convergent infrastructure, implementing the Enterprise Clouding Solution involving the latest technologies for the core infrastructure services. Additionally, the first phase of a new human resources management system (HRMS) was implemented, including provision of a 'self-service' system for employees.

Chief Executive's Review of 2016

"An active, productive and progressive year across all fronts"



In a year highlighted by global economic uncertainty, volatile market conditions and unpredictable geo-political events, SICO adopted a proactive and resilient approach to helping our clients weather such challenging headwinds. During 2016, we structured and delivered a sophisticated array of innovative investment transactions and products to meet their specific needs. At the same time, in line with our enduring value proposition, we continued to provide a haven of trust and security for our investors and shareholders.

Despite 2016 proving to be even more challenging and unpredictable than expected, SICO posted a positive financial performance that compares favourably with the financial results for 2015. Total income was BD 7.98 million (2015: BD 8.42mn) while net profit was BD 2.34 million (2015: BD 2.85mn). Staff and related expenses plus other operating

expenses reduced to BD 5.33 million (2015: BD 5.48mn), illustrating our tight control on costs while continuing to grow the business. In a notable achievement, total AUM exceeded US\$ 1 billion at the year-end for the first time.

As the articles in this issue of Compass illustrate, our core business lines remained buoyant, reflecting SICO's persistence in growing the business through structuring inimitable investment products, originating pioneering market transactions, and delivering superior performance to our clients. It is encouraging to note that fee, commission and brokerage revenues now account for 50 per cent of total income – balanced and diversified revenue generators will enable SICO to better withstand market volatility. During 2016, we added a further buffer against volatility with the introduction of real estate as an alternative asset class which is not directly correlated to the performance of regional capital markets.

Our business achievements were recognised during the year by the receipt of additional industry awards. SICO Funds Services Company (SFS) was named 'GCC Best Custodian' by the World Finance GCC Investment & Development Awards; BBK's Securities Offering was shortlisted as one of the top three 'Financial Institution Financing Deals of the Year' at the Bonds, Loans & Sukuks Middle East Awards; while Brokerage received

the award for the 'Highest Traded Shares on the Bahrain Bourse' for the third consecutive year at the annual AFE Equities Summit organised by the Arab Federation of Exchanges.

Underlining our enduring commitment to meet the changing needs of our clients with the highest levels of responsiveness, professionalism, innovation and confidentiality, we launched a new online brokerage trading platform – sicolive.com. This new multi-functional platform will enable clients to trade in real time – seamlessly and securely – across all GCC markets plus Jordan and Egypt, from a single account through their desktop computers, laptops and mobile devices.

Developing a world-class operating infrastructure through which to support the business remained a priority in 2016. We further strengthened the Bank's information and communications technology platform with a major infrastructure upgrade; and continued to enhance our human capital through implementing our succession planning policy, and supporting staff to acquire professional qualifications. SICO currently has nine CFA Charter Holders – equating to almost 10 per cent of total staff – while another six employees are currently studying for levels 1,2 and 3 of the CFA examination.

We also strengthened our corporate governance and risk management frameworks with the creation of new

management-level committees covering internal control and research. In addition, we established a new Bank Charter on Equal Opportunities, supported by an Equal Opportunities Committee, which reinforces our commitment to promote greater women's empowerment and gender equality, both at SICO and in Bahrain's banking industry.

It was also a busy year for our corporate social responsibility (CSR) programme through which SICO contributes to the social well-being and economic prosperity of the Kingdom of Bahrain. This includes improving the quality of life for the local community, with a particular focus on education, healthcare and social welfare; and supporting the development of Bahrain's banking sector and the GCC region's capital markets. It is particularly pleasing to see individual members of the Bank actively engaging in community activities and helping to raise money for charitable causes.

In conclusion, 2016 was a very active, productive and progressive year for SICO. I would like to thank all our stakeholders who made this possible: our shareholders, board of directors, and management and staff; together with our clients and business partners, and the Kingdom's regulatory authorities.

Najla M. Al Shirawi
Chief Executive Officer

SFS recognised as best custodian in the GCC

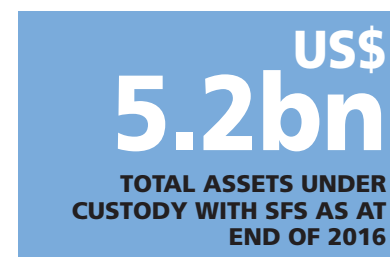
The Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – was named 'GCC Best Custodian' by the World Finance GCC Investment & Development Awards 2016. SFS was selected from a final shortlist of nominees comprising four global and regional financial institutions.

Acknowledging this prestigious award, SFS Chairperson and Chief Executive Officer of SICO, Ms. Najla Al Shirawi, said: "I would like to congratulate the SFS team on this well-deserved recognition. Their professionalism and client-centric approach has resulted in the Company

developing into a successful and highly-respected regional custodian.

"Supported by advanced technology tools, processes and delivery platforms, SFS provides clients with a seamless and flexible service. Despite increasingly challenging and competitive market conditions, SFS continues to win new mandates from leading regional financial institutions. Significantly, assets under custody with SFS have grown from US\$ 265 million in 2004 when SFS was established, to US\$ 5.2 billion as at 31 December 2016, which constitutes a remarkable achievement," Ms. Al Shirawi added.

The annual World Finance Awards were introduced in 2010 to recognise leading GCC financial institutions who are driving development and prosperity. Since then they have become known internationally as the pinnacle of recognition. Winners are selected by a stringent assessment and evaluation process involving readership voting and short-listing by a panel of experienced business journalists. Selection criteria include leadership and innovation; a forward-looking competitive strategy, quality of service and delivery; corporate governance; and transparency and disclosure.



Compass Guest Article

In this issue, Wissam Haddad, Head of Corporate Finance at SICO, takes a look at how asset securitisation can help institutions with optimising their funding requirements.

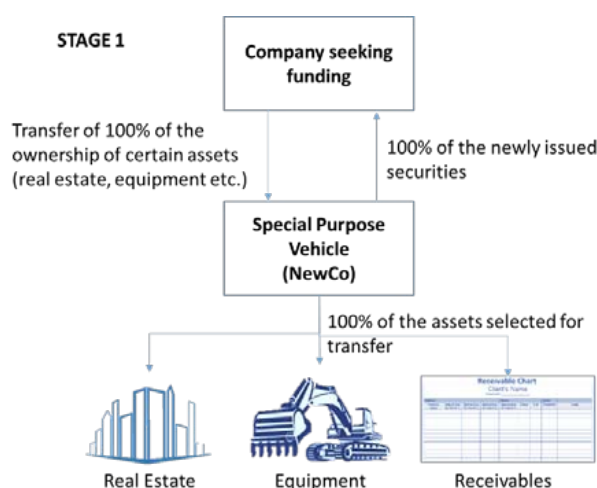
The potential for asset securitisation



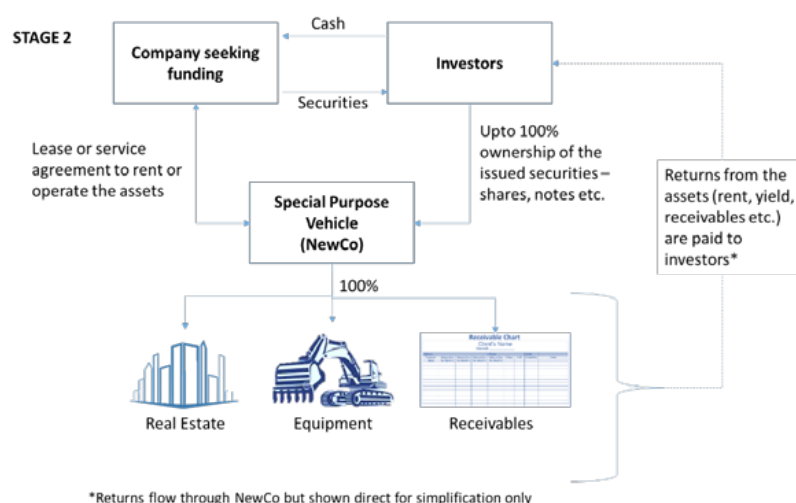
Within the realm of corporate finance, companies seek funding for a number of reasons. These include expanding their operations (organically or via acquisitions); working capital requirements; capital investments (equipment etc.); meeting regulatory requirements (especially in the insurance and financial sectors); rolling over borrowings; and reducing debt (deleveraging). Companies have numerous options within which to fund such objectives, with the more

mainstream options being bank loans, bond issuances and capital increases by issuing new shares. In Bahrain, companies have been actively raising funds using these methods, with more recent public examples being concentrated in the financial sector, including BBK's BHD100 million perpetual securities issuance (May 2016) and BisB's capital increase (November 2015).

Another interesting alternative for companies to raise funding is through 'asset securitisation'. As the name implies, asset securitisation is the process of utilising assets owned by a company to issue securities (also known as asset backed securities or 'ABS') that are then offered to investors. A company would undertake an independent valuation of certain assets it owns, after which a transfer of ownership of these assets is executed (which could be any assets such as real estate, mortgages, equipment and receivables). For an asset securitisation to be effective, the assets must be transferred to an independent entity, usually a company or trust established as a special purpose vehicle (SPV) for this process. This SPV, now being the new owner of the assets ('NewCo'), issues securities – such as units, shares and notes – that are offered to and bought by investors. The transfer of assets to the SPV must be deemed a 'true sale', i.e., a real transfer of assets, to avoid any legal risks of clawing back the assets in the event of any litigation against the company transferring the asset. The asset securitisation structure must therefore 'ring-fence' the assets from the transferring company. Graphically the simplified initial process looks like this:



As the transferred assets are usually utilised (such as a headquarters property) or serviced by the company (such as receivables) seeking funding, the company may continue to lease the assets in a sale and leaseback type structure. The newly-issued securities are offered to investors in a private or public offer. In return, the subscribing investors who will own these securities become the ultimate owner of the underlying assets, and receive any profits that the assets generate (rent from property or equipment leases, receivables paid by clients, etc.). At this 'stage 2', the graphical depiction would be as follows:



Asset securitisation can also be beneficial to those companies who are unable to source funding directly due to weaker balance sheets, profitability or already high debt ratios. As the assets are ring-fenced and transferred to an SPV, the quality of the underlying assets and their earnings potential become key to attract investors and funding. Whereas a lender or investor in a company directly would benefit from its overall cashflows and profitability, it would also be hindered by financial demands and leverage on the company's balance sheet; as well as possible corporate mismanagement and overexposures, in addition to any negative performance by the company overall. In an asset securitisation structure, specific assets are transferred and, as mentioned earlier, ring-fenced to create a usually cleaner, carved-out balance sheet with specific and measurable cash flows and expenses. This feature of asset securitisations allows companies with lower credit ratings (and the resultant higher funding costs for such lower ratings) to establish asset securitisation structures that are rated higher than the company itself. This process ultimately lowers funding costs to the company. 'Credit enhancements' such as additional cash buffers, transferring assets at lower than their fair market value, corporate guarantees and insurance, also play favourably towards improving the asset securitisation rating; and therefore lowering the cost of borrowing and ensuring successful placement with investors. Furthermore, financial institutions may be able to boost their capital adequacy ratios by off-loading capital-burdensome assets.

With regards to exits for subscribing investors, asset securitisations may be amortised (such as receivables or mortgages paid down) i.e., paid back to investors over the term of the security. Alternatively, with assets such as real estate, investor exits may be in a number of ways, such as the company buying back the asset, or a sale of such asset on the market, or a refinancing.

Of course, no single funding option can be used as a solution to all requirements. Companies that already have debt on their balance sheet may be restricted from transferring assets into SPVs by their lending banks. Regional regulations may be limited on establishing SPVs that provide a true sale of an asset to such SPV and water-tight ring fencing. Bahrain currently has no specific securitisation laws, although the Central Bank of Bahrain (CBB) does have certain provisions for the offering of such securities. That said, the structure can be implemented using mainstream company laws and central bank regulations. Furthermore, asset securitisation was deemed to be a primary cause of the 2008 global financial crisis (US banks grouped together mortgages from their balance sheets that were lent out to individuals without steady incomes and with too much debt - aka subprime). These subprime mortgage backed securities (MBS) were packaged and sold down to investors who used more debt to buy them as investments. To make matters worse, global rating agencies issued ratings for these securities that significantly misrepresented the risk, on the assumption that the mortgages are backed by real estate than never depreciates in value. This was an assumption that clearly proved to be wrong!

SICO People and Events

All dressed up and ready to ride for a cause



A very dapper Fadhel Makhloq astride his pride and joy – a Triumph Bonneville Limited Edition 110th Anniversary T100 – which he has converted into a café racer motorcycle.

In celebration of the annual global Distinguished Gentlemen's Ride, SICO's Head of Brokerage, Fadhel Makhloq, donned his best suit and saddled up with the Bahrain Dapper Riders to raise awareness about men's health issues. The 'well-dressed' riders raised over US\$ 400 for prostate cancer research.

Founded in 2012 in Sydney, Australia, the Distinguished Gentlemen's Ride is a global movement that aspires to combat often negative stereotypes of men on motorcycles, while connecting niche motorcycle communities around the world and raising money for charity. Gentlemen riders have collected US\$ 3.5 million globally to date for different men's health-related charities and organisations.

The Bahrain Dapper Riders, formed in 2014, is the first motorcycle club in the Kingdom dedicated to riding for a cause, with particular support for the DGR movement. The club is an informal group of motorcycling enthusiasts from diverse walks of life, who own different brands of classic, modern classic, brat and café racer motorbikes. They have plans to open a café in the coming months where members and the public can meet.

Fadhel is pictured on his Triumph Bonneville Limited Edition 110th Anniversary T100, which is a modern reinterpretation of the classic Bonneville machines from the 1960s. The iconic Triumph brand – along with other famous marques such as Norton, Vincent, Royal Enfield, Matchless and Ariel – has witnessed a remarkable revival in recent years, following the near collapse of the British motorcycle industry fifty years ago due to a flood of Japanese and Italian competitors.

Only 1,000 models of the Triumph Bonneville T100 were produced in 2012, of which there are just two in the entire Middle East – both in Bahrain. Fadhel converted his 865cc production model into a café racer, which is his favourite style of motorcycle, a concept not widely known in the GCC region.

A café racer is a lightweight, highly-tuned motorbike noted for its pared-down bodywork, low-mounted handlebars, prominent seat cowl and elongated fuel tanks; and which is built for speed over short distances rather than for comfort. The term derives from British bikers of the fifties and sixties who used to race their stripped-down and tuned-up machines between the Busy Bee Café in Watford to the Ace Café in London.

A relative latecomer to motorcycling, Fadhel bought his first bike – a US-built Harley Davidson Sportster 72 – in 2011, followed by the Triumph a year later. Over the years, he has bought and sold several Harley Davidsons, but his current 'stable' consists of his beloved Triumph Bonneville T100 and a BMW R Nine T café racer.

Bank supports young Bahraini photographer

SICO recently purchased calendars designed by young Bahraini photographer, Rasha Yousif, for use as corporate gifts. Born and raised in Muharraq, Rasha is passionate about documentary and travel photography, focusing on culture, architecture and traditional ways of living. "I carefully choose my travel expeditions to showcase new cultural destinations through my lens. Coming from a purely financial background, colours and creativity are what keep me going, and every day is a battle between my left and right brain," she explained. SICO's support for Rasha is in line with its corporate social responsibility mandate to encourage young Bahraini entrepreneurs to realise their full potential.



SICO continues its support for autistic children

SICO hosted a special Bahrain National Day celebratory event for 250 children and their parents and teachers (350 people in total) at the Alia for Early Intervention Centre for children with behavioural and communication difficulties such as autism. The Bank's support enabled the provision of a jumping castle, train rides, swings, games, mascots, cotton candy, popcorn, live music, snacks and special gifts.



SICO sponsors BIBF trading simulation course for university students



SICO sponsored a special five-day trading simulation course at the Dealing Room of the Bahrain Institute of Banking & Finance (BIBF), for 10 students from the University of Bahrain and Bahrain Polytechnic. The course covered equity and fixed valuations, including how to analyse the stock market price and bond portfolio of the bank being simulated; together with how to analyse capital allocation based on invested assets with the highest returns, and the impact of provision of loan losses on bank investment decisions.

SICO female executives join mentoring programme

Three female staff from SICO have joined the second phase of a mentoring programme for undergraduate university students, which is organised by the Central Bank of Bahrain and the Bahrain Institute of Banking & Finance. The SICO mentors are Fatima Yateem from Corporate Finance, Sumaya Ali from Research and Zahra Mandi from Financial Control. The mentoring programme is one of the initiatives announced by HRH Princess Sabeeka bint Ibrahim Al Khalifa, wife of HM King Hamad and President of the Supreme Council for Women, in celebration of Bahrain Women's Day 2015 under the theme 'Women in the Financial and Banking Sector'. The main objective of this programme is to inspire young students, and raise their awareness of different career options in Bahrain's financial industry, through the exchange of knowledge and expertise with assigned mentors.



Saudi Aramco invited CEO as keynote speaker

SICO Chief Executive Ms. Najla Al Shirawi was invited as a keynote speaker for Saudi Aramco's 2016 Women in Leadership Program. She was asked to contribute to a session entitled 'Leading Others' by sharing her experience in becoming the leader she is today, and her journey of leading others; and to offer advice to senior female executives at Saudi Aramco on how to strengthen their leadership styles and skills in order to develop themselves as leaders of influence.

CEO in Forbes List for second year

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

Latest Headcount

	SICO	SFS	SICO UAE	Total
31 Dec. 2016	74	9	12	95
31 Dec. 2015	76	9	14	99

Percentage of Female Employees

SICO: 36%, SFS: 44%, SICO UAE: 17%

Women in Leadership Roles

	Managerial	Supervisory
SICO:	29%	33%
SFS:	0%	33%

SICO Executive Training Programme

Participants hired by SICO:

Abdulla Al Meer to Fixed Income
Dana Sahwan to Asset Management

New trainees enrolled:

Ameena Rasheed (Financial Control)
Salman Yusuf (Client Relations)

New Joiners

Dana Ali Sahwan, Analyst, Asset Management Dept. – July 2016

Mohamed Juma, Compliance Officer, Risk Management Dept. – November 2016

Ameena Rasheed, Senior Clerk, Financial Control Dept. – December 2016

Promotions

The following staff have been promoted to a higher grade:

AbdulHameed Khonji – Principal, Head of Asset Management Sales, Asset Management Dept.

Binsu Thomas – Associate, Portfolio Administration, Asset Management Department

Batool Alhussaini - Associate, Portfolio Administration, Asset Management Department

Transfers

Zahra Abbas Mandi (from SFS Accounts Dept. to SICO, Financial Control as Associate)

Staff engagements, marriages and births

Mohamed Elmeniaawi, Analyst, Asset Management – Baby Boy in July 2016

Noor Al Shirawi & Ali Marshad, Baby Girl in August 2016

Sumegh Borkar, Risk & Compliance – Baby Girl in October 2016

Ali Hamza Alalawi, Senior Accountant, SFS – Baby Boy in September 2016

Ayman Gadallah, Associate, Corporate Finance – Marriage in August 2016