Basel III, Pillar 3 Disclosures

RISK AND CAPITAL MANAGEMENT

FOR THE 6 MONTHS PERIOD ENDED

30 June 2015

These 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 period ended ***30 June 2015.***

These disclosures have been reviewed by the Bank's external auditors KPMG based on agreed upon procedures as required under Para PD-A.2.4 of the PD Module.

Contents

EXECUTIVE SUMMARY

Securities & Investment Company BSC (c) (SICO) is a conventional wholesale bank licensed by the Central Bank of Bahrain (CBB). SICO provides innovative products and investment banking services that include Asset Management, Corporate Finance, Brokerage and Market Making.

This Risk and Capital Management Disclosures encompass the Basel's Pillar 3 disclosure requirements prescribed by the CBB based on the Basel Committee's Pillar 3 guidelines. The report contains a description of SICO's risk management and capital adequacy practices, including detailed information on the capital adequacy process.

The information presented herein pertains to Securities and Investment Company BSC (c) consolidated with its subsidiaries (together termed as "SICO" or the "Bank").

All figures presented in this report are as at **30 June 2015** unless otherwise stated.

1. INTRODUCTION

1.1 CBB Rulebook

The Central Bank of Bahrain's (CBB) Basel III guidelines prescribes the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. During 2014, the CBB introduced these guidelines and all banks in Bahrain were requested to comply with them.

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

1.2 BASEL III Framework

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

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

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

- Pillar 1 - Describes the minimum capital requirements by applying risk based methodology in the calculation of the risk weighted assets (RWAs) and capital requirement for the major asset classes to derive to 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 risk management process and capital adequacy requirements and guidelines.

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

1.2.1 Pillar 1

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

Below are the approaches used for deriving the CAR.

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

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

1.2.2 Pillar 2

Pillar 2 sets out the supervisory review & evaluation process of an institution's risk management framework and accordingly its capital adequacy through ICAAP.

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

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

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

1.2.3 Pillar 3

The third pillar as per the CBB's Rulebook, describes the level of qualitative and quantitative information that should be disclosed about an institution's risk management and capital adequacy practices.

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

1.3 Scope of Application

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

The principal subsidiaries that are fully consolidated into the financial statements of SICO are SICO Funds Services Company BSC (c) ("SFS"), incorporated in Bahrain, and provides custody and fund administration services; and SICO UAE LLC (acquired September 2011), incorporated in Abu Dhabi and provides brokerage services in the UAE.

The adoption of IFRS 10 resulted in the Group also consolidating SICO Kingdom Equity Fund ("SKEF") and SICO Fixed Income Fund ("SFIF").

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2 CAPITAL STRUCTURE, RISK WEIGHTED ASSETS AND CAPITAL ADEQUACY

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights. The Bank does not have any other type of capital instruments.

The Bank's Tier 1 capital which consists of Common Equity Tier 1 comprises of share capital, share premium, reserves, retained earnings, unrealized losses arising from fair valuing equity securities classified as available-for-sale and eligible reserves.

The Banks does not maintain any AT1 and Tier 2 capital components.

The Bank has prepared its capital structure in accordance with the CBB's Basel III capital adequacy framework

The Bank has no subsidiaries and/or investments that are required to be deducted from capital.

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.

2.1 Capital Structure

Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	42,849
Less: Employee stock incentive program funded by the bank (outstanding)	(1,599)
General Reserve	3,217
Legal / Statutory reserves	5,450
Share Premium	692
Retained Earnings Brought forward	5,525
Gross unrealised loss arising from fair valuing equity securities	3,535
Securitisation exposures subject to deduction	-
Unrealized gains and losses on available for sale financial instruments	710
Unrealized gains and losses from fair valuing equities	267
Total Common Equity Tier 1 Capital (A)	**60,646**
Other Capital (AT1 & Tier 2)	
Instruments issued by parent company	0
Instruments issued by banking subsidiaries to third parties	0
Share Premium	0
Assets revaluation reserve - property, plant, and equipment	0
General loan loss provisions	0
Total AT1 & Tier 2 (B)	**0**
Total Available Capital (C) = (A) + (B)	**60,646**
Credit risk weighted exposures	62,940
Market risk weighted exposures	33,449
Operational risk weighted exposures	16,108
Total Risk weighted exposures (D)	**112,497**
CET1 Capital Ratio (A) / (D)	**53.91%**
Total Capital Adequacy Ratio (C) / (D)	**53.91%**

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2.2 Changes to Share Capital Structure

There has been no change to the capital structure during the period.

2.3 Capital Ratios - Consolidated & Subsidiaries above 5% of Group capital:

Subsidiaries	30 June 2015	
	Total Capital Adequacy Ratio	Tier 1 Capital Ratio
SICO Consolidated (Group)	53.91%	53.91%
SICO UAE*	4.96%	2.42%

** SICO UAE CAR has been computed using capital charges as outlined in Emirates Securities and Commodities Authority regulations.*

2.4 Regulatory Capital Disclosures

The capital reconciliation approach is to show 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 as at 30 June 2015
Appendix 3	Step 3: Composition of Capital Common Template (transition) as at 30 June 2015
Appendix 4	Disclosure template for main feature of regulatory capital instruments

3. RISK EXPOSURES

3.1 Credit Risk

3.1.1 Gross credit exposures

As at 30 June 2015	Gross credit exposure			Credit Risk Weighted Assets	Capital requirement @ 12%
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)	TOTAL		
Cash items	-	-	-	-	-
Claims on Sovereigns	1,984	-	1,984	-	-
Claims on Bahraini PSE	500	-	500	-	-
Claims on Banks	63,063	-	63,063	34,778	4,173
Claims on Corporates	4,170	-	4,170	4,178	501
Investments in Securities	17,779		17,779	19,437	2,332
Holdings in Real Estate	210	-	210	420	50
Other Assets	3,230	899	4,128	4,128	495
TOTAL	**90,936**	**899**	**91,834**	**62,940**	**7,553**

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

The balances above are representative of the position during the period; hence the average balances for the year is not separately disclosed.

The exposures are not backed by collaterals and hence no benefit for credit risk mitigation is applicable.

3.1.2 Large exposure limits

As at **30 June 2015**, the below exposures were in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

Counterparty	Country	Amount	Exposure as a % to eligible capital base
A	Qatar	10,106	17%

The above exposure consists of short term interbank exposures to a party not connected to the Bank. Therefore as per the rules defined in CBB's CM Module section CM-5.6, these types of exposure are exempt from the 15% exposure limit and are therefore not considered as a breach and will not be subject to additional capital charges.

3.1.3 Maturity Profile of the Credit Portfolio

As at	Less than 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
Cash and Bank balances	67,542				-	67,542
Trading Debt Securities	1,105	-	-	6,883	2,417	10,405
AFS Debt Securities			-	5,261	5,328	10,590
Other assets	5,023	116		520	-	5,659
Total gross credit exposures	**73,670**	**116**	**-**	**12,664**	**7,746**	**94,196**
Commitments and contingencies	**843**	**506**	**449**	**0**	**0**	**1,797**

Note: None of the exposures have a maturity period in excess of ten years. *The above table excludes prepayments and Furniture & Fixtures.*

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3.1.4 Sectoral distribution

As at 30 June 2015	Financial	Real Estate	Services / Telecom	Industrials	Sovereign	Mutual Funds	Other	Total
Cash & bank balances	67,542							**67,542**
Investment at FVTPL	8,188	3,308	3,845	1,440	2,568	1,101	6	**20,456**
AFS investments	13,264	627	5,447	431	1,043	7,764	4	**28,579**
Other assets							5,659	**5,659**
On-balance sheet	**88,995**	**3,935**	**9,292**	**1,870**	**3,611**	**8,864**	**5,669**	**122,236**
Off-balance sheet	**-**	**-**	**-**	**-**	**-**	**-**	**1,797**	**1,797**

Note: *The above table excludes prepayments and Furniture & Fixtures.*

3.1.5 Geographical distribution

As at 30 June 2015	GCC	MENA (ex-GCC)	North America	Europe	Other	Total
Cash & bank balances	59,805	55	-	7,683	0	67,542
Investment at FVTPL	18,584	-	-	1,444	428	20,456
AFS investments	16,531	-	2,095	2,185	7,768	28,579
Other assets					5,658.58	5,659
Total Assets	**94,919**	**55**	**2,095**	**11,312**	**13,854**	**122,236**
Total *Off-balance sheet*	**1,686**	**111**	**-**	**-**	**-**	**1,797**

Note: The above table excludes prepayments and Furniture & Fixtures

3.1.6 Impairment on available-for-sale investment securities

During the period, the Bank has not taken any specific impairment provision on any of its investments.

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3.2 Market Risk

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

As at 30 June 2015	Market Risk Weighted Assets			Capital Requirement @ 12%
	During the 6 Months period ended 30 June 2015		As at 30 June 2015	
	Minimum	Maximum		
Interest Rate Position Risk	957	2,214	957	115
Equities Position Risk	1,607	2,632	1,607	193
Foreign Exchange Risk	112	185	112	13
Total min capital required for market risk			**2,676**	**321**
Multiplier			12.5	12.5
TOTAL			**33,449**	**4,014**

3.3 Operational Risk

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

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

As at 30 June 2015	2012	2013	2014
Gross income	6,252	9,237	10,284
Average gross income (A)			8,591
Alpha (B)			15%
(C) = (A) * (B)			1,289
Risk weighted exposures (D) = (C) * 12.5)			**16,108**
Capital requirement @ 12% of (D)			**1,933**

4 INTEREST RATE RISK

4.1 Interest Rate Risk in the Banking Book

A 100 bps and 50bps increase and decrease in market interest rates would affect the value of the fixed rate debt instruments in the available-for-sale portfolio as follows:-

As at 30 June 2015	100 bp increase	50 bp increase	100 bp decrease	50 bp decrease
	-230,061	-116,591	-	-

Note: Only interest rate increase impact has been disclosed as interest rates are currently at the lowest point.

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

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4. Interest Rate Risk (continued)

4.2 Interest Rate Risk Sensitive Assets and Liabilities

As at 30 June 2015	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and Bank balances	-	-	-	22,270	22,270
Call deposits*	-	1,395	-	-	1,395
Placements with banks	1.12%	43,878	-	-	43,878
Investments at fair value through profit or loss	6.26%	1,105	9,307	10,044	20,456
Available-for-sale securities	4.96%	-	10,590	17,989	28,579
Other Receivable		-	-	-	
Furniture, equipment and intangibles	-	-	-	1,355	1,355
Fees Receivable	-	-	-	884	884
Other assets	-	-	-	4,993	4,993
Total Assets		**46,378**	**19,897**	**57,534**	**123,809**
Bank overdrafts	-	-	-	-	-
Short term borrowings	0.99%	18,016	-	-	18,016
Payables to customers	-	-	-	39,677	39,677
Other liabilities	-	-	-	2,803	2,803
Payables to unit Holders	-	-	-	2,667	
Total Liabilities		***18,016***	***0***	***45,147***	***63,163***
Total Equity				***60,646***	***60,646***
Total Liability and Equity	**0**	**18,016**	**0**	**105,793**	**123,809**
Interest rate sensitivity Gap		*28,362*	*19,897*	*48,259*	
Cumulative Interest rate sensitivity gap		**28,362**	**48,259**	**(0)**	

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5 EQUITY POSITIONS IN THE BANKING BOOK

As at 30 June 2015	Gross Exposure	Risk Weighted Assets	Capital requirement @ 12%
Equity investments			
- Listed	7,815	7,815	938
- Unlisted	2,200	3,300	396
Investment in rated funds	0	0	0
Investment in unrated funds - Listed/Unlisted	7,764	8,322	999
TOTAL	**17,779**	**19,437**	**2,332**

As at 30 June 2015	Gross Exposure	Capital requirement @ 12%
Quoted Equities	**24,508**	2941
Unquoted Equities	**3,527**	423
TOTAL	**28,035**	**3,364**

5. *Equity Positions in the Banking Book (continued)*

Realised net gain during the period	1,892
Dividend income during the period	564
Unrealised net gain/loss recognised in equity	1,752
Unrealized gains/losses on AFS financial instrument under CET1	929
Unrealized gains and losses from fair valuing equities under CET1	267

6 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 namely SICO Funds Company BSC (c), SICO Funds Company II BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC (c), SICO Funds Company V BSC (c), SICO Funds Company VI BSC (c), SICO Funds Company VII BSC (c) and SICO Ventures Company SPC.

Fee and commission income	**279**
Fee receivable	**296**
Investments in own funds	**1,369**
Funds under management	**44,337**

Transactions with shareholders

Fee and commission income	**246**
Fee receivable	**5**
Funds under management	**72,190**

The Group has banking relationships, makes deposits and placements and has un-utilized credit facilities with certain of its shareholders that are local banks.

Approval process for related parties transactions:

The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require approvals as per the delegated authority limits approved by the Board.

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.

BHD 000's	Published Financial Statements 30-June-2015	Consolidated PIR data 30-June-2015	Ref:
Assets			
Cash and cash equivalents	67,543		
of which Cash and balances at central banks		23,665	a
of which Placements with banks and financial institutions		43,878	b
Investments at fair value through profit and loss	20,456	20,456	
Available-for-sale investments	28,579	28,579	
Furniture, equipment and intangibles	1,355		
of which intangibles (computer software)		1,286	c
of which furniture and equipments		69	d
Fees receivable	884		
of which other assets		884	e
Other assets	4,992		
of which loans and advances (margin receivables)		2,064	f
of which interest receivable		264	g
of which other assets		2,664	h
Total assets	**123,809**	**123,809**	
Liabilities			
Short-term bank borrowings	18,016		
of which amounts relating to repo transactions		15,073	i
of which other short-term borrowings		2,943	j
Customer liabilities	39,677	39,677	
Other liabilities	2,803		
of which Interest payable		4	k
of which other liabilities		2,799	l
Payable to other unit holders (Other liabilities)	2,667	2,667	m
Total liabilities	**63,163**	**63,163**	
Shareholders' Equity			
Share Capital - eligible for CET1	42,849	42,849	n
Shares under employee share incentive scheme	(1,599)	(1,599)	o
Statutory reserve	6,142		
of which share premium		692	p
of which legal reserve		5,450	q
General reserve	3,217	3,217	r
Available-for-sale fair value reserve	977		
of which unrealised gains from fair valuing equities		267	s
of which unrealised gains from other financial instruments		710	t
Retained earnings	9,060		
of which retained earnings brought forward from previous year		5,525	u
of which net profits for the current period		3,535	v
Total shareholder' equity	**60,646**	**60,646**	
Total liabilities and equity	**123,809**	**123,809**	

APPENDIX 3

Step 3: Composition of Capital Common Template (transition)

Common Equity Tier 1 capital : instruments and reserves		
BHD 000's	30-Jun-15	Ref:
Issued and full paid ordinary shares	42,849	n
Employee stock incentive program funded by the bank (outstanding)	(1,599)	o
General reserves	3,217	r
Legal / statutory reserves	5,450	q
Share premium	692	p
Retained earnings	5,525	u
Current interim net income	3,535	v
Unrealised gains on other AFS instruments	710	t
Unrealised gains on AFS equities	267	s
Total CET1 capital prior to regulatory adjustments	**60,646**	
Other capital (AT1 & T2)	-	
Total capital	**60,646**	

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APPENDIX 4

Disclosure template for main feature of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments		
1	Issuer	Securities and Investment Company BSC (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SICO BI EQUITY (BLOOMBERG ID)
3	Governing law(s) of the instrument *Regulatory treatment*	Commercial Companies Law, Bahrain
4	Transitional CBB rules	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	BD 41.25 million
9	Par value of instrument	100 fils per share
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1995
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable *Coupons / dividends*	NA
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA