HIS ROYAL HIGHNESS
PRINCE KHALIFA BIN
SALMAN AL KHALIFA

The Prime Minister of the
Kingdom of Bahrain

HIS MAJESTY
KING HAMAD
BIN ISA AL KHALIFA

The King of the
Kingdom of Bahrain

HIS ROYAL HIGHNESS
PRINCE SALMAN BIN
HAMAD AL KHALIFA

The Crown Prince and
Deputy Supreme
Commander

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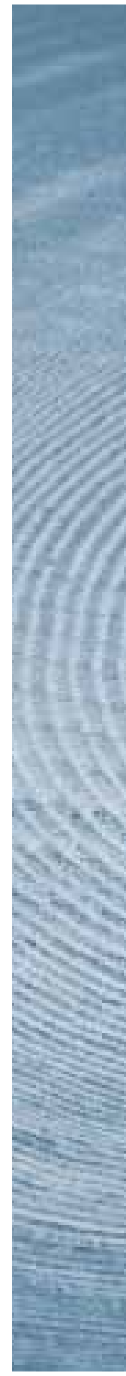
CORPORATE OVERVIEW

Headquartered in the Kingdom of Bahrain, and with a growing regional presence and international footprint, Securities & Investment Company (SICO) is one of the GCC's premier investment banks.



PROFILE

Headquartered in the Kingdom of Bahrain, and with a growing regional presence and international footprint, Securities & Investment Company (SICO) is one of the premier investment banks in the GCC region. The Bank provides a select range of specialist solutions – brokerage, market making, treasury, asset management, corporate finance, and custody and fund administration – which are underpinned by an independent, value-added research capability.

Established in 1995, and listed on the Bahrain Bourse in 2003 as a closed company, SICO operates under a conventional wholesale banking licence from the Central Bank of Bahrain. The Bank has two wholly-owned subsidiaries: SICO Fund Services Company (SFS) – a specialised regional custody house; and SICO UAE – an Abu Dhabi-based brokerage firm licensed by the Emirates Securities & Commodities Agency.

The Bank's strong shareholding base consists of pre-eminent regional financial institutions – Arab Banking Corporation, Ahli United Bank, BBK, Gulf Investment Corporation, Arab Investment Resources Company and National Bank of Bahrain – together with the Social Insurance Organisation of the Kingdom of Bahrain, and the Bank's staff through the Employee Stock Ownership Plan.

MISSION

Our mission is to be one of the leading GCC securities houses, offering a selective range of investment banking services, including brokerage, asset management and corporate finance. We provide innovative products and services that cater to the changing investment needs of our clients, while abiding to the highest ethical and professional standards of conduct. In doing so, we are committed to maximising shareholders' value.

VALUES

SICO's business operations and corporate relationships, and the professional and personal conduct of our team members, are governed by the following values:

- Prudence
- Consistency
- Transparency
- Integrity
- Professionalism
- Confidentiality
- Innovation

FINANCIAL HIGHLIGHTS

Net profit for 2012 grew more than five-fold to BD 2.74 million compared with BD 488 thousand the previous year, while operating income increased by 59 per cent to BD 7.35 million.

TOTAL REVENUE BD Million	2012	2011
Net interest income	**1.297**	1.080
Investments	**3.133**	0.318
Brokerage	**0.385**	0.509
Asset Management	**2.020**	1.954
Corporate Finance	**0.060**	0.125
Other	**0.458**	0.641

RETURN ON AVERAGE ASSETS

Annual Ratio

2008	-2%
2009	4%
2010	5%
2011	1%
2012	**3%**

EARNINGS PER SHARE (FILS)

Annual Ratio

2008	(4)
2009	7
2010	8.9
2011	1.1
2012	**6.41**

COST-TO-INCOME

Annual Ratio

2008	87%
2009	50%
2010	51%
2011	86%
2012	**60%**

RETURN ON AVERAGE EQUITY

Annual Ratio

2008	-3%
2009	6%
2010	7%
2011	1%
2012	**5%**

DIVIDENDS PER SHARE (FILS)

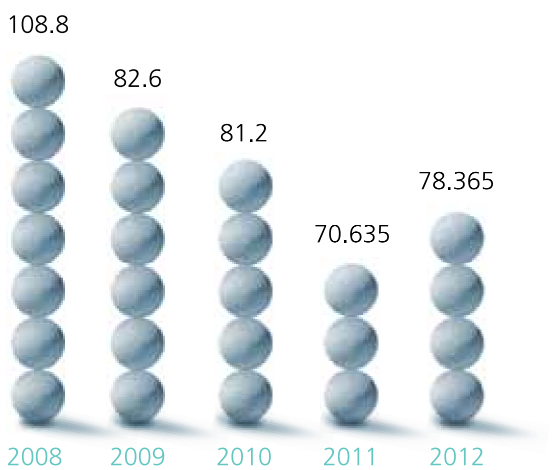
Annual Ratio

2008	-
2009	5
2010	6
2011	-
2012	**5**

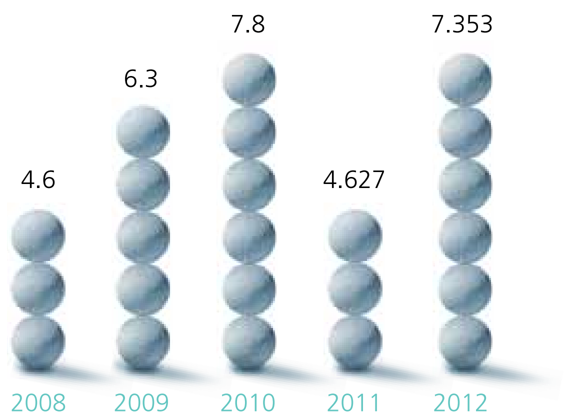
NET INTEREST MARGIN

Annual Ratio

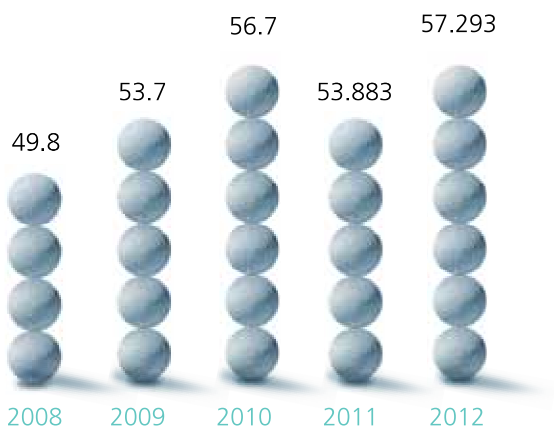
2008	4%
2009	7%
2010	4%
2011	3%
2012	**3%**



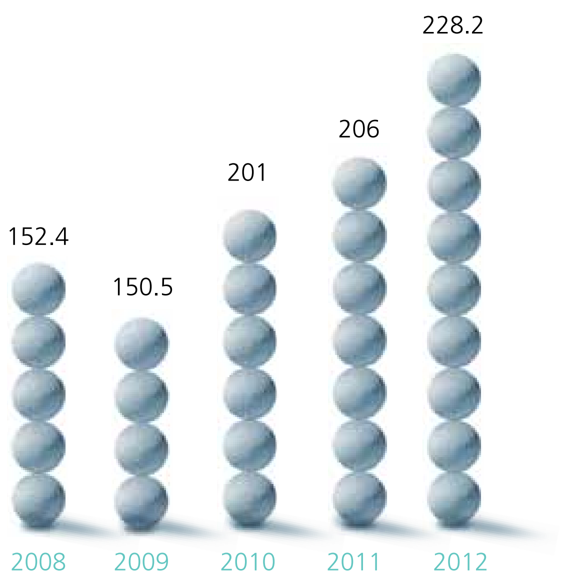
TOTAL ASSETS BD Million



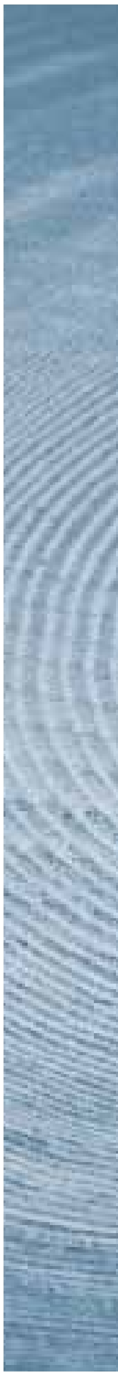
TOTAL REVENUE BD Million



SHAREHOLDERS' EQUITY BD Million



ASSETS UNDER MANAGEMENT BD Million



CHAIRMAN'S STATEMENT

Shaikh Abdulla bin Khalifa Al-Khalifa
Chairman of the Board

On behalf of the Board of Directors, it is my pleasure to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2012. Despite the continued challenge of volatile and uncertain market conditions, I am pleased to report that the Bank posted an improved financial performance. Significantly, 2012 was marked by sound progress in executing the latest phase of SICO's strategic evolution.

Illustrating SICO's improved financial results for 2012, net profit grew more than five-fold to BD 2.74 million compared with BD 488 thousand in the previous year, while operating income rose to BD 7.35 million from BD 4.63 million in 2011. At the end of the year, total balance sheet footings had grown by 11 per cent to BD 78.36 million from BD 70.63 million at the end of 2011. Assets under management increased to BD 228.2 million, while securities under custody with SICO's wholly-owned subsidiary SFS remained strong at BD 824 million. SICO remains well capitalised, highly liquid and prudently under-leveraged. The Bank ended the year with increased shareholders' equity of BD 57.29 million, and a very strong consolidated capital adequacy ratio of 77.28 per cent, which is substantially higher than Central Bank of Bahrain requirement. Set against such a very challenging economic and market background, these financial results constitute a highly commendable performance, especially in comparison with the regional investment banking industry.

Such a performance reflects the success of SICO's long-held prudent risk philosophy, which seeks to capture new business opportunities while limiting undue risk; while also carefully aligning the Bank's interests with those of our clients. We continued to focus on addressing our clients' requirements, offering additional opportunities in fixed income, in a constant search for better yields. For our investment book, we pursued a balanced approach – on the one hand defensively protecting the investment portfolio against downside risks; while on the other hand, remaining opportunistic in the event of any uptake in the market.

Growing and diversifying our business lines and revenue streams, extending our regional footprint, and enhancing client service remain key pillars of our consistent strategy; in this respect, we made good progress during 2012. Examples include the start of operations by the Bank's new brokerage subsidiary in the UAE in September, which is opening up new business opportunities in this very important market; the winning of new mandates in the areas of agency brokerage, asset management, and for SFS - our custody and administration subsidiary; approval from the Central Bank of Bahrain for the launch of a new Fixed Income Fund in early 2013; and the enhancement of SICO's highly-regarded independent research services. At the same time, we further strengthened the Bank's operating infrastructure, with successful initiatives in the areas of human resources and information technology, in order to provide a solid basis for future growth and development.

Based on SICO's 2012 financial results, the Board is recommending the following appropriations for approval by the shareholders:

1. Transfer of BD 314 thousand to the General Reserve;
2. Transfer of BD 314 thousand to the Statutory Reserve;
3. Payment of a cash dividend of BD 2.137 million to shareholders, representing 5 per cent of paid-up capital;
4. Directors' remuneration of BD 100 thousand; and
5. BD 30 thousand to be spent on supporting charitable, cultural and educational activities.

Total shareholders' equity after appropriation of the Statutory Reserve is BD 57.29 million compared with BD 53.88 million in 2011.

In December 2012, I completed my first full year as Chairman, and I am honoured to be heading such a distinguished Board of Directors, which acts on behalf of a stable shareholder base of pre-eminent regional financial institutions, and whose members all share a long-term vision for SICO. The Board comprises many committed and long-serving members as well some new faces, the most recent being Mr. Yusuf Khalaf who brings with him over 30 years' extensive experience in accounting, auditing and banking, and to whom I extend a very warm welcome. The Board consists of nine members, of whom four are now independent, non-executive directors. This, along with a number of other developments during the year, demonstrates the Bank's dynamic approach to upholding the highest standards of corporate governance in line with the latest regulatory requirements of the Central Bank of Bahrain and the Bahrain Bourse.

Looking ahead, the Board is cautiously optimistic about prospects for SICO in 2013, although we recognise that it will be another challenging and unpredictable year, with sluggish global economic growth, regional geo-political instability, and volatile international markets that characterised 2012. However, events towards the end of the year, especially in the US and Europe, provided a slightly more optimistic outlook for the future. The continued stability of oil prices has further strengthened the robust underlying macroeconomic fundamentals and demographics of the GCC, and the long-term economic outlook for the region remains positive.

While it is relatively easy to develop a strategy, it can prove difficult to implement it, especially in the light of challenging market conditions and increasing regulation. Nevertheless, SICO continues to seek new ways to grow and enhance our business, either organically or through mergers and acquisitions, in a cautious and cost-efficient manner. We will maximise synergies and economies of scale afforded by the benefits of being headquartered in Bahrain, and capitalise on our core competencies; while extending our regional footprint to provide clients with local access to products and services. Based on SICO's proven track record, the Board continues to have full confidence in the ability of the management team to capture new business opportunities as markets recover, and to continue providing shareholders with an acceptable risk-adjusted return.

In conclusion, I would like to acknowledge the continued confidence and encouragement of our shareholders; the trust and loyalty of our clients and business partners; and the commitment and professionalism of our management and staff. I also express my appreciation to the Ministry of Finance, the Ministry of Industry and Commerce, the Central Bank of Bahrain, and the Bahrain Bourse, for their continued guidance and support.

On behalf of the shareholders, my fellow board members, and the management and staff of SICO, I convey my best wishes and sincere gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership, visionary reform programme, and support of the Kingdom's financial sector.

Abdulla bin Khalifa Al-Khalifa
Chairman of the Board

BOARD OF DIRECTORS

Shaikh Abdulla bin Khalifa Al-Khalifa
Chairman - Non-independent and Executive
Represents Social Insurance Organisation - Bahrain

Hussain Al Hussaini
Vice Chairman - Non-independent and Executive
Represents National Bank of Bahrain - Bahrain

Anwar Abdulla Ghuloom
Director - Non-independent and Executive
Represents Social Insurance Organisation (Pension Fund Commission) - Bahrain

Sawsan Abulhassan
Director - Non-independent and Executive
Represents Ahli United Bank - Bahrain

Mohammed Abdulla Isa
Director - Non-independent and Executive
Represents BBK - Bahrain

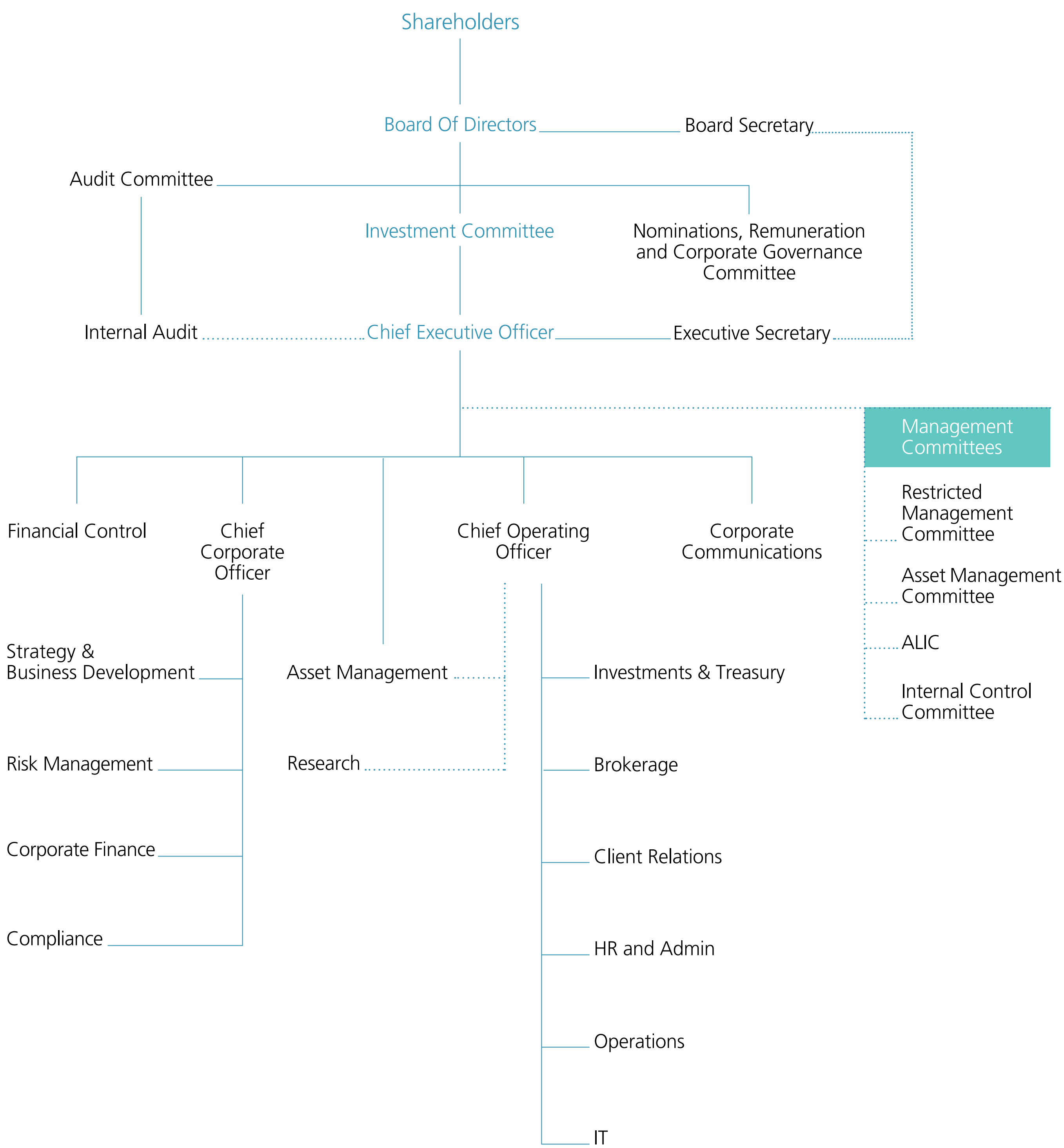
Mahmoud Al Zewam Al Amari
Director - Independent and Non-executive
Represents Arab Banking Corporation - Bahrain

Fahad Murad
Director - Independent and Non-executive
Represents Arab Investment Resources Company - Bahrain

Meshary Al-Judaimi, CFA
Director - Independent and Non-executive
Represents Gulf Investment Corporation - Kuwait

Yusuf Khalaf
Director - Independent and Non-executive
Represents minority shareholders

GOVERNANCE & ORGANISATION STRUCTURE



Pursuing a Balanced Approach

The balanced approach pursued by SICO in 2012 was instrumental in guiding it through unprecedented levels of volatility and uncertainty. On the one hand, the Bank adopted a professional, prudent and ethical business approach, while maintaining a very strong balance sheet. On the other hand, SICO successfully introduced additional innovative and risk-contained ways to grow the business, serve its clients and diversify sources of revenue.

CHIEF EXECUTIVE'S REPORT

"I am pleased to report that the Bank posted an improved financial performance, and made encouraging strategic and operational progress in 2012."

Anthony C. Mallis
Chief Executive Officer

Looking back over the past 12 months, one is left with a distinct sense of déjà vu. Yet again, it is necessary to dust off that familiar and overused cliché – 'challenging, volatile and unpredictable' – and use it to describe 2012. The year was marked by the same volatility and uncertainty, the same 'don't hold your breath' scenarios', and the same daily expected and unexpected 'fat tail events' that characterised 2011. As such, it remained difficult to forecast and plan with any degree of accuracy or certainty. As one investment banking colleague very aptly put it: "We've been there, seen that, and used up all the well-worn postcards!"

Since the game-changing events of 2008, the world has witnessed a four-year downward trend, with all major economies in relative states of stagnation and stress; and with international and regional equity markets continuing to be exceptionally unpredictable. As for the previous year, 2012 opened with optimistic expectations of revival, but ended with a 'batten down the hatches' attitude once again being a more reralistic measure of success. Despite such an overcast backdrop it was 'business as usual' for SICO; and I am pleased to report that the Bank posted an improved financial performance, and made encouraging strategic and operational progress during 2012.

FINANCIAL PERFORMANCE

SICO's financial performance in 2012 showed a significant improvement over the previous year. Net profit grew more than five-fold to BD 2.74 million compared with BD 488 thousand in 2011, while operating income increased to BD 7.35 million (2011: BD 4.63 million), with basic earnings per share rising to 6.41 Bahraini fils (2011: 1.145 fils). As at 31 December 2012, total balance sheet footings had grown to BD 78.36 million from BD 70.64 million at the end of 2011. A strong performance by SICO's asset management business resulted in total assets under management increasing to BD 228.2 million; while securities under custody with the Bank's wholly-owned subsidiary, SICO Funds Services Company, remained strong at BD 824 million, due to the success of concerted marketing activities.

Net interest income, net fee and commission income, and brokerage and other income during 2012 contributed BD 1.3, BD 2.25 and BD 668 thousand respectively to operating income. Owing to prudent management, net investment income grew substantially to BD 3.13 million compared with BD 318 thousand the previous year. Operating expenses, which include staff overheads, general administration and other expenses, rose to BD 4.43 million compared with BD 3.98 million for 2011, due largely to the establishment of SICO UAE; while impairment on available-for-sale investments remained modest at BD 184 thousand (2011: BD 154 thousand).

"SICO continued to maintain a strong capital base, ending the year with BD 57.29 million in shareholders' equity and a very strong consolidated capital adequacy ratio of 77.28 per cent, which is substantially higher than Central Bank of Bahrain requirements."

The Bank continued to maintain a strong capital base, ending the year with BD 57.29 million in shareholders' equity and a very strong consolidated capital adequacy ratio of 77.28 per cent, which is substantially higher than the Central Bank of Bahrain requirement. SICO currently has 41.5 per cent (or BD 32.52 million) of its balance sheet in cash and deposits, compared with 28.3 per cent (or BD 19.96 million) at the end of 2011, reflecting the cautious position that we continue to take with regard to the domestic and international capital markets. Available-for-sale securities at the end of December 2012 stood at BD 23.15 million (end-2011: BD 27.038 million), while investments at fair value through profit or loss were BD 14.73 million (end-2011: BD 16.738 million). A significant amount of SICO's market risk exposure is in short duration investment-rated bank and GCC government fixed income instruments.

PURSUING A BALANCED APPROACH

Given a challenging economic and market environment in 2012, it is not surprising that most investors decided to remain on the sidelines with a 'wait-and-see' attitude generally towards investments. Similarly, it is understandable that many companies and financial institutions (including SICO) opted to 'hold the fort' until conditions improved, although the more liquid of these companies became captivated with fixed income.

However, we were cognisant that taking a back seat role would not produce growth. We therefore decided to pursue a balanced approach. On the one hand, maintaining a very strong balance sheet; while on the other, continually seeking innovative and risk-contained ways to grow the business, serve our clients, and diversify sources of revenue. Since the Bank's inception, we have constantly sought to set a benchmark for the regional investment banking industry in the areas of market making, brokerage, asset management, corporate finance, custody and administration, and research. I am pleased to report that 2012 was no exception.

STRATEGIC DEVELOPMENTS

In a key strategic initiative, SICO successfully extended its regional footprint during the year with the launch of a new UAE-based brokerage subsidiary in September 2012. SICO UAE is now fully operational and trading on the Abu Dhabi and Dubai stock exchanges, and we anticipate dynamic growth for the future. As well as expanding the scope of our brokerage business, and opening up cross-selling opportunities for other business lines, it gives SICO additional access to one of the region's dynamic and growing economies.

The financial and investment environment continued to be challenging, both regionally and globally, with heightened volatility and uncertainty leading to a substantial fall in GCC stock market volumes. While the investment business in general was muted, the debt market, particularly for GCC investors has increasingly been recognised as an alternative source of asset allocation. In response to this trend, we were able to actively establish SICO as a leading Bahrain-based regional player in the fixed income and sukuk space. With clients' appetite for fixed income and Sharia-compliant debt instruments as an asset class increasing, the Bank's new Fixed Income Desk witnessed active trading in its first full year of operations.

LOOKING FORWARD

As I pointed out at the beginning of this report, it is difficult to predict the future with any degree of accuracy or certainty. Judging from recent actions, the consensus outlook for the medium-term is less positive on a macro-economic level. It is evident on the basis of economic models, and realities, that global growth will fall below the high rates seen during the past two decades. Previously, one could reasonably expect the economic downswing of one country to be offset by the economic upswing of others. This is no longer apparently the case, with major economies appearing to have moderated their long-term potential growth dynamics. But with the likely resolution of the US fiscal cliff, and the Greek financial bail-out finally being agreed, the year ended on a slightly more optimistic note. However, concerns still remain about medium-term prospects for recovery of the US economy and its subsequent global impact; the continued economic slowdown in China and India; and the long-term financial issues facing Europe. The GCC economies, with their strong underlying energy-based fundamentals, continued to perform well and grow at a faster rate than the global average. The fly in the ointment, so to speak, is the long-term outlook for energy prices, which may see a major re-adjustment in prices as unconventional oil and gas is brought on-stream in some of the major economies. Looking ahead, we believe that the GCC will continue to deliver strong and sustainable growth, and thereby benefit our business.

Our successful overall performance in 2012 underscores the continued effectiveness of SICO's consistent strategy, and sensible management principles based on product and asset diversification. It also highlights the dedicated commitment of the SICO team to deliver high quality and innovative services with integrity and professionalism, while retaining the confidence, trust and loyalty of our clients. We will continue to focus on serving our clients' needs while managing shareholders' capital prudently – a commitment which is central to our long-term value proposition. Despite the challenges that lie ahead, we remain optimistic about the medium- and long-term outlook for SICO. We have identified promising business opportunities in all our core business lines, and we are strongly positioned to capture such opportunities as the markets recover. In the meantime, until we see greater clarity, SICO will continue to stay on track, focus on what we do best, and try to do it better; always acting in the best interests of our clients, shareholders and employees.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank all our stakeholders for their contributions during the year. In particular, I pay tribute to our board of directors for their encouragement and guidance; to our clients for their trust and confidence; to our business partners for their positive collaboration; to my partners in our management team for their active support; and to our staff for their continued loyalty, commitment and professionalism.

Anthony C. Mallis
Chief Executive Officer

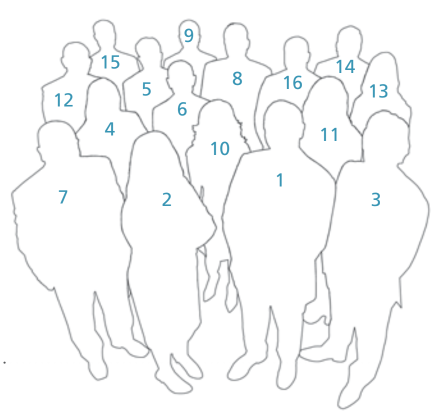
"We have identified promising business opportunities in all our core business lines, and we are strongly positioned to capture such opportunities as and when the markets recover."

MANAGEMENT TEAM

1. **Anthony C. Mallis**
   Chief Executive Officer
2. **Najla Al Shirawi**
   Chief Operating Officer
3. **Samir Sami**
   Chief Corporate Officer
4. **Hanan Y. Sater**
   Financial Controller
5. **Anantha Narayanan**
   Head of Internal Audit
6. **Fadhel Makhlooq**
   Head of Brokerage
7. **Shakeel Sarwar**
   Head of Asset Management
8. **Samer Taleb**
   Head of Corporate Finance
9. **Abdulrahman Saif**
   Head of Investments & Treasury
10. **Amal Al Nasser**
    Head of Operations
11. **Nadia Khalil**
    Head of HR & Administration
12. **Ismail Sabbagh**
    Head of Information Technology
13. **Nadeen Oweis**
    Head of Corporate Communications
14. **Jithesh Gopi**
    Head of Research

SUBSIDIARIES

15. **Mark Said**
    General Manager
    SICO Funds Services Company
16. **Fadi Ghosaini**
    General Manager
    SICO UAE



REVIEW OF OPERATIONS

BROKERAGE

Challenging market conditions continued, resulting in lower trading volumes on the Bahrain Bourse in 2012 than the previous year, with few large transactions conducted, and foreign institutions remaining net sellers. Nevertheless, SICO maintained its status as a leading broker on the Bahrain Bourse, handling 27.59 per cent of all transactions, which represented 23.44 per cent by total market volume and 27.61 per cent by value of shares traded. The Bank also continued to be the preferred broker of choice for larger trades, and for foreign institutions conducting business on the Bahrain Bourse.

SICO's Agency Brokerage Desk, which is one of the few in the GCC, continued to progress well in 2012. The Desk allows clients to trade listed investment opportunities across the MENA region. During the year, the Bank achieved an increase in volumes while expanding its regional network of correspondent brokers. Having established a significant share of overall GCC market trades, SICO is firmly placed among the leading equity and fixed income brokers in the region.

In a key strategic development, SICO UAE, the Bank's new brokerage subsidiary, commenced operations in September 2012 following final regulatory approval by the Emirates Securities & Commodities Agency. Based in Abu Dhabi, the Company serves the principal UAE stock markets. A more detailed report on SICO UAE is included in the Subsidiaries section of this review.

The Bank continued to benefit from investors' growing popularity with sukuk and fixed income in 2012 – placing a number of sovereign and corporate issues. SICO's growing strength in this area stems from its in-house research capability, and its cost effective one-stop-shop service that provides end-to-end solutions for an increasing number of sukuk and fixed income investors.

ASSET MANAGEMENT

Despite markets remaining lacklustre for most of the year, SICO's asset management business posted a superior performance in 2012. Total assets under management increased by 11 per cent to BD 228.2 million at the end of the year (end-2011: BD 206 million), with the Bank maintaining its status as the largest regional equity asset manager in the Kingdom of Bahrain. In the light of increasing volatility and uncertainty, special focus was placed on risk management – with systems, processes and procedures being further strengthened during the year – illustrating the Bank's inherent prudent approach.

SICO's managed equity and money market funds continued to perform strongly in comparison with peers and respective benchmarks. The SICO Kingdom Equity Fund, which was launched last year, witnessed growing interest by investors. During 2012, all six SICO funds were rated by Standard & Poor's under the new S&P Capital IQ grading system. The Bank now has three funds rated as 'Gold' out of only seven in the region, together with one 'Silver'. Full details of fund performance and ratings are listed in the annual SICO Funds Update later in this annual report.

SICO received two awards at the fourth annual MENA Fund Manager Performance Awards ceremony, which was held in Dubai in January 2013. The Bank was named 'Bahrain Asset Manager of the Year' for the second consecutive year, while the Khaleej Equity Fund received the 'Outstanding Fund Performance and Innovation' award.

During the year, the Bank successfully added fixed income investment management to its scope of activities, winning a number of regional mandates.

The Discretionary Portfolio Management Accounts (DPMAs) offered by SICO continued to attract increased interest. The Bank won new mandates from regional and international clients for GCC fixed income and equities, while additional mandates are in the pipeline for 2013.

CORPORATE FINANCE

Stagnant market conditions in Bahrain impacted fee income from SICO's corporate finance business in 2012, with just one significant M&A deal being concluded during the year. This entailed the sale of a 40 per cent stake in a large established industrial project, in which SICO acted as advisor to one of the bidders. The Bank was active in identifying potential business opportunities, and was involved in a number of pre-mandate pitches, which were later deferred. SICO is cautiously optimistic that increased investment banking activity in the region will have a spillover effect on Bahrain during 2013.

INVESTMENTS AND TREASURY

Investments

Proactive management and a prudent approach resulted in SICO's net investment income increasing substantially to BD 3.133 million in 2012 from BD 318 thousand the previous year. At the end of the year, available-for-sale securities stood at BD 23.15 million compared with BD 27.04 million at the end of 2011; while investments at fair value through profit or loss were BD 14.73 million compared with BD 16.74 million at the end of 2011.

SICO's investment portfolio started 2012 aggressively positioned, with an overweight towards GCC and global bonds and equities. However, as the year progressed and economic conditions deteriorated, a more defensive stance was adopted, with fixed income dominating the portfolio allocation by the end of the first six months. With a subsequent improvement in market conditions towards the end of the year, the allocation of equities was again expanded. At the end of 2012, 30 per cent of the portfolio was invested in GCC and global equities, while fixed income through direct and indirect investment accounted for 31 per cent of the portfolio.

Treasury

SICO's treasury business posted another profitable year in 2012, with net interest income remaining healthy at BD 1.297 million; and with the Bank continuing to adopt a cautious approach, maintaining deposits with high quality financial institutions on short-term placements. The provision of repos and reverse repos, which comprise the majority of short-term funding, was expanded to clients. SICO continued to maintain a sound and liquid balance sheet, with a strong consolidated capital adequacy ratio of 77.28 per cent, which is substantially higher than the CBB requirement. The Bank ended the year with 41.5 per cent (or BD 32.52 million) of its balance sheet in cash and deposits.

Fixed Income Desk

Demand for fixed income securities continued to grow during 2012, due to low interest rates and asset diversification, with investors seeking better yields without excessive risk. This resulted in an increased trading flow by SICO's new Fixed Income Desk during its first full year of operations, during which it expanded its team and increased the number of counterparties. As part of its service, the Desk provides international and regional clients with a daily GCC fixed income run, which includes the indicative prices and yields of most issues in the region. In addition, a weekly commentary is provided for clients, indicating trade flow and market interest.

CLIENT RELATIONS

During 2012, SICO's independent Client Relations Unit continued to act as the first point of contact for existing and potential clients, dealing promptly with queries and complaints in all non-trading issues. The unit's scope of activities includes opening new accounts, negotiating agreements with clients and counterparties, and handling requests for research reports. The number of complaints during the year, remained extremely low, reflecting the Bank's commitment to continuously improve its customer service and satisfaction standards. SICO's complaints procedures are fully compliant with the new CBB Complaints Module that was introduced in 2012.

RESEARCH

SICO continued to enhance its provision of in-depth proprietary research, which provides clients with an independent, value-added service. With the addition of four new companies in the banking, telecom, industrial and real estate sectors in 2012, the Bank expanded its coverage universe to 51 listed companies and financial institutions. In response to feedback, a new daily GCC Morning Call service was introduced for SICO's leading clients, with coverage including company updates, regional news, stock recommendations, market performance and extracts from latest published reports. During the year, SICO published 452 reports, of which 349 were periodical reports, and 103 were detailed company and sector reports, and strategy notes. More detailed information is covered by the 'SICO Research Update' in this annual report.

The Bank's new research publishing platform, which is a dedicated software system that automates the equity research process, was fully implemented in 2012. The system's database (one of the most comprehensive in the region) will form the basis of a new interactive website to be launched in 2013. This will feature more screens with specific country and company pages, including comparisons and stock recommendations. The site will offer more flexibility for users to access SICO's research products, and provide user-friendly search screens. It will also contain interactive templates, allowing users to download financial information in Excel format.

HUMAN RESOURCES

SICO maintained its substantial investment in human resources development during 2012. Recruitment continued, with headcount rising to 90 employees (after incorporating SICO UAE staff in the overall headcount) from 76 at the end of the previous year; while staff training focused on the new core banking system. The Bank also continued to sponsor staff to achieve professional qualifications, with over 20 per cent of staff either undertaking or having completed the CFA programme, including two new Charter holders in 2012. The Executive Training Programme made excellent progress, with two trainees being hired by business and support divisions in 2012, and another three high-calibre university graduates joining the programme. SICO also provided summer internships for students studying at local and overseas universities.

The Bank's unique 'partnership' corporate culture, embracing an entrepreneurial but self-disciplined style of operating, continued to distinguish SICO from many other financial institutions. Since its introduction in 2004, the Employee Stock Ownership Plan, which recognises and rewards the loyalty of staff with shares in SICO, has grown to constitute 3.45 per cent of the Bank's ownership.

INFORMATION TECHNOLOGY

The final stage of phase one of SICO's new core banking system (CBS) was successfully implemented during 2012. This included upgrading many elements of the operating infrastructure, such as information technology, communications, and the disaster recovery site. With a total investment exceeding BD 1.5 million, the CBS project is the largest capital expenditure incurred to date by the Bank. The impact of the new system has already produced clear benefits in terms of efficiency, productivity and client service. To assess the robustness and functionality of the new system, the Audit Committee commissioned a review by an independent party during the year.

SUBSIDIARIES

SICO FUNDS SERVICES COMPANY (SFS)

During 2012, SFS – the Bank's wholly-owned custody and fund administration subsidiary – continued to benefit from the cost-containment measures introduced the previous year. Concerted marketing activities resulted in the signing of four new mandates with prominent regional institutions to provide custody and administration of their funds and portfolios. Steps were also taken to enhance existing client relationships through the provision of value-added services such as research and market information.

Electronic trading remained a key area of growth for SFS in 2012. The Company expanded safe-keeping and securities settlements with various global institutions to include instruments such as exchange-traded funds (ETFs). At the end of 2012, total assets under custody stood at BD 824 million.

SECURITIES & INVESTMENT COMPANY – UNITED ARAB EMIRATES (SICO UAE)

SICO UAE, the Bank's new brokerage subsidiary, commenced operations in September 2012 following final regulatory approval by the Emirates Securities & Commodities Agency (ESCA). The successful establishment of the Company marks the first strategic investment by SICO in establishing a physical presence in the GCC outside Bahrain, and underscores the Bank's commitment to its regional and international clients. Located in Abu Dhabi, SICO UAE executes trades on the principal stock exchanges – in the UAE – for institutional and high net worth clients. The Company also provides DVP (delivery-versus-payment) services, and plans to add online and margin trading during the first quarter of 2013, subject to final regulatory approval.

The establishment of SICO UAE took less than one year to complete. In September 2011, SICO received approval from ESCA to fully acquire an existing licensed brokerage house in UAE and change its name to 'Securities & Investment Company - United Arab Emirates' (SICO UAE), and appointed a new General Manager. In February 2012, backed by an injection of new capital, the Company moved to new premises at Al Wahda Commercial Tower. The operation in the new location is supported by a substantial investment in new personnel and a state-of-the-art trading and IT infrastructure.

ESCA restored the brokerage licence of SICO UAE in June 2012, following regulatory approval of key personnel, and rigorous inspection of the Company's new premises and IT and operating infrastructure. The Company officially resumed brokerage operations in September 2012. The Board of Directors of SICO UAE comprises Anthony Mallis (Chairman), Samir Sami (Vice Chairman), Najla Al Shirawi and Fadhel Makhlooq. All four board members are members of SICO's Bahrain-based executive management team.

CORPORATE SOCIAL RESPONSIBILITY

At SICO, we strongly believe that businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate.

As a leading Bahrain-based financial institution, SICO has long recognised its responsibility to contribute to the social wellbeing and economic prosperity of the Kingdom of Bahrain, and to support the less privileged and handicapped sections of society. Accordingly, the Bank implements an annual corporate social responsibility programme that has three primary objectives:

- Improve the social wellbeing and quality of life of the local community, with a particular focus on education, healthcare and social welfare.
- Help young Bahrainis develop leadership skills and enhance their career prospects.
- Support Bahrain's contribution to the development of the GCC region's capital markets.

IMPROVING THE SOCIAL WELLBEING AND QUALITY OF LIFE OF THE LOCAL COMMUNITY

In 2012, SICO provided financial and practical support for a number of charitable institutions engaged in healthcare, education and social welfare, including:

- Al Noor Charity Welfare
- Bahrain Association for Intellectual Disability & Autism
- Bahrain Child Care Home
- Bahrain Down Syndrome Society
- Bahrain Women's Association
- Children & Mothers' Welfare Society
- Muharraq Social Welfare Centre
- UCO Parents Care Centre for Elderly Patients
- SICO sponsored a team for the 15th annual American Mission Hospital Island Classic charity golf tournament, held at the private golf course of His Majesty King Hamad Bin Isa Al Khalifa. This long-running event raises substantial funds that are used by the hospital to finance new facilities, services and equipment.

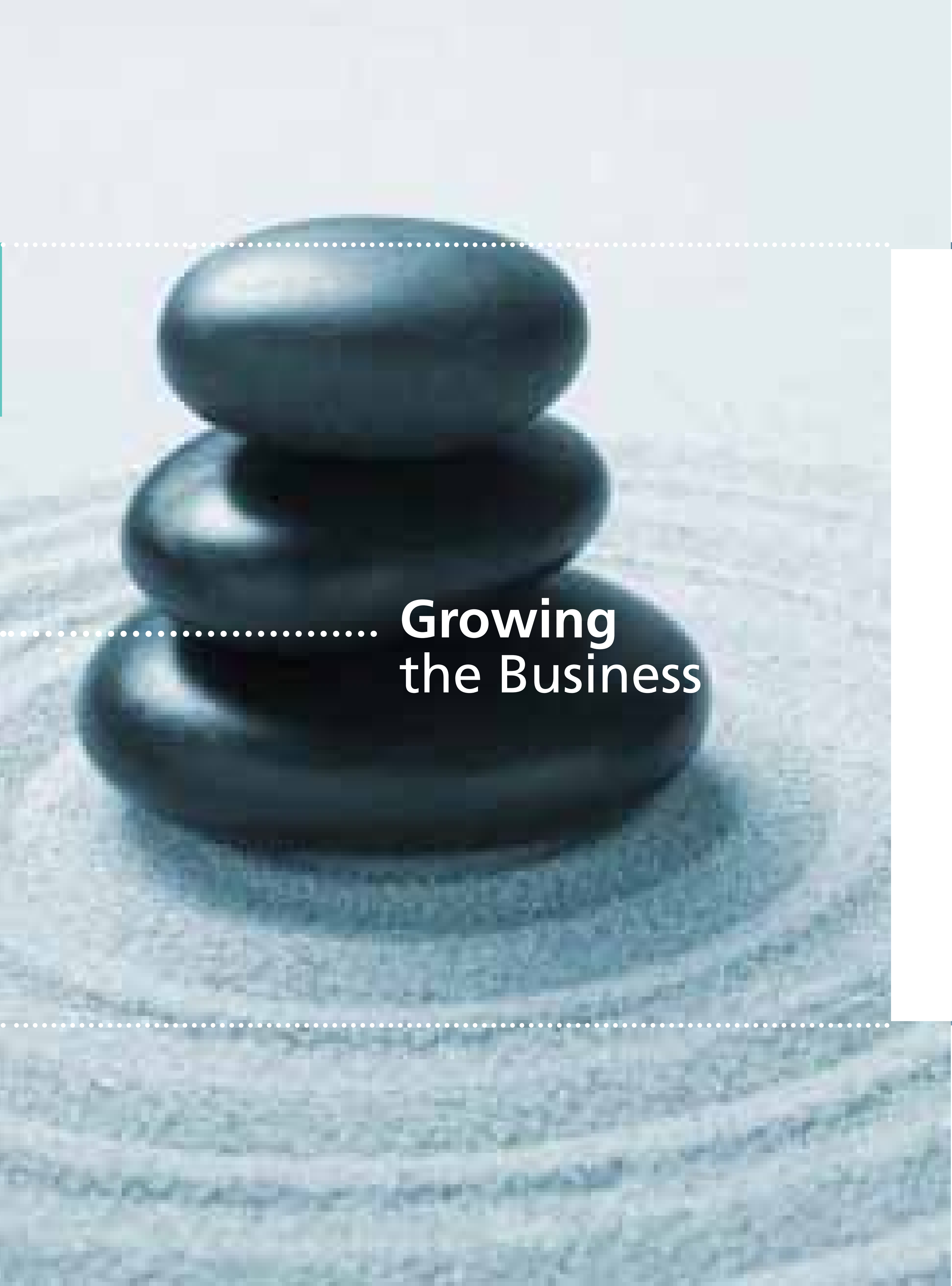
HELPING YOUNG BAHRAINIS DEVELOP LEADERSHIP SKILLS AND ENHANCE THEIR CAREER PROSPECTS

- The Bank is a sponsor of AISEC Bahrain, which seeks to promote the leadership skills of Bahraini students, and provide a positive impact on the Kingdom's youth.
- SICO's Executive Training Programme has resulted in six Bahraini graduates being recruited to date by the Bank, while a further four university students were enrolled in 2012.
- The Bank encourages and supports its staff to attain professional qualifications such as CFA and CMA.
- SICO hosts Bahraini students at overseas universities in their 'practical experience' year through a Summer training programme.
- The Bank provides Summer internships for students from the University of Bahrain.

SUPPORTING BAHRAIN'S CONTRIBUTION TO THE GROWTH OF THE GCC REGION'S CAPITAL MARKETS

SICO either sponsored or participated in a number of financial industry conferences and events during 2012, including the following:

- ARINDON's Annual Capital Markets & Investor Relations Conference, at which SICO's Chief Executive Officer, Anthony Mallis, moderated an expert panel entitled 'Market Outlook: Where are the regional markets heading in the light of the volatile landscape.
- CFA Bahrain Annual Forecast dinner & Charter Award Ceremony , at which one of SICO's employees was installed as CFA Charter holder.



Growing the Business

In a key strategic initiative, SICO successfully extended its regional footprint in 2012 with the launch of SICO UAE. This new brokerage subsidiary is now fully operational and trading on the Abu Dhabi and Dubai stock exchanges. As well as expanding the scope of the Bank's brokerage business, and opening up cross-selling opportunities for other business lines, SICO UAE provides additional access to one of the region's dynamic and growing economies.

SICO RESEARCH UPDATE

During 2012, SICO published 452 research reports, of which 349 were periodical reports, and 103 were detailed company, sector and strategy reports. One new report was launched, and 4 new companies were added to the Firm's coverage of leading GCC stocks.

GCC MARKET WATCH

Published daily

This report provides and interprets latest market-related information pertaining to the six GCC equity markets. Also includes performance comparisons of leading companies in key sectors such banking, telecommunications, oil and gas, petrochemicals, real estate, construction and cement. This report is published within a few hours after the last market closes on the very same day of trading.

BAHRAIN MARKET WATCH

Published weekly

This report provides and interprets up-to-date information on the Bahrain equity market. Also includes other relevant economic and business information that has a direct bearing on companies listed on the Bahrain Bourse.

GCC ECONOMICS – THE NUMBERS

Published monthly

This report analyses data from the region's central banks, and tracks economic trends.

PETROCHEMICALS ROUND-UP

Published monthly

This report offers an insight into one of the GCC region's fastest growing and key industrial sectors – petrochemicals. The aim is to provide investors with a tool to understand the sector dynamics and make better-informed investment decisions.

OIL MARKETS UPDATE

Published monthly

This report tracks important data points used by investors and analysts for understanding oil market dynamics, and interpreting and forecasting price movements.

COMPANY & SECTOR REPORTS

Published on a regular basis

These reports track actively traded companies and major sectors in the GCC. They include initiation coverage reports, followed by updates on quarterly and annual results and developments, and topical event flashes.

GCC STRATEGIC OUTLOOK REPORTS

Published periodically, these reports provide SICO's views and outlook (both macro and micro) on the overall GCC markets. They cover regional, country, sector, company and economic developments and issues, and analyse them in the context of global trends and outlook.

GCC STOCK COVERAGE & RECOMMENDATIONS

Published semi-annually

This report summarises SICO's view of the stocks it covers, providing key investment arguments/risks, major short-term triggers/dampeners, ratings, and a summary of 3-year important forecasts and valuation ratios; together with recommended 'buy' stocks.

GCC EQUITIES – QUARTERLY RESULTS PREVIEW

Provides quarterly profit estimates for GCC-listed companies that SICO covers, and a key sectors outlook; together with recommended 'buy' stocks.

GCC EQUITIES – QUARTERLY PROFIT CONSENSUS

Provides quarterly profit consensus estimates for GCC-listed companies covered by SICO, together with recommended 'buy' stocks.

GCC EQUITIES – RESULTS SNAPSHOT IN CHARTS

Published quarterly

This report analyses the quarterly profits of GCC-listed companies in a handy chart format, together with an outlook for the upcoming quarter; plus recommended 'buy' stocks.

GCC MORNING CALL [NEW]

This report provides the Bank's clients with a daily service covering company updates, regional news, stock recommendations, market performance, and extracts from latest published reports.

ACCESSING SICO RESEARCH

SICO's comprehensive range of research reports and strategy notes can be accessed via the Firm's website – www.sicobahrain.com – and also through Thomson Reuters, Bloomberg, Factset and Capital IQ.

SICO FUNDS UPDATE

S&P CAPITAL IQ — Gold FUND GRADING

S&P Capital IQ Grading: Gold

KHALEEJ EQUITY FUND

Launch date
March 2004

Principal investment focus:
Equity securities listed on stock markets of GCC countries

Benchmark
S&P GCC Index

Peer group
GCC

Return: 2012
5.9% versus benchmark 3.2%

Annualised return
9.2% versus 2.9% benchmark

S&P CAPITAL IQ — Gold FUND GRADING

S&P Capital IQ Grading: Gold

SICO GULF EQUITY FUND

Launch date
March 2006

Principal investment focus:
Equity securities listed on stock markets of GCC countries, excluding Saudi Arabia

Benchmark
S&P GCC Ex-Saudi Index

Peer group
GCC

Return: 2012
6.1% versus benchmark 1.4%

Annualised return
1.2% versus benchmark minus 9.0%

S&P CAPITAL IQ — Gold FUND GRADING

S&P Capital IQ Grading: Gold

SICO ARAB FINANCIAL FUND

Launch date
August 2007

Principal investment focus:
Financial sector equities listed on Arab stock markets in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the UAE

Benchmark
S&P Pan Arab Financial Index

Peer group
MENA

Return: 2012
2.9% versus benchmark 2.4%

Annualised return
3.1% versus benchmark minus 7.7%

S&P CAPITAL IQ — Silver FUND GRADING

S&P Capital IQ Grading: Silver

SICO KINGDOM EQUITY FUND

Launch date
February 2011

Principal investment focus:
Equity securities listed in Kingdom of Saudi Arabia

Benchmark
TADAWUL

Peer group
Equity Saudi

Return: 2012
8.7% versus benchmark 6.0%

Annualised return
4.6% versus benchmark 3.6%

SICO SELECTED SECURITIES FUND

Launch date
May 1998

Principal investment focus:
Equity and debt securities listed, or expected to be listed, on the Bahrain Stock Exchange (BSE)

Benchmark
Bahrain Bourse All Share Index

Peer group
Equity Bahrain

Return: 2012
1.2% versus benchmark minus 6.8%

Annualised return
4.9% versus benchmark minus 1.2%

SICO MONEY MARKET FUND

Launch date
May 2010

Principal investment focus:
Term deposits, short-term government and corporate papers

Benchmark
2 Months LIBOR

Peer group
Money Market GCC

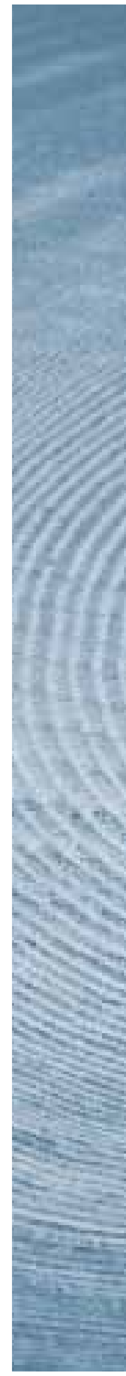
Return: 2012
0.99% versus 0.35% benchmark

Annualised return
1.17% versus 0.32% benchmark

MENA FUND MANAGER PERFORMANCE AWARDS 2013 WINNER

MENA AWARD

SICO received two awards at the fourth annual MENA Fund Manager Performance Awards ceremony, which was held in Dubai in January 2013. The Khaleej Equity Fund received the 'Outstanding Fund Performance and Innovation' award for 2012, while the Bank was named 'Bahrain Asset Manager of the Year' for the second consecutive year.



CORPORATE GOVERNANCE REVIEW

KEY DEVELOPMENTS IN 2012

- Implemented the Bank's action plan to ensure compliance with the rules of the HC Module of the Central Bank of Bahrain, and the principles of the Corporate Governance Code issued by the Ministry of Industry and Commerce.
- Conducted an annual review of the Bank's corporate documents, including the Board Charter, Board Committee Charters, Code of Conduct for Staff, and the Management Succession Plan.
- Implemented the 'Directors' Service Agreement' to formalise membership of the Board.
- Reconstituted all Board Committees and memberships.
- Constituted the Nomination, Remuneration and Corporate Governance Committee.
- Reconstituted the Audit Committee.
- Constituted a new Investment Committee to replace the Executive Committee.
- Conducted a training programme for the Directors on Corporate Governance.
- Established the Directors' Handbook.
- Inducted a new Board member.

COMMITMENT

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

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

The Board established a Corporate Governance Implementation Committee in 2010 with responsibility for developing and recommending changes from time to time in SICO's corporate governance policy framework. During 2011, the Committee continued to oversee the assessment of the regulations of the HC Module and Corporate Governance Code, and developed an action plan with timelines for adherence to the regulations. Progress of the plan's implementation was reviewed and monitored during the quarterly meetings held by the Committee. In 2011, the Bank also undertook a full review of the Bank's corporate documents, including the Board Charter, Board Committee Charters, and Code of Conduct for Staff, in order to align them with the new Corporate Governance Code and the CBB's HC Module requirements.

During 2012 and in compliance with the requirements of the HC module the Bank completed the following initiatives:

- Formalised the membership of the Board with a 'Directors Service Agreement' for each Director.
- Completed the Directors' Handbook.
- Appointed a new Independent Director.
- Constituted the Nominations, Remuneration and Corporate Governance Committee by merging the Corporate Governance Implementation Committee with the Nominations & Remuneration Committee.
- Reconstituted the Audit Committee to have a majority of Independent Directors.
- Conducted a training programme for the Directors on Corporate Governance.

However, the following had been substantially completed, and remained pending for Board approval and implementation in 2013:

- Review of the Bank's Articles of Association to reflect all the new Corporate Governance Code requirements.
- The Board and Committee self-evaluation was reviewed by the Board pending approval and implementation in Q1 2013.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

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

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

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

BOARD COMPOSITION AND ELECTION

The Board's composition is guided by the Bank's Memorandum of Association. As at 31 December 2012, the Board consisted of nine Directors, four of whom are Independent Non-executive directors, and five are Executive directors including the Chairman and Vice-Chairman. The Bank recognises the need for the Board's composition to reflect a range of skills and expertise. Profiles of Board Members are listed on pages 28-29 of this annual report.

The appointment of Directors is subject to prior approval by the CBB. The classification of 'Executive' Directors, 'Non-executive' Directors and 'Independent and Non-executive' Directors is per the definitions stipulated by the CBB. Directors are elected by the shareholders at the AGM, subject to the approval of the CBB, for a period of three years, after which they shall be eligible for re-election for a further three-year period.

In June 2012, Mr. Yusuf Khalaf was appointed Board Member representing the minority shareholders.

INDEPENDENCE OF DIRECTORS

In line with the requirements of the CBB's HC Module, the Bank has put in place Board-approved criteria to determine 'Test of Independence' using formal requirements as specified in the CBB rule book and other relevant requirements as assessed by the Board of SICO. The purpose of the Test is to determine whether the Director is: 'Independent of management, and any business or other relationships, which could materially interfere with the Director's ability to exercise objective, unfettered or independent judgement, or the Director's ability to act in the best interests of SICO'. Based on an assessment carried out in 2012, the Board of Directors resolved that the three Non-executive Directors of SICO met the relevant requirements of the 'Test of Independence', and accordingly, they were classified as 'Independent' Directors and Committee Members of SICO's Board of Directors.

BOARD MEETINGS AND ATTENDANCE

According to the Bahrain Commercial Companies Law and the CBB rules, Board meetings will be conducted at least four times a year (on a quarterly basis). All Board members must attend at least 75 per cent of all Board meetings within a calendar year. At least five Directors must attend each Board meeting, including the Chairman or the Vice-Chairman. During 2012, five meetings were held in Bahrain, and the members' attendance is noted in the table below:

Directors' Attendance January to December 2012

Board Members	Board Meetings Total held 5	*Investment Committee Meetings Total held 3	*Audit Committee Meetings Total held 3	* Nominations, Remuneration and Corporate Governance Committee Meetings Total held 2
Shaikh Abdulla bin Khalifa Al-Khalifa **Chairman of the Board** Chairman of the Investment Committee	5(5)	3(3)		
Mr. Hussain Al Hussaini **Vice Chairman**	5(5)	3(3)		
Mr. Anwar Abdulla Ghuloom	3(5)			2(2)
Mr. Mahmoud Al Zewam Al-Amari Chairman of Nominations, Remuneration and Corporate Governance Committee	5(5)			2(2)
Mr. Fahad Murad	5(5)			2(2)
Ms. Sawsan Abulhassan	5(5)	3(3)		
Mr. Meshary Al-Judaimi	4(5)		2(3)	
Mr. Mohammed Abdulla Isa	5(5)		3(3)	
Mr. Yusuf Khalaf ** Chairman of the Audit Committee	4(5)		3(3)	

■ Board Committee member
* Reconstituted in March 2012
** Joined March 2012
( ) Figures in bracket represent the number of meetings held when member was part of the committee

BOARD COMMITTEES

Investment Committee

Objective

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

Audit Committee

Objective

- Review the Bank's accounting and financial practices.
- Review the integrity of the Bank's financial and internal controls and financial statements.
- Recommend the appointment, compensation and oversight of the Bank's External Auditors.
- Recommend the appointment of the Internal Auditor.
- Review the Bank's Compliance procedures and Regulatory matters.
- Review the Bank's Risk Management systems.

Nominations, Remuneration and Corporate Governance Committee

Objective

- Identify and screen suitable and qualified candidates as members of the Board of Directors, or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the Bank considered appropriate by the Board, and as and when such positions become vacant, with the exception of the appointment of the Internal Auditor, which shall be the responsibility of the Audit Committee.
- Submit its recommendations, including candidates for Board membership, to the whole Board of Directors, which in turn should include them in the agenda for the next Annual Shareholder Meeting.

DIRECTORS' PROFILES

Shaikh Abdulla bin Khalifa Al Khalifa

Chairman

Director since 29 November 2011 and Chairman since 13 December 2011 (Non-independent and Executive)
Represents Social Insurance Organisation (Bahrain)
Chairman of SICO Investment Committee
Chief Executive Officer - SIO Assets Management Company B.S.C.(c).
Chairman: Seef Properties
Board Director: BBK, BFC Holdings Limited, Bahrain International Golf Course
Professional experience: 12 years
Educational qualifications: BSc in Business Administration, George Washington University, Washington DC, USA

Mr. Hussain Al Hussaini

Vice Chairman

Director since 1997 (Non-independent and Executive)
Represents National Bank of Bahrain (Bahrain)
Member of SICO Investment Committee
General Manager - Treasury & International Banking Group, National Bank of Bahrain
Board Director: Esterad
Professional experience: 31 years
Educational qualifications: PMD Programme for Management Development, Harvard Business School, Boston, USA; MBA Programme, Marketing & Management Change, DePaul University; BA in Economics, Concordia University, Montreal, Canada

Mr. Anwar Abdulla Ghuloom

Director since 2002 (Non-independent and Executive)
Represents Social Insurance Organisation (Pension Fund Commission) Bahrain
Member of SICO Nominations, Remuneration and Corporate Governance Committee
Board Director: Bahrain Tourism Company, Royal Women's University
Professional experience: 30 years
Educational qualifications: ACPA, CIPA; BSc in Accounting

Ms. Sawsan Abulhassan

Director since 2008 (Non-independent and Executive)
Represents Ahli United Bank (Bahrain)
Vice Chairperson of SICO Investment Committee
Deputy Group CEO - Private Banking & Wealth Management, Ahli United Bank
Board Director: Ahli United Bank PLC UK; The Family Bank - Kingdom of Bahrain
Professional experience: 22 years
Educational qualifications: MBA in Finance and BSc in Management both from the University of Bahrain

Mr. Mohammed Abdulla Isa

Director since 2009 (Non-independent and Executive)
Represents BBK (Bahrain)
Member of SICO Audit Committee
Chief Financial Officer - BBK
Professional experience: 21 years
Educational qualifications: Certified Public Accountant, American Institute of Certified Public Accountants - Delaware State Board of Accountancy (2001)

Mr. Mahmoud Al Zewam Al-Amari

Director since 2004 (Independent and Non-executive)
Represents Arab Banking Corporation (Bahrain)
Chairman of SICO Nominations, Remuneration and Corporate Governance Committee
First VP & Head - Portfolio Department, Arab Banking Corporation
Professional experience: 28 years
Educational qualifications: AIBD; MA in Macro Economics

Mr. Fahad Murad

Director since 18 July 2011 (Independent and Non-executive)
Represents Arab Investment Resources Company (Bahrain)
Vice Chairman of SICO Nominations, Remuneration and Corporate Governance Committee
Managing Director - Head of Placement for Bahrain and Oman: Investcorp
Professional experience: 28 years
Educational qualifications: BBA and MBA in finance from the University of Houston, Texas, USA

Mr. Meshary Al-Judaimi, CFA

Director since 2009 (Independent and Non-executive)
Represents Gulf Investment Corporation (Kuwait)
Vice Chairman of SICO Audit Committee
Director - Head of Financial Services, Principal Investments, Gulf Investment Corporation
Board Director: Gulf Reinsurance Ltd; Rasameel Structured Finance Company; Ras Laffan Power Company
Professional experience: 17 years
Educational qualifications: MBA, Emory University; BSc in Mechanical Engineering, Kuwait University; CFA Charterholder

Mr. Yusuf Khalaf

Director since March 2012 (Independent and Non-executive)
Represents Minority Shareholders
Chairman of SICO Audit Committee
Founder & Managing Director - Vision Line Consulting
Independent Board Director: BBK, Eskan Bank, First Leasing Bank, Solidarity General Takaful Company
Professional experience: 32 years
Educational qualifications: Chartered Certified Accountant, Higher National Diploma in Business Studies, Salford College, UK

MANAGEMENT

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

Membership of Management Committees

Managers	Restricted Management Committee	Asset Management Committee	Assets, Liabilities & Investments Committee	Internal Control Committee
Chief Executive Officer	Chairman	Chairman	Chairman	Chairman
Chief Operating Officer				
Chief Corporate Officer				
Financial Controller				
Head of Internal Audit		¥	¥	
Head of Risk Management		¥	¥	
Head of Brokerage		¥		
Head of Asset Management				
Head of Corporate Finance		¥		
Head of Investments & Treasury			¥	
Head of Research		¥		

Management Committee members
¥ Non- voting member

MANAGEMENT COMMITTEES

Restricted Management Committee

Objective

To review the overall performance of the Bank; review the implementation and implications of new initiatives and products; and contribute to developing an ongoing strategy for the Bank.

Asset Management Committee

Objective

To review the investment strategy of the Bank's funds and portfolios; review and approve asset allocations; and review subscription and redemptions, and compliance.

Assets, Liabilities And Investments Committee (ALIC)

Objective

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

Internal Control Committee

Objective

To assess the overall impact of the internal control system, due to the various risks encountered; and to monitor the functioning of the internal control mechanism of SICO. In addition, the committee ensures compliance with the internal policies and procedures, and regulatory best practices of internal control applicable to the industry.

Management Profiles

Anthony C. Mallis - Chief Executive Officer
Joined SICO in 2000

Anthony has over 34 years' international banking experience. Prior to joining SICO he was a Partner in a London-based private equity firm focusing on the Middle East. He also worked for Credit Suisse Asset Management and its predecessor, Credit Suisse First Boston Investment Management, Bankers Trust Company, Gulf International Bank, and Citibank. He was a Board member of ABQ Zawya before its sale to Reuters and a Board member of the Bahrain Association of Banks. Anthony holds a Bachelor's degree in Business Administration from the American University of Beirut, and attended the Senior Executive Programme at Stanford Business School, USA.

Najla Al Shirawi - Chief Operating Officer
Joined SICO in 1997

Najla has more than 16 years' investment banking experience. Prior to her appointment as COO in 2006, Najla was Head of Asset Management, and then Head of Investments & Treasury, at SICO. She was previously a lecturer in the Engineering College at the University of Bahrain. Before that, she worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust, where she was responsible for establishing private banking operations for the Group in the Gulf region. Najla holds an MBA and a Bachelor's degree in Civil Engineering, and attended the Management Acceleration Programme at INSEAD, France.

Samir Sami - Chief Corporate Officer
Joined SICO in 2008

Samir has over 32 years' international experience in areas covering commercial and corporate banking, strategic planning and risk management, spanning the UK and the Middle East. He started his banking career in Bahrain with GIB as a corporate officer in 1980. He then moved to Citibank, where he spent the next 17 years managing the Bank's corporate portfolio and risk management in Saudi Arabia and the UAE. He later joined Credit Suisse private banking, and subsequently worked with Ghobash Investment & Trading as Group Vice President. Samir has a joint Biochemistry and Zoology major from the University of London, UK; and has served as a Board member for various non-profit organisations.

Hanan Y. Sater - Financial Controller
Joined SICO in 1997

Hanan has more than 33 years' experience in accounting and financial control. Prior to joining SICO, she worked for Manufacturers Hanover Trust Bank, Chemical Bank, and Chase Manhattan Bank. She is a Certified Accountant from the UK-based Association of Chartered Certified Accountants (ACCA), and is also a Certified Anti-money Laundering Specialist by the US-based Association of Certified Anti-Money Laundering Specialists (ACAMS). A graduate of the University of Bahrain, Hanan has undertaken training in general management, internal control and risk management with reputed institutions such as the BIBF and INSEAD.

Nadia Khalil - Head of HR & Administration
Joined SICO in 1995

Nadia has been with SICO since its establishment, during which time she established the HR & Administration department as well as being responsible for Board meetings administration. Prior to joining SICO, she provided administrative support for the Private Banking Unit of Chase Manhattan Bank. Nadia holds a Diploma in Office Management from Bahrain University.

Shakeel Sarwar - Head of Asset Management
Joined SICO in 2004

Shakeel has over 18 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with the asset management division of Riyad Bank, and was part of the team that managed over US$ 3 billion in Saudi equities. Previous experience includes working with ABN Amro Asia Securities in the UK and Pakistan. Shakeel holds an MBA in Banking and Finance from IBA, Karachi, Pakistan.

Fadhel Makhlooq - Head of Brokerage
Joined SICO in 2004

Fadhel was Head of Brokerage at SICO for five years before being appointed as Head of Investments & Treasury in 2008. He was re-appointed Head of Brokerage in 2010. Prior to joining SICO, he worked for a number of leading financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase). Fadhel holds an MBA from Glamorgan University, UK.

Samer Taleb - Head of Corporate Finance
Joined SICO in 2006

Samer has over 11 years' experience in management consulting and investment banking. Prior to joining SICO, he was manager of Strategy & Operations with Deloitte Consulting, where he provided M&A, strategy, restructuring and systems advice to medium-to-large corporates, family-owned businesses and regulatory bodies in the Middle East. Samer holds an MSc in Industrial & Systems Engineering from Georgia Institute of Technology; a Management of Technology Certification from DuPree College of Management; and a BSc in Industrial Engineering from Purdue University.

Ismail Sabbagh - Head of Information Technology
Joined SICO in 2007

Ismail has over 16 years' experience in the fields of business consulting and information technology. Prior to joining SICO, he worked with BDO Consulting as Business Consulting Manager; Microsoft Consulting Services as Technical Consultant for ERP and CRM, and project Manager; and New Horizons as a Business Consultant and IT Trainer. Ismail holds a BSc in Computer Science from the Lebanese American University, Beirut, and is a Microsoft Certified Professional.

Amal Al Nasser - Head of Operations
Joined SICO in 1997

Amal has more than 24 years' banking experience. She was Head of Operations at SICO for 10 years before being appointed General Manager of SFS, a wholly-owned subsidiary of SICO, on its establishment in 2006. Amal resumed her role as Head of Operations at SICO in 2010. Before joining SICO, she spent 10 years with ALUBAF Arab International Bank in Bahrain, working in the areas of credit, investment and commercial banking operations. Amal holds a BA degree in Economics from Poona University, India.

Nadeen Oweis - Head of Corporate Communications
Joined SICO in 2008

Prior to joining SICO, Nadeen was in charge of corporate communications and public relations for Microsoft in Bahrain. Before this, she handled regional accounts for Lowe Contexture, a leading regional branding and communications consultancy based in Bahrain. Previous experience includes working for Procter & Gamble Jordan and managing the advertising and promotions account for Radio Fann FM in Jordan. Nadeen holds a Master's degree in Diplomatic Studies from the Jordan Institute of Diplomacy, and a Bachelor's degree in Law from Jordan University.

Jithesh Gopi - Head of Research
Joined SICO in 2006

Jithesh has over 15 years' experience, including six years in the energy sector in India. Prior to joining SICO, he worked with Irevna Research Services (an S&P subsidiary) tracking Indian and international equities; and was briefly with the International Finance Corporation (Manila), where he tracked the power sector. A CFA Charter holder, Jithesh has an MBA from the Asian Institute of Management in Manila, Philippines. He also attended the Tuck School of Business, Dartmouth, USA, as part of the International Student Exchange Programme; and the Executive Education Programme at INSEAD, Singapore.

Anantha Narayanan - Head of Internal Audit
Joined SICO in 2008

Anantha has more than 22 years' experience in the areas of audit and risk management in the banking industry. Prior to joining SICO, he worked for Credit Agricole Corporate & Investment Bank; BBK; Commercial Bank of Oman / Bank Muscat; and PriceWaterhouseCoopers. Anantha is a Chartered Accountant and Cost Accountant (India); a Certified Information Systems Auditor (USA); a Financial Risk Manager (USA); and an Associate Member of the Institute of Financial Studies (UK). He holds a BSc Honours degree from the University of Manchester, UK and BSc (Chem) from Madras University, India.

Abdulrahman Saif - Head of Investments & Treasury
Joined SICO in 2003

Abdulrahman has over 13 years' experience in investments and treasury. Prior to joining SICO, he was with the Asset Management team at Taib Bank. He has also worked for Gulf International Bank and Arab Banking Corporation. A Certified Investment Representative, Abdulrahman holds a Master of Science in Finance from DePaul University, a BSc in Accounting from the University of Bahrain, and a Treasury & Capital Markets Diploma from the Bahrain Institute of Banking & Finance. He has also undertaken specialised training at INSEAD, France.

Mark Said - General Manager
SICO Funds Services Company (SFS)
Joined SICO in 2010

Mark has over 20 years' experience covering the US and the Middle East, in financial administration, operations management, custody and accounting, and financial control. Prior to joining SICO, he was with SAIB BNP Paribas Asset Management in Saudi Arabia. Before this, Mark worked in the US for Columbia Management, the investment division of Bank of America; MFS Investment Management; and State Street Bank. He holds an MSc degree in Finance and a BSc in Business Administration, both from Boston University, USA.

Fadi Ghosaini - General Manager
SICO UAE
Joined SICO in 2011

Fadi has over 19 years' international banking experience. Prior to joining SICO, he was Managing Director – Head of Sales at Shuaa Capital, and previously worked with Abraaj Capital and Dubai International Financial Exchange (DIFC). He has also worked for Deutsche Bank, ABN AMRO Equities (UK), Jordan International Bank, and Lehman Brothers International. Fadi holds a BA in Economics and Social Studies from the University of London, UK; and an MSc in Business Finance from Brunel University, UK.

GOVERNANCE FRAMEWORK

SICO's corporate governance framework comprises Board and Committee Charters; Directors' Handbook; Code of Business Conduct; operational policies and procedures; internal controls and risk management systems; compliance procedures; internal and external audit; effective communications and transparent disclosure; and measurement and accountability.

CODE OF BUSINESS CONDUCT

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

COMPLIANCE AND ANTI-MONEY LAUNDERING

As a licensed conventional wholesale bank and listed company, SICO has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse. The Bank has an independent Compliance unit in keeping with Basel and CBB guidelines. The Compliance unit acts as the central coordinator for all matters relating to regulatory reporting and other requirements. Anti-money laundering measures are also an important area of the Compliance unit, with a designated Money Laundering Reporting Officer (MLRO) and Deputy MLRO. The Bank has documented anti-money laundering and combating the financing of terrorism procedures, in conformity to the regulatory requirements in the Kingdom of Bahrain. SICO is in the process of implementing a risk-based automated transaction monitoring system, which will further enhance the Bank's anti-money laundering measures in line with the regulations of the CBB.

CORPORATE COMMUNICATIONS

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

REMUNERATION OF BOARD MEMBERS, SENIOR MANAGEMENT AND FEES PAID TO EXTERNAL AUDITORS

- The remuneration paid to board members and senior management personnel are disclosed in Note 23 of the Financial Statements.
- The information on the fees paid to external auditor for audit and other services will be available to CBB and shareholders upon request, provided such disclosure does not impact the interest of bank.

Diversifying products and services

During 2012, SICO continued to serve its clients and meet their requirements by further diversifying its range of products and services. With the new Fixed Income Desk commencing full operations, and the addition of fixed income investment management to its asset management business, the Bank has been successful in establishing itself as a leading Bahrain-based regional player in the fixed income space.

RISK MANAGEMENT REVIEW

Throughout 2012, risk management continued to play a pivotal role in ensuring that SICO remains strong, methodical and consistent in the face of the challenging political, economic and financial environment; and is now well recognised as an area of strength and core competence for the Bank.

KEY DEVELOPMENTS IN 2012

- Continued to adopt a cautious low-risk investment strategy aimed at preserving the Bank's strong capital base, and maintaining a safe, liquid and profitable portfolio.
- Further enhanced focus on monitoring compliance to ensure adherence to investment guidelines.
- Monitored fiduciary portfolios to ensure compliance with investment guidelines.
- Expanded the scope and regularity of risk management reporting to the Board.
- Regularly monitored and reported ICAAP, regulatory CAR and operational risk incidents.
- Actively participated and contributed to several consultative papers issued by the Central Bank of Bahrain (CBB) and the Bahrain Bourse.

OVERVIEW

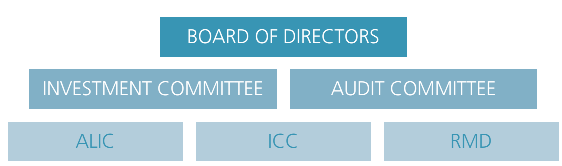
Risk is an inherent part of SICO's business, and risk management is essential to the Bank's success. Risk management is the systematic process of identifying and evaluating the principal business risks facing SICO; establishing appropriate controls to manage these risks; and ensuring that all appropriate monitoring and reporting processes are in place.

SICO maintains a strong focus on its risk management framework, capital management and governance structure; and adopts a structured, consistent and disciplined methodology to align business strategy, processes, people, technology and knowledge, in order to evaluate and manage its risks. The Bank's approach is based on a simplified risk management framework for active investment banks with non-complex activities or transactions.

FRAMEWORK AND STRUCTURE

The Firm has put in place a well-disciplined organisational structure to support the business strategy, risk management and internal control framework.

The Board of Directors is primarily responsible for the establishment of sound policies, guidelines and procedures to manage risks arising out of SICO's business activities. These policies are consistent with the Bank's broader business strategies, capital strength, management expertise, and ability to control risk. Recognition of the need to maintain a high reputation underpins SICO's risk management and internal control philosophy.



Budgets and business outlooks are reviewed to take account of potential adverse conditions, and are rigorously challenged at Senior Management and Board levels. The Investment Committee of the Board is the second point where decision making of SICO's investment activities is considered. This committee approves investments within its discretionary powers as delegated by the Board. The Audit Committee of the Board provides sound support to the internal control framework.

The Risk Management Department (RMD) provides leadership, direction and coordination of applying risk management across the organisation. RMD is responsible for establishing the risk management framework and appropriate resources to assist the Bank in the realisation of its business objectives and continued development.

RMD also overlooks policy supervision, and provides oversight of risk management and risk controls across the organisation by coordinating and communicating with each line of business to manage risk, and ensure that the principles and requirements of managing risk are consistently adopted throughout the Bank.

SICO's Board and Senior Management's understanding of the nature and level of risks faced by the Bank ensures that the appropriate risk management process is adopted, in line with the risk profile of SICO. Senior Management is 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.

The Bank's four Management Committees comprise Senior Management and representatives of Business Lines, Risk Management Department, Finance and other Heads of Department. The committees meet frequently to discuss a broad range of topics, including current market conditions and other external events; and to ensure that the impact of risk factors are considered broadly across the Bank's businesses.

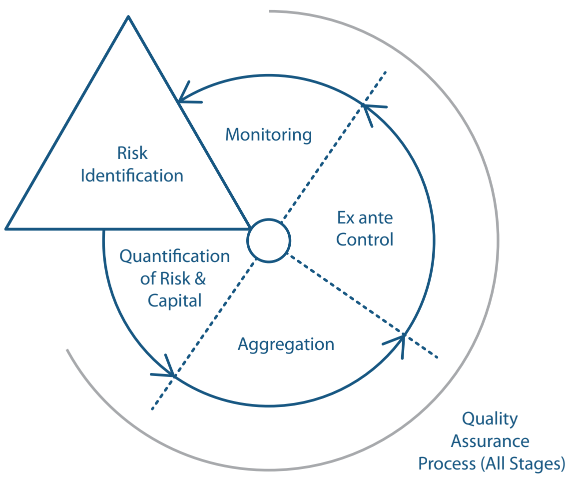
The Internal Control Unit (ICU), part of the Financial Control Department, further bolsters monitoring of the operating controls framework. The Assets, Liabilities and Investments Committee (ALIC) is a management committee that sets the investments philosophy and guidelines, and monitors the performance of the proprietary investments and Treasury activities. The Internal Control Committee (ICC) is a management committee that assesses the overall impact of the internal control system due to the various risks encountered, and monitors the functioning of the internal control mechanism of SICO.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

As set out in the Basel II Pillar 2 guidelines, an ICAAP framework was established and approved by the Board in 2010. This framework goes beyond the regulatory capital prescriptions under Pillar 1, and enables the identification and measurement of the various other risks that are associated with the different business activities of SICO, with a view to ensuring adequate capitalisation at all times to protect against all risks. Resilience of Internal Capital Adequacy is also tested under stressed market conditions to further bolster capital and risk management.

MAJOR BUILDING BLOCKS OF ICAAP

Board and Senior Management Oversight



Board and Senior Management Oversight

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 the risk profile of SICO. Senior Management is 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.

Risk Identification

Identification of the various risks that impact the various business activities of SICO sets the foundation for building an ICAAP process, since the Bank is required to maintain adequate internal capital to cover the material risks to which it is exposed.

Quantification of Risks and Capital Coverage

This step allocates internal capital to each of the risks identified and quantified in the risk identification process. It creates the objective basis for decision-making, and enables Senior Management to make decisions regarding SICO's risk-bearing capacity within the framework of the ICAAP.

Aggregation

Once risks have been identified and quantified, individual risks and associated capital requirements are aggregated to determine SICO's overall capital requirement for the purpose of ICAAP.

Ex ante Control

SICO has established various tolerance limits based on the overall risk strategy of the Bank. These limits will be 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 applicable risks.

Risk Monitoring and Ex Post Control

The risk monitoring process ensures that SICO's risk profile remains in line with its risk preferences. In this context, there is a standardised procedure for dealing with increasing levels of limit utilisation and limit overruns.

RISK IDENTIFICATION, MONITORING & CONTROL

The Bank's ability to properly identify, measure, monitor/control and report risk, is critical to both its soundness and profitability. The Bank applies its risk management practices across the organisation through leadership, direction and coordination. The Internal Control Unit (ICU), which is part of the Financial Control Department, also reports to the Internal Control Committee (ICC) and raises concerns on control issues encountered, and reports errors caused by the business users with the relevant details. The Bank uses risk limits at various levels in the organisation to govern risk appetite by controlling the size of its exposure. These limits are reviewed frequently and amended as required to reflect changes in market and business conditions, and tolerance to risk. Limit breaches are immediately identified and escalated to Senior Management, and the Board if required.

LIQUIDITY RISK

Liquidity risk is the inability to meet contractual and contingent financial obligations, on- or off-balance sheet, as they come due, as a result of the potential inability to liquidate its financial assets at the required time and price, in order to cope with a payout of liabilities or investment obligations in assets. Such risk may arise from a depletion of cash and cash equivalents, investments turning illiquid, and mismatches in the maturity pattern of assets and liabilities. Measuring and managing liquidity needs are vital for the effective operation of investment banks. As the investment horizon remains uncertain in the near-term, a high proportion of SICO's total assets are preserved in cash and cash equivalents.

Liquidity management & monitoring

The Bank's Treasury manages this risk by monitoring settlement obligations and maintaining sufficient liquid assets, including call deposits and short-term placements. SICO's liquidity position is monitored on a daily basis by RMD and ALIC. Maturity mismatches of Bank's maturity profile are also reported to the Board periodically.

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 a specific instrument or the market in general.

Market risk identification and mitigation

The Bank's market risks arise primarily from its investment and trading activities that are conducted by its Investment Unit. SICO invests and trades across different products, such as equities, fixed income and commodities in regional and international markets. Market risk is mitigated by having in place guidelines that clearly outline stringent risk limits and allocations.

Market risk also encompasses other risks:

Equity Price Risk

A significant portion of SICO's proprietary trading and available-for-sale portfolios comprise equity instruments, and are therefore affected by equity price risk. This risk is mitigated by managing the portfolio within duly approved asset allocation matrix 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 (equity and fixed income) and liquidity.

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, placements, deposits and borrowings give rise to interest rate risk. Treasury carefully monitors and manages these exposures in order to mitigate this risk. Uncertain conditions in the equity and bond markets are carefully considered by rebalancing asset allocations to minimise risk exposures. 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. Medium-term debt instruments are largely intended to be held to maturity. SICO does not trade speculatively in derivatives. The Bank applies stress testing to monitor interest rate shock on its banking book on a periodic basis.

Currency Risk

A substantial portion of SICO's business is transacted in the 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 Board of Directors. Treasury manages these positions on an ongoing basis, hedging such exposures as appropriate, while RMD along with ALIC regularly reviews such positions daily

Monitoring and Controlling Market Risk

Market risk is controlled primarily through a series of limits. These limits reflect the Bank's risk appetite in the context of the market environment and business strategy. In setting limits, SICO takes into consideration many factors, including market volatility, product liquidity and risk appetite. Market risk is monitored and also controlled by policies and practices that are put in place and practiced across the Bank. The policy framework establishes and clearly defines the approval authorities and portfolio review parameters.

CREDIT RISK

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its contractual obligations and cause SICO to incur a financial loss. Counterparty credit risk consists of two categories: pre-settlement and settlement risks. Investments in debt instruments and managed funds, and placements with counterparty banks, give rise to credit risk. Counterparty credit risk arises vis-à-vis customers and counterparty brokers. In the Asset Management, Investment and Treasury departments, deals routed through counterparty brokers give rise to counterparty credit risk. Issuer credit is separately monitored through fundamental research.

Credit risk identification and mitigation

The Bank is exposed to credit risk through many of its activities. Credit Risk Management works in coordination with the business in identifying and aggregating exposures. Credit risk is mitigated by a focused target market approach towards institutional and experienced, sophisticated high net worth investors.

The Bank's credit risk-related activities:

- Fixed Income instruments
- Treasury placements
- Overdraft (Brokerage clients and Counterparty brokers for settlement)
- Margin Trading Facilities

Credit risk measurement

To measure credit risk, SICO employs several methodologies for estimating the likelihood of obligor or counterparty default. These methodologies include rating counterparties and scoring clients.

Rating: Bank and Financial Institution credit lines/limits are set by conducting a detailed credit assessment of each counterparty by assessing its financial strength and external credit rating. Based on the assessment, an internal credit rating is assigned to each counterparty along with an exposure limit. In relation to investments in debt instruments, the internal guidelines restrict investment to sovereign and/or high investment-grade banks and institutions.

Scoring: For each client that the Bank expects to deal with for its brokerage activities, a qualitative and quantitative assessment is conducted, and a credit scoring is then assigned to each client for the purpose of measuring settlement risk.

External Credit Assessment Institutions (ECAI) used to determine credit risk weightings under Basel II CAR.

SICO uses ratings issued by rating agencies such as Standard & Poor's, Moody's and Fitch, to derive the risk weightings under the CBB's Basel II capital adequacy framework. This is mainly for banks but also, where applicable, for other exposures such as debt instruments. Where ratings vary between rating agencies, the most conservative measure is adopted.

Concentrations of Credit Risk

SICO complies strictly with the single counterparty exposure norms prescribed by the CBB. As at 31 December 2012, the following exposures of the Bank are in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

Counterparty	Country	Amount BHD 000's	Exposure as a % to eligible capital base
Counterparty A	Bahrain	10,724	18.7%

These exposures represent cash, debt instruments, and short term inter-bank placements. Cash and short term inter-bank placements are exposures with a maturity of less than 90 days and therefore are classified as exempt exposures as per CBB's CM module 5.6 under large exposure norms.

The geographic and sectoral distribution of SICO's assets and liabilities are disclosed in the financial statements under note 4. These are concentrated predominantly in the GCC.

Monitoring and controlling credit risk

Credit risk is monitored and controlled by policies and practices that are put in place by RMD, and that have been approved by the Senior Management and the Board where required. The policy framework establishes approval authorities, concentration limits, risk-rating methodologies, and guidelines for management of exposures. The Bank also adheres strictly to the large exposure norms as prescribed by the Central Bank of Bahrain under the credit risk management module.

OPERATIONAL RISK

Operational risk is the risk of loss due to inadequate or failed internal processes, systems, human factors or external events.

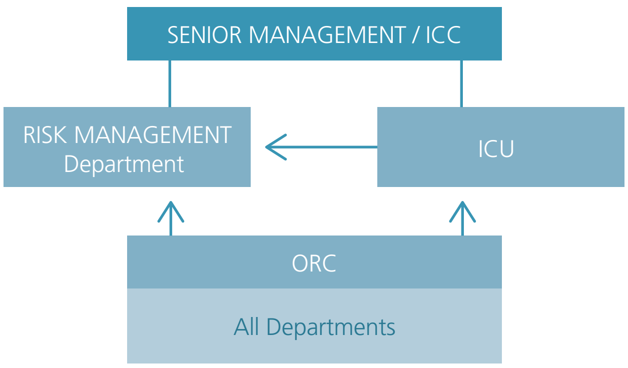
Unlike market or credit risks, which are systemic in nature, operational risk is institution-specific and is inherent in the day-to-day operations of SICO. This risk could arise from a broad spectrum of causes such as deficient transaction processing, business practices, workplace practices, system failures,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

Sound internal control measures, consisting of an operating policies and procedures framework, compliance initiatives, and adequate and skilled personnel, 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 Audit and Compliance functions support this activity.

Operational risk identification, control and monitoring

The Bank has a process for monitoring operational risk, by conducting Risks and Controls Self-Assessments, identification of key risks, nominating Operational Risk Coordinators (ORCs) in each department to identify, monitor and report, prevent or control operational risks, and report any risk incidents to RMD on a timely basis. RMD will conduct an analysis of such incidents and follow up any corrective action required. As part of enhancing controls across the Bank, an Internal Control Unit (ICU) has been formed which, as part of its major role, identifies frequent errors arising across different business and back office units within the Bank. The Internal Controller (aside from the Operational Risk Coordinators) assesses each error, and liaises with RMD in cases where an error is considered to be an incident.

Operational Risk Incident Control and Response Management Framework



COMPLIANCE RISK

Compliance risk is risk of current and prospective risk to earnings or capital arising from violation of, or non-compliance with, laws, regulations, rules, prescribed practices, contractual agreements or ethical standards. A major source of this risk in the present context of regulatory regime and as a licensed market operator, would be sanctions due to non-compliance with the regulatory directives. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential, and even to cessation of operations. Hence compliance has to ensure adherence with primary legislation, rules and standards issued by the Central Bank of Bahrain, the Bahrain Bourse, market conventions, and internal codes of conduct applicable to staff. SICO adopts a top-down approach to compliance, with the Board and Senior Management leading by example.

FIDUCIARY RISKS

The Fiduciary Risk Management function works with the Bank's relevant lines of business and committees, to ensure that SICO fulfills its fiduciary duties to clients, and adopts the appropriate standard relative to the fiduciary relationship with a client. The Asset Management activities of SICO, and the Custody and Fund Administration services provided by the Bank's subsidiary, SICO Funds Services Company (SFS), can give rise to the following fiduciary risks:

Asset Management

Assets under Management have 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, coupled with dedicated buy-side research and other guidelines, to support this activity. There are also strict operational controls to protect clients' assets, and 'Chinese Walls' to avoid any conflicts of interest. The Compliance unit regularly monitors the activities of the Asset Management division, and reports its findings and observations to the AMC.

Custody and Fund Administration

This Bank's Custody and Fund Administration activities are handled by SICO Funds Services Company (SFS), which operates as a standalone subsidiary. SFS has a put in place a number of operating controls, including the monitoring and reporting of securities position reconciliations.

Corporate Finance

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

INTERNAL AUDIT

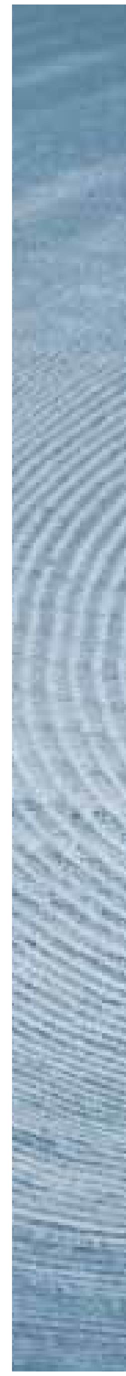
Internal Audit provides an additional line of defence in risk management and internal controls. The role of Internal Audit is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Bank is appropriate and effectively applied. The scope of Internal Audit encompasses audits and reviews of all business units, support services and subsidiaries.

The specific role of Internal Audit is to:

- Report on a quarterly basis to the Board, through the Audit Committee, on the operation of the control processes, and Senior Management's progress in addressing identified issues;
- Report the results of periodical specific divisional audits to the Audit Committee;
- Report issues emerging from, and findings of, each audit to relevant management, and obtain their commitment to undertake appropriate remedial action; and
- Continually review the effectiveness of the Bank's risk profile, placing appropriate reliance on the risk management process to optimise audit work.

BASEL II PILLAR 3
PUBLIC DISCLOSURES

BAHRAINI DINARS '000



EXECUTIVE SUMMARY

Securities & Investment Company BSC (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 report encompasses the Basel II 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 **31st December 2012** unless otherwise stated.

1. INTRODUCTION

1.1 CBB Rulebook

The Central Bank of Bahrain's (CBB) Basel II guidelines prescribes the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. During January 2008, 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 follow the requirements of Basel II - Pillar 3.

1.2 BASEL II Framework

Basel II is the second of the Basel Accords, which was issued by the Basel Committee on Banking Supervision. The Basel II framework consists of the following 3 pillars:

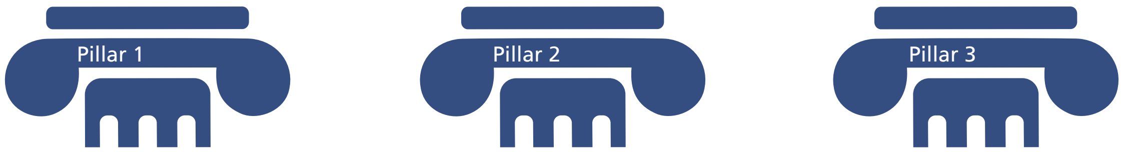
- Pillar 1 - Describes the minimum capital requirements by applying risk based methodology in the calculation of the risk weighted assets (RWAs) and capital requirement for the major asset classes to derive to the capital adequacy ratio (CAR).
- Pillar 2 - Describes the supervisory review processes, 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 3 PUBLIC DISCLOSURES contd.

1. INTRODUCTION contd.

1.2 BASEL II Framework contd.

BASEL II



Minimum Capital Requirements

Risk based capital requirements for:
- Credit Risk
- Market Risk
- Operational Risk

Supervisory Review Process

Regulatory Framework for Banks:
Internal Capital Adequacy Assessment Process (ICAAP)

Supervisory Framework:
Supervisory Review & Evaluation Process

Market Discipline

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
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.

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.

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 comprise of share capital, share premium, retained earnings, unrealised losses arising from fair valuing equity securities and eligible reserves.

The Bank's Tier 2 capital comprises interim profits, collective impairment provisions and 45 per cent of unrealised gains arising on the re-measurement to fair value of equity securities classified as available-for-sale.

In accordance with the CBB's Basel II capital adequacy framework, certain assets are required to be deducted from regulatory capital rather than included in RWAs. These deductions are applied 50 per cent from tier one and 50 per cent from tier two capital.

The Bank has no subsidiaries and/or investments in insurance companies exceeding 20% of the Bank's capital or the invested company's capital that is 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. CAPITAL STRUCTURE, RISK WEIGHTED ASSETS AND CAPITAL ADEQUACY contd.

2.1 Capital Structure

Tier 1 Capital	
Issued and fully paid ordinary shares	**42,726**
Statutory Reserve	**4,334**
General Reserve	**1,786**
Share Premium	**650**
Retained Earnings brought forward	**6,777**
Gross unrealised loss arising from fair valuing equity securities	**(220)**
Securitisation exposures subject to deduction	**-**
Total Tier 1 Capital (A)	**56,053**
Tier 2 Capital	
Current Interim Profits (reviewed by External Auditors)	**-**
45% of gross unrealised gains arising from fair valuing equity securities	**206**
Securitisation exposures subject to deduction	**-**
Total Tier 2 Capital (B)	**206**
Total Available Capital (C) = (A) + (B)	**56,259**
Credit risk weighted exposures	**43,081**
Market risk weighted exposures	**19,670**
Operational risk weighted exposures	**10,047**
Total Risk weighted exposures (D)	**72,798**
Tier 1 Capital Adequacy Ratio (A) / (D)	**77.00%**
Total Capital Adequacy Ratio (C) / (D)	**77.28%**

2.2 Changes to Capital Structure

During the year, 738,710 shares of 100 fils each were issued under the employees share incentive scheme for the year 2011. These shares were issued at the NAV of 127 fils per share as at 31 December 2011. Accordingly, the share capital increased by BD 74 to the extent of the nominal value of the shares of 100 fils each. The share premium of BD 20 relating to the issue of these shares at a premium of 27 fils per share has been credited to the statutory reserve.

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

Subsidiaries	31 December 2012	
	Total Capital Adequacy Ratio	Tier 1 Capital Ratio
SICO Consolidated (Group)	77.28%	77.00%
SICO UAE*	13.83%	15.05%

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

3. RISK EXPOSURES

3.1 Credit Risk

3.1.1 Gross credit exposures

As at 31 December 2012	Gross credit exposure			Credit risk weighted assets	Capital requirement @ 12%
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)	TOTAL		
Cash items	**3,255**	**-**	**3,255**	**6**	**0.7**
Claims on Sovereigns	**23**	**-**	**23**	**-**	**-**
Claims on Bahraini Public Sector Entities	**500**	**-**	**500**	**-**	**-**
Claims on Banks	**36,512**	**-**	**36,512**	**10,984**	**1,318**
Claims on Corporates	**1,588**	**-**	**1,588**	**1,596**	**192**
Investments in Securities	**19,470**	**361**	**19,831**	**23,295**	**2,795**
Holdings in Real Estate	**1,589**	**-**	**1,589**	**3,178**	**381**
Other Assets	**3,749**	**273**	**4,022**	**4,022**	**483**
TOTAL	**66,686**	**634**	**67,320**	**43,081**	**5,170**

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 period 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 31 December 2012, the following exposures of the Bank are in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

Counterparty	Country	Amount BHD 000's	Exposure as a % to the eligible capital base
Counterparty A	Bahrain	10,724	18.7%

These exposures represent cash, debt instrument, and short term inter-bank placements. Cash and short term inter-bank placements are exposures with a maturity of less than 90 days and therefore are classified as exempt exposures as per the CBB's CM Module 5.6 under large exposure norms.

BASEL II PILLAR 3 PUBLIC DISCLOSURES contd.

3. RISK EXPOSURES contd.

3.1 Credit Risk contd.

3.1.3 Maturity profile

As at 31 December 2012	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	**28,467**	**4,058**	**-**	**-**	**-**	**32,525**
Investments at fair value through profit or loss	**861**	**-**	**-**	**5,828**	**835**	**7,524**
Available-for-sale investments	**-**	**-**	**-**	**2,825**	**1,499**	**4,324**
Other assets	**3,744**	**160**	**25**	**507**	**-**	**4,436**
Total gross credit exposures	**33,072**	**4,218**	**25**	**9,160**	**2,334**	**48,809**
Commitments and contingencies	**546**	**-**	**613**	**515**	**-**	**1,674**

Note: None of the exposures have a maturity period in excess of ten years.

3.1.4 Sectoral distribution

As at 31 December 2012	Financial	Real Estate/ Contruction	Services	Sovereign	Others	Total
Cash and Bank balances	**32,525**	**-**	**-**	**-**	**-**	**32,525**
Investment at FVTPL	**2,081**	**1,854**	**-**	**-**	**3,589**	**7,524**
AFS investment	**905**	**1,920**	**-**	**-**	**1,499**	**4,324**
Other assets	**2,853**	**-**	**-**	**-**	**1,583**	**4,435**
On-balance sheet	**38,364**	**3,774**	**-**	**-**	**6,671**	**48,809**
Off-balance sheet	**377**	**-**	**-**	**-**	**1,297**	**1,674**
Total On & off-balance sheet	**38,741**	**3,774**	**-**	**-**	**7,968**	**50,483**

3.1.5 Geographical distribution

As at 31 December 2012	GCC countries	North America	Europe	Total
Assets				
Cash and cash equivalents	**28,490**	**-**	**4,035**	**32,525**
Investment at FVTPL	**7,524**	**-**	**-**	**7,524**
Available-for-sale investments	**4,324**	**-**	**-**	**4,324**
Fees receivable	**452**	**-**	**-**	**452**
Other assets	**3,949**	**27**	**8**	**3,984**
Total assets	**44,739**	**27**	**4,043**	**48,809**
Total Off-balance sheet	**377**	**684**	**613**	**1,674**
Total On & off-balance sheet	**45,116**	**711**	**4,656**	**50,483**

BAHRAINI DINARS '000

3.1.6 Impairment on available-for-sale investment securities

During the year, the Bank has provided for the following impairments.

Items	
Impairment on available-for-sale investments	**(184)**

3.2 Market Risk

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

	Market risk weighted assets			
	During the year ended 31 December 2012			
As at 31 December 2012	Minimum	Maximum	As at 31 December 2012	Capital requirement @ 12%
Interest rate position risk	**476**	**1,017**	**758**	**91**
Equities position risk	**633**	**1,132**	**723**	**87**
Foreign exchange risk	**71**	**174**	**92**	**11**
Total min capital required for market risk			**1,573**	**189**
Multiplier			**12.5**	**12.5**
TOTAL			**19,663**	**2,363**

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 31 December 2012	2009	2010	2011
Gross income	**6,068**	**6,668**	**3,339**
Average gross income (A)			**5,358**
Alpha (B)			**15%**
(C) = (A) * (B)			**804**
Risk weighted exposures (D) = [(C) * 12.5]			**10,050**
Capital requirement @ 12% of (D)			**1,206**

The Bank did not have any material legal contingencies during the period ended 31 December 2012.

BASEL II PILLAR 3
PUBLIC DISCLOSURES
contd.

4. INTEREST RATE RISK

4.1 Interest Rate Risk in the Banking Book

A 200 bps increase or decrease in market interest rates would affect the value of the fixed income securities in the available-for-sale portfolio as follows:-

	200 bp increase	200 bp decrease
As at 31 December 2012	**(342,619)**	**384,305**

The interest rate risk on the Bank's placements is considered minimal and hence no sensitivity analysis has been presented.

4.2 Interest Rate Risk Sensitive Assets and Liabilities

As at 31 December 2012	Effective Interest rate% p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and Bank balances	**-**	**-**	**-**	**7,811**	**7,811**
Call deposits	**-**	**3,304**	**-**	**-**	**3,304**
Placements with banks	**1.66%**	**21,410**	**-**	**-**	**21,410**
Investments at fair value through profit or loss	**7.60%**	**862**	**6,663**	**7,202**	**14,727**
Available-for-sale securities	**6.27%**	**-**	**4,324**	**18,831**	**23,155**
Furniture and equipment	**-**	**-**	**-**	**235**	**235**
Fees receivable	**-**	**-**	**-**	**452**	**452**
Other assets	**-**	**-**	**-**	**7,271**	**7,271**
Total Assets		**25,576**	**10,987**	**41,802**	**78,365**
Short term borrowings	**0.95%**	**4,899**	**-**	**-**	**4,899**
Payables to customers	**-**	**-**	**-**	**13,416**	**13,416**
Other liabilities	**-**	**-**	**-**	**2,757**	**2,757**
Total Liabilities	**-**	**4,899**	**-**	**16,173**	**21,072**
Total Equity	**-**	**-**	**-**	**57,293**	**57,293**
Total Liability and Equity	**-**	**4,899**	**-**	**73,466**	**78,365**
Interest rate sensitivity Gap		**20,677**	**10,987**	**31,664**	
Cumulative Interest rate sensitivity gap		**20,677**	**31,664**	**-**	

BAHRAINI DINARS '000

5. EQUITY POSITIONS IN THE BANKING BOOK

As at 31 December 2012	Gross exposure	Risk weighted assets	Capital requirement @ 12%
Equity investments			
- Listed	**4,464**	**4,464**	**536**
- Unlisted	**1,497**	**2,246**	**269**
Investment in rated funds	**2,927**	**1,194**	**143**
Investment in unrated funds - Listed/Unlisted	**10,943**	**15,392**	**1847**
TOTAL	**19,831**	**23,296**	**2,795**

Realised net gain during the period	**1,321**
Dividend income during the period	**449**
Unrealised net gain/loss recognised in equity	**1,714**
Gross unrealised losses deducted from Tier 1 capital	**(220)**
45% of unrealised gains recognised under Tier 2 capital	**206**

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 & Commission Income	**659**
Fee receivable	**159**
Investments in own funds	**4,058**
Funds under management	**43,466**
Transactions with shareholders	
Fee & Commission Income	**301**
Fee receivable	**24**
Funds under management	**40,088**
Borrowing	**3,847**

The Group has banking relationships, makes deposits and placements and has un-utilised 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.

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

KPMG

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Securities and Investment Company BSC (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

The board of directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012
BAHRAINI DINARS '000

	NOTE	2012	2011
Assets			
Cash and cash equivalents	5	**32,525**	19,964
Investments at fair value through profit or loss	6	**14,727**	16,738
Available-for-sale investments	7	**23,155**	27,038
Fees receivable	8	**452**	390
Other assets	9	**7,271**	6,469
Furniture and equipment	10	**235**	36
Total assets		**78,365**	70,635
Liabilities and equity			
Liabilities			
Short-term bank borrowings	11	**4,899**	6,108
Customer accounts	12	**13,416**	8,174
Other liabilities	13	**2,757**	2,470
Total liabilities		**21,072**	16,752
Equity			
Share capital	14	**42,726**	42,652
Statutory reserve	15	**4,984**	4,650
General reserve	16	**1,786**	1,737
Available-for-sale investments fair value reserve		**1,020**	443
Retained earnings		**6,777**	4,401
Total equity (page 55)		**57,293**	53,883
Total liabilities and equity		**78,365**	70,635

The Board of Directors approved the consolidated financial statements consisting of pages 52 to 91 on 7 February 2013.

Shaikh Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman of the Board

Anthony C. Mallis
Chief Executive Officer

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

AS AT 31 DECEMBER 2012
BAHRAINI DINARS '000

	NOTE	2012	2011
Interest income	17	**1,423**	1,206
Interest expense	17	**(126)**	(126)
Net interest income		**1,297**	1,080
Net fee and commission income	18	**2,255**	2,180
Net investment income	19	**3,133**	318
Brokerage and other income	20	**668**	1,049
Total income		**7,353**	4,627
Staff and related expenses	21	**(3,188)**	(2,752)
Other operating expenses	22	**(1,242)**	(1,233)
Impairment on available-for-sale investments		**(184)**	(154)
Profit for the year		**2,739**	488
Basic and diluted earnings per share (fils)	27	**6.41**	1.145

Shaikh Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman of the Board

Anthony C. Mallis
Chief Executive Officer

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

AS AT 31 DECEMBER 2012
BAHRAINI DINARS '000

	2012	2011
Profit for the year	**2,739**	488
Other comprehensive income		
Fair value reserve (available-for-sale investments)		
- Net change in fair value	**1,714**	167
- Net amount transferred to income statement on sale / impairment	**(1,137)**	(1,134)
Total other comprehensive income for the year	**577**	(967)
Total comprehensive income for the year	**3,316**	(479)

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2012
BAHRAINI DINARS '000

2012	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
As at 1 January 2012	**42,652**	**4,650**	**1,737**	**443**	**4,401**	**53,883**
- Transfer to general reserve	**-**	**-**	**49**	**-**	**(49)**	**-**
- Issue of shares to employees' scheme	**74**	**20**	**-**	**-**	**-**	**94**
Comprehensive income for the year:						
Profit for the year	**-**	**-**	**-**	**-**	**2,739**	**2,739**
Other Comprehensive income:						
Revaluation reserve (available-for-sale securities):						
Net Change in fair value	**-**	**-**	**-**	**1,714**	**-**	**1,714**
Net amount transferred to income statement on sale / impairment	**-**	**-**	**-**	**(1,137)**	**-**	**(1,137)**
Total Other Comprehensive income	**-**	**-**	**-**	**577**	**-**	**577**
Total Comprehensive income for the year	**-**	**-**	**-**	**577**	**2,739**	**3,316**
Transfer to statutory reserve	**-**	**314**	**-**	**-**	**(314)**	**-**
Balance at 31 December 2012	**42,726**	**4,984**	**1,786**	**1,020**	**6,777**	**57,293**

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY contd.

AS AT 31 DECEMBER 2012
BAHRAINI DINARS '000

2011	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
As at 1 January 2011	42,528	4,561	1,359	1,410	6,888	56,746
- Transfer to general reserve	-	-	379	-	(379)	-
- Issue of shares to employees' scheme	124	41	-	-	-	165
- Reduction in share capital of subsidiary	-	(1)	(1)	-	5	3
Comprehensive income for the year:						
Profit for the year	-	-	-	-	488	488
Other Comprehensive income:						
Revaluation reserve (available-for-sale securities):						
Net Change in fair value	-	-	-	167	-	167
Net amount transferred to income statement on sale / impairment	-	-	-	(1,134)	-	(1,134)
Total other Comprehensive income	-	-	-	(967)	-	(967)
Total Comprehensive income for the year	-	-	-	(967)	488	(479)
Transaction with owner:						
- Dividends paid	-	-	-	-	(2,552)	(2,552)
Transfer to statutory reserve	-	49	-	-	(49)	-
Balance at 31 December 2011	42,652	4,650	1,737	443	4,401	53,883

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

AS AT 31 DECEMBER 2012
BAHRAINI DINARS '000

	NOTE	2012	2011
Operating activities			
Net interest received		**1,296**	974
Sale of investments at fair value through profit or loss		**141,303**	64,404
Purchase of investments at fair value through profit or loss		**(137,873)**	(65,750)
Sale of available-for-sale investments		**54,132**	35,889
Purchase of available-for-sale investments		**(48,536)**	(38,386)
Net increase / (decrease) in customer accounts		**5,242**	(4,396)
Dividends received		**449**	363
Brokerage and other fees received		**2,305**	1,949
Payments for staff and related expenses		**(3,026)**	(2,877)
Payments for other operating expenses		**(992)**	(1,418)
Net cash generated from / (used in) operating activities		**14,300**	(9,248)
Investing activities			
Advance for purchase of equipment		**(241)**	(435)
Net capital expenditure on furniture and equipment		**(289)**	(21)
Net cash used in investing activities		**(530)**	(456)
Financing activities			
Net repayments of short-term bank borrowings		**(1,209)**	(3,177)
Dividends paid		**-**	(2,552)
Net cash used in financing activities		**(1,209)**	(5,729)
Net increase / (decrease) in cash and cash equivalents		**12,561**	(15,433)
Cash and cash equivalents at the beginning of the year		**19,964**	35,397
Cash and cash equivalents at the end of the year	5	**32,525**	19,964

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

NOTES TO THE 31 DECEMBER 2012 CONSOLIDATED FINANCIAL STATEMENTS

1. Status and objectives

Securities and Investment Company BSC(c) ("the Bank") is a closed joint stock company registered in Bahrain under commercial registration number 33469 on 11 February 1995. The Bank commenced its operations in July 1995. In September 1997, the Bank obtained an investment banking licence from the Central Bank of Bahrain. On 7 May 2003, the Bank was listed on the Bahrain Stock Exchange as a closed company. In July 2008, the Bank was granted a wholesale banking license by the CBB under Rule Book Volume 1.

The primary objectives of the Bank are:

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

Principal activity

The Bank invests in securities in Bahrain, GCC and global markets for its own account. It is an active broker in the Bahrain Stock Exchange and offers discretionary portfolio management services and margin trading to customers.

Subsidiaries

The following are wholly owned subsidiaries of the Bank that are consolidated:

Subsidiaries	Capital	Year of Incorporation	Country of Incorporation	Activity
1. SICO Funds Company BSC (c)	**50**	**1998**	**Bahrain**	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	**1,000**	**2004**	**Bahrain**	Custody and administration services
3. SICO Funds Company II BSC (c)	**1**	**2005**	**Bahrain**	Umbrella company for SICO mutual funds
4. SICO Funds Company III BSC (c)	**1**	**2006**	**Bahrain**	Umbrella company for SICO mutual funds
5. SICO Funds Company IV BSC (c)	**1**	**2009**	**Bahrain**	Umbrella company for SICO mutual funds
6. SICO Funds Company V BSC (c)	**1**	**2009**	**Bahrain**	Umbrella company for SICO mutual funds
7. SICO Funds Company VI BSC (c)	**1**	**2009**	**Bahrain**	Umbrella company for SICO mutual funds
8. SICO Funds Company VII BSC (c)	**1**	**2010**	**Bahrain**	Umbrella company for SICO mutual funds
9. SICO Ventures Company SPC	**100**	**2010**	**Bahrain**	To own the nominal shares in all other subsidiaries of SICO.
10. Securities and Investment Company(UAE) LLC	**3,080**	**2011**	**UAE**	Brokerage services

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of investment securities at fair value through the profit or loss and available-for-sale securities.

(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 (c).

(d) New standards, amendments and interpretations effective on or after 1 January 2012

The following standards, amendments and interpretations, which became effective as of 1 January 2012 are relevant to the Group.

IFRS 7 (amendment) – Disclosures: Transfer of financial assets

The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The adoption of this amendment had no significant impact on the consolidated financial statements.

Improvements to IFRSs (2011)

Improvements to IFRS issued in 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. There were no significant changes to the current accounting policies of the Group as a result of these amendments.

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

The following standards and interpretations have been issued and are expected to be relevant to the Group but not yet effective for the year ended 31 December 2012.

IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012.

The Group is not expecting a significant impact from the adoption of this amendment.

IAS 19 – Employee benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Group is not expecting a significant impact from the adoption of this amendment.

2. Basis of preparation contd.

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

Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

The Group is not expecting a significant impact from the adoption of these amendments.

IFRS 9 'Financial Instruments'

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group is yet to assess IFRS9's full impact. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's consolidated financial statements. The Group is considering the implications of the standard, the impact and timing of its adoption.

IFRS 10 - Consolidated financial statements and IAS 27 Separate Financial Statements (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. Refer Note 3 (a). The standard is effective for annual periods beginning on or after 1 January 2013.

The IASB published Investment Entities (Amendments to IFRS 10 and IFRS 12), which grants certain relief from consolidation to investment entities. It requires qualifying investment entities to account for investment in controlled investees on a fair value basis.

The effective date is annual periods beginning on or after 1 January 2014, but early adoption is permitted to enable alignment with the adoption of IFRS 10.

IFRS 12 - Disclosures of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests.

The standard is effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated unstructured entities in comparison with existing disclosures.

IFRS 13 - Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Group is not expecting a significant impact from adoption of this standard.

(f) Early adoption of standards

The Group did not early adopt new or amended standards in 2012.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group and are consistent with those of the previous year.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries, (collectively "the Group"). Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control by the parent commences until the date the control ceases.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of consideration transferred; plus
- the recognised amount of any non controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Where the excess is negative, a bargain purchase gain is recognised immediately in income statement.

3. Significant accounting policies contd.

(a) Basis of consolidation contd.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(b) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Bank and its subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, representing the Group's functional and presentation currency.

(ii) Transaction and balances

Transactions in foreign currencies are converted to Bahraini Dinars at rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Bahraini Dinars at the market rates of exchange prevailing at the balance sheet date. Realised and unrealised foreign exchange profits and losses are included in other income except with regards to available-for-sale securities which are taken to equity.

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

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.

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, held-to-maturity or available-for-sale. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

Estimations

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity security is impaired when there is objective evidence of impairment. A significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. This determination of what is significant or prolonged requires judgement. The Group considers a decline of more than 30% in the fair value below cost as significant and considers a decline below cost which persists for more than 9 months as prolonged. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Bank evaluates among other factors, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(d) Investment securities

(i) Classification

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

Available-for-sale securities are non-derivative investments that are not designated as another category of financial assets. These include investments in quoted and unquoted equity securities, floating rate bonds and certain managed funds.

(ii) Recognition and de-recognition

Investment securities are recognized when the Group becomes a party to the contractual provisions of the instrument. Investment securities are derecognized if the Group's contractual rights from the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

(iii) Measurement

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

Available-for-sale securities (AFS securities) are initially recognized at fair value, with transaction costs recognized directly in the income statement. Unrealized gains and losses arising from changes in the fair values of AFS securities are recognized in the statement of other comprehensive income. In the event of sale, disposal, collection or impairment, the cumulative gains and losses recognized in other comprehensive income are transferred to the profit or loss. Unquoted AFS equity securities whose fair value cannot be reliably measured are carried at cost less impairment.

(iv) Measurement principles

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or if the security is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses.

(v) Impairment

The carrying amount of the Group's financial assets, except investment at fair value through profit or loss, is reviewed at each reporting period to determine whether there is objective evidence that a specific asset may be impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

3. Significant accounting policies contd.

(d) Investment securities contd.

Available-for-sale investments

In the case of investments in equity securities and managed funds classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive in the income statement. Impairment losses recognised in profit or loss on AFS equity instruments are subsequently reversed through other comprehensive income. For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

In case of debt securities classified as available-for-sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principle repayment and amortisation, and the current fair value, less impairment loss previously recognized in the income statement. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, then the impairment loss is reversed through the income statement.

(e) De-recognition of financial liabilities

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

(f) Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, and placements with banks that have an original maturity of three months or less when acquired.

(g) 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 and points paid or received that are an integral part of the effective interest rate.

(h) Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in income statement. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

(i) Furniture and equipment

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

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

(j) Bank borrowings

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

(k) 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.

(l) Customer accounts

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

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

(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 of five years 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.

(n) Dividends

Dividend to shareholders is recognised as a liability in the period in which such dividends are declared.

(o) 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.

(p) Fiduciary activities

The Group administers and manages 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.

3. Significant accounting policies contd.

(q) 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.

(r) 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.

(s) 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.

(t) Interest

Interest income and expense is recognised in the income statement 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.

Interest income and expense presented in the income statement include interest on financial assets and financial liabilities at amortised cost and interest on available-for-sale investments and investments at fair value through profit or loss calculated on an effective interest rate basis.

(u) Fee and commission

Fee and commission income comprises custody fee, investment management fee and performance fee earned from Discretionary Portfolio Management Activity (DPMA) services offered by the Bank. Custody and investment management fees are recognised as the related services are performed and the Bank becomes entitles to the fee.

Performance fee is recognised in accordance with investment management agreements where the bank 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 Bank is calculated at each reporting date, taking into account each performance condition and distribution arrangements of the Funds as a whole.

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

(v) Net investment income

Net investment income includes all realised and unrealised fair value changes on investment at fair value through profit or loss and on the available for sale investments and the related dividend.

(w) Dividend income

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

(x) Brokerage and other income

Brokerage and other income consist of brokerage income, investment banking income and marketing income. These fees are recognised when the related services are performed.

(y) Operating Segments

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 Bank's "chief operating 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, corporate finance, market making and custody business. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in the financial statements.

4. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risk
- operational risk

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

Risk management framework

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

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 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 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 committee.

(b) Credit risk

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

4. Financial risk management contd.

(b) Credit risk contd.

Management of credit risk

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

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

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

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

Exposure to credit risk

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

	2012	2011
Cash and cash equivalents	**32,525**	19,964
Investments at fair value through profit or loss	**7,524**	7,247
Available-for-sale investments	**4,324**	7,431
Fee receivable	**452**	390
Other receivables	**3,984**	3,427
	48,809	38,459

Currently only the Margin Trading Lending on the GCC Stock Exchange is subject to formal collateral arrangement. This scheme is undertaken in accordance with the related regulation issued by the Central Bank of Bahrain. 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 honour its obligations.

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

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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, or counterparty, or group of closely related counterparties as of 31 December 2012 was BD 10,724 (2011: BD 5,695), relating to "cash and cash equivalents and available for sale investments".

Geographical Exposure Distribution

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

2012	GCC COUNTRIES	NORTH AMERICA	EUROPE	TOTAL
Assets				
Cash and cash equivalents	**28,490**	**-**	**4,035**	**32,525**
Investments at fair value through profit or loss	**12,729**	**1,119**	**879**	**14,727**
Available-for-sale investments	**13,001**	**2,554**	**7,600**	**23,155**
Fees receivable	**452**	**-**	**-**	**452**
Other assets	**3,949**	**27**	**8**	**3,984**
Total carrying amount	**58,621**	**3,700**	**12,522**	**74,843**
Liabilities				
Short-term bank borrowings	**3,847**	**-**	**1,052**	**4,899**
Customer accounts	**13,336**	**41**	**39**	**13,416**
Other liabilities	**2,757**	**-**	**-**	**2,757**
Total liabilities	**19,940**	**41**	**1,091**	**21,072**

4. Financial risk management contd.

(b) Credit risk contd.

2011	GCC COUNTRIES	NORTH AMERICA	EUROPE	TOTAL
Assets				
Cash and cash equivalents	19,871	-	93	19,964
Investments at fair value through profit or loss	8,498	4,409	3,831	16,738
Available-for-sale investments	12,903	4,169	9,966	27,038
Fees receivable	390	-	-	390
Other assets	3,352	-	75	3,427
Total carrying amount	45,014	8,578	13,965	67,557
Liabilities				
Short-term bank borrowings	3,847	-	2,261	6,108
Customer accounts	8,103	14	57	8,174
Other liabilities	2,470	-	-	2,470
Total liabilities	14,420	14	2,318	16,752

The distribution of assets by industry sector is as follows:

2012	Financial services	Others	Total
Total Assets	**52,317**	**22,526**	**74,843**
Total Liabilities	**15,053**	**6,019**	**21,072**

2011	Financial services	Others	Total
Total Assets	53,407	14,150	67,557
Total Liabilities	11,736	5,016	16,752

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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 honour 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 Investments and Treasury and its subsidiary company SFSCO.

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 Bank.

At present, the Group's liquidity risk exposure is minimal because a high proportion of funds is placed with banks as short-term deposits and, on maturity, deposits are transferred to current accounts based on expected requirements.

The Bank faces three types of liquidity risks as follows:

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

Management of liquidity risk

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

The residual contractual maturity of financial liabilities is as follows:

2012	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short-term bank borrowings	**4,899**	**4,902**	**4,902**	**-**	**-**
Customer accounts	**13,416**	**13,416**	**13,416**	**-**	**-**
Other liabilities	**2,757**	**2,757**	**2,757**	**-**	**-**
	21,072	**21,075**	**21,075**	**-**	**-**

2011	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short-term bank borrowings	6,108	6,110	6,110	-	-
Customer accounts	8,174	8,174	8,174	-	-
Other liabilities	2,470	2,470	2,470	-	-
	16,752	16,754	16,754	-	-

4. Financial risk management contd.

(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 trading and available-for-sale securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio and Market Making Policies and Guidelines set by the 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 Trading as well as Available-for-Sale 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 unrealised 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 on a monthly basis.

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

Sensitivity Analysis of a 1% change in market prices on the unrealised profit or loss for the investments at fair value through profit or loss portfolio and AFS reserve is given below:

	Investments at fair value through profit or loss		Available for sale investments	
	2012	2011	**2012**	2011
Increase of 1%	**147**	167	**232**	270
Decrease of 1%	**(147)**	(167)	**(232)**	(270)

(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 invests client funds (excess funds in call accounts) in various banks with a view to earn interest on these funds. The interest thus earned (minus a spread and administrative costs) is passed on to the customers. As a particular rate of interest is not contracted with the client the upward or downward movements in interest rates does not affect the Bank adversely.

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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 portfolios. There is no ready market for selling some of these instruments and these can only 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 and the discounted cash flow for fair valuation of the fixed income securities.

Interest rate re-pricing profile

2012	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	**-**	**-**	**-**	**7,811**	**7,811**
Call deposits*	**-**	**3,304**	**-**	**-**	**3,304**
Placements with banks	**1.66%**	**21,410**	**-**	**-**	**21,410**
Investments at fair value through profit or loss	**7.60%**	**862**	**6,663**	**7,202**	**14,727**
Available-for-sale investments	**6.27%**	**-**	**4,324**	**18,831**	**23,155**
Furniture and equipment	**-**	**-**	**-**	**235**	**235**
Fees receivable	**-**	**-**	**-**	**452**	**452**
Other assets	**-**	**-**	**-**	**7,271**	**7,271**
Total assets		**25,576**	**10,987**	**41,802**	**78,365**
Short-term bank borrowings	**0.95%**	**4,899**	**-**	**-**	**4,899**
Customer accounts	**-**	**-**	**-**	**13,416**	**13,416**
Other liabilities	**-**	**-**	**-**	**2,757**	**2,757**
Total liabilities		**4,899**	**-**	**16,173**	**21,072**
Equity		**-**	**-**	**57,293**	**57,293**
Total liabilities and equity		**4,899**	**-**	**73,466**	**78,365**
Interest rate sensitivity gap		**20,677**	**10,987**	**31,664**	**-**
Cumulative interest rate sensitivity gap		**20,677**	**31,664**	**-**	**-**

4. Financial risk management contd.

(d) Market risk contd.

2011	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	6,413	6,413
Call deposits*	-	985	-	-	985
Placements with banks	1.62%	12,566	-	-	12,566
Investments at fair value through profit or loss	6.39%	196	7,051	9,491	16,738
Available-for-sale investments	6.17%	-	7,431	19,607	27,038
Furniture and equipment	-	-	-	36	36
Fees receivable	-	-	-	390	390
Other assets	-	-	-	6,469	6,469
Total assets		13,747	14,482	42,406	70,635
Short-term bank borrowings	0.69%	3,847	-	2,261	6,108
Customer accounts	-	-	-	8,174	8,174
Other liabilities	-	-	-	2,470	2,470
Total liabilities		3,847	-	12,905	16,752
Equity		-	-	53,883	53,883
Total liabilities and equity		3,847	-	66,788	70,635
Interest rate sensitivity gap		9,900	14,482	24,382	-
Cumulative interest rate sensitivity gap		9,900	24,382	-	-

* At 31 December 2012 the effective interest rate on Bahraini Dinar call deposits is 0.225% p.a (2011: 0.225% p.a.) and on USD call deposits is Nil (2011: NIL).

(iii) Exchange risk

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 United States Dollar. Such exposures include short-term fixed deposits, investments in securities and due from/ to customers. Since the Bahraini Dinar and all GCC currencies except for KWD are effectively pegged to the US Dollar, currency risk is minimal.

(e) Operational risk

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

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The Bank has 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 provides support in this control activity. Regular custodial position reconciliations and bank reconciliations provide key strengths to mitigate operational risks. There is also a professional indemnity insurance cover in place.

Another endeavour of the Bank's operational risk management is to usher in straight through processing (STP) to enable seamless processing and reduce operational errors and optimise productivity. There is a well laid out plan to introduce middle office functionalities to ensure better compliance management. The Bank has a project to upgrade the core banking system and office automation and is expected to be implemented during 2013.

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

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

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

(f) Capital management

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

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also 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.

With effect from 1 January 2008 the Bank is required to comply with the provisions of the revised Capital Adequacy Module of the CBB (revised based on the Basel II framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit and market risk management and the basic indicator approach for the operational risk management under the revised framework.

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

Based on year end balances

	2012	2011
Risk weighted exposure		
Credit risk	**43,081**	42,449
Market risk	**19,670**	19,481
Operational risk	**10,047**	9,854
Total risk weighted assets	**72,798**	71,784
Tier 1 Capital	**56,053**	52,359
Tier 2 Capital	**206**	616
Total regulatory capital	**56,259**	52,975
Capital adequacy ratio	**77.28%**	73.80%

NOTES TO THE 31 DECEMBER 2012 CONSOLIDATED FINANCIAL STATEMENTS contd.

4. Financial risk management contd.

(f) Capital management contd.

Based on full year average balances

	2012	2011
Risk weighted exposure		
Credit risk	**56,479**	49,642
Market risk	**19,792**	17,097
Operational risk	**10,047**	9,854
Total risk weighted assets	**86,318**	76,593
Tier 1 Capital	**53,132**	52,154
Tier 2 Capital	**1,932**	502
Total regulatory capital	**55,064**	52,656
Capital adequacy ratio	**63.79%**	68.75%

The Bank has complied with all externally imposed capital requirements throughout the year.

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. Cash and cash equivalents

	2012	2011
Cash and bank balances	**7,811**	6,413
Call deposits	**3,304**	985
Short term placements with banks	**21,410**	12,566
	32,525	19,964

Cash and cash equivalents include bank balances amounting to BD 5,134 (2011: BD 4,887) on behalf of discretionary customer accounts.

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6. Investments at fair value through profit or loss

	2012	2011
Trading		
Equity securities - quoted	**3,399**	2,747
Funds		
- Quoted	**2,685**	4,986
- Unquoted	**1,119**	1,758
	3,804	6,744
Debt securities - quoted	**6,663**	6,201
Total Trading	**13,866**	15,692
Designated securities		
Debt securities - unquoted	**861**	1,046
	14,727	16,738

Investments at fair value through profit or loss as at 31 December 2012 include securities amounting to BD 1,319 (31 December 2011: Nil), sold under agreement to repurchase.

7. Available-for-sale investments

	2012	2011
Equity securities		
- Quoted	**4,596**	758
- Unquoted	**425**	430
	5,021	1,188
Funds		
- Quoted	**2,576**	5,982
- Unquoted	**11,234**	12,437
	13,810	18,419
Debt securities		
- Quoted	**4,033**	7,431
- Unquoted	**291**	-
	4,324	7,431
	23,155	27,038

8. Fee receivable

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

	2012	2011
Management & administration fees	**369**	309
Custody fee	**83**	81
	452	390

9. Other assets

	2012	2011
Receivables from clients and brokers	**3,254**	699
Guarantee deposit with the Bahrain Stock Exchange	**500**	500
Employee share incentive scheme	**1,395**	1,301
Prepaid expenses	**1,892**	1,741
Interest receivable	**191**	190
Other receivables	**39**	2,038
	7,271	6,469

10. Furniture and equipment

	2012	2011
Cost		
At 1 January	**826**	810
Additions	**292**	21
Disposals	**(1)**	(5)
As at 31 December	**1,117**	826
Depreciation		
As at 1 January	**790**	732
Charge for the year	**94**	63
Disposals	**(2)**	(5)
As at 31 December	**882**	790
Net book value as at 31 December	**235**	36
Cost of fully depreciated assets in use	**787**	683

Furniture and equipment comprises furniture, fixtures and fittings, office equipment, computer hardware and software and vehicles.

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11. Short-term bank borrowings

Bank borrowings include borrowings under repurchase agreements representing fair value through profit and loss investments of BD 1,052 (2011: NIL) sold under agreement to repurchase.

12. Customer accounts

These include settlement amounts for trades executed on behalf of customers and amounts received from customers for trading.

13. Other liabilities

	2012	2011
Brokerage fee payable to counterparty	**173**	131
Accrued expenses	**225**	194
Provision for employee indemnities	**435**	326
Employee share incentive scheme liability	**1,601**	1,524
Other payables	**323**	295
	2,757	2,470

14. Share capital

	2012	2011
Authorised share capital		
1,000,000,000 (2011: 1000,000,000) shares of 100 fils each	**100,000**	100,000

	2012	2011
Issued and fully paid		
At 1 January 2012: 426,520,230 ordinary shares of 100 fils each (2011: 425,283,688 ordinary shares of 100 fils each)	**42,652**	42,528
Issue of shares to employee share incentive scheme trustees during the year	**74**	124
As at 31 December 2012: 427,258,940 ordinary shares of 100 fils each (2011: 426,520,230 ordinary shares of 100 fils each)	**42,726**	42,652

During the current year, the Bank issued 738,710 shares of BD 100 fils each under the employee share incentive scheme for the year 2011 to Volaw Trust & Corp service Ltd. at the 31 December 2011 NAV of 0.127 fils per share (2011: 1,236,542 shares of 100 fils each at the 31 December 2010 NAV of 0.134 fils per share). Accordingly the share capital was increased by BD 74 (2011: BD 124) to the extent of the nominal value of the shares of 100 fils each. The share premium of BD 20 (2011: BD 41) relating to the issue of these shares at a premium of 27 fils per share has been credited to the statutory reserve.

14. Share capital contd.

Appropriations

	2012	2011
Proposed dividend – 5% (2011: Nil)	**2,137**	-
General reserve	**314**	49

The shareholders are:	Nationality	2012		2011	
		CAPITAL	**% HOLDING**	CAPITAL	% HOLDING
Pension Fund Commission	Bahrain	**9,322.5**	**21.82**	9,322.5	21.86
General Org. for Social Insurance	Bahrain	**6,600.0**	**15.45**	6,600.0	15.47
National Bank of Bahrain BSC	Bahrain	**5,362.5**	**12.55**	5,362.5	12.57
Ahli United Bank (Bahrain) BSC	Bahrain	**5,115.0**	**11.97**	5,115.0	11.99
Bank of Bahrain and Kuwait BSC	Bahrain	**4,125.0**	**9.66**	4,125.0	9.67
Arab Investment Resources Co EC	Bahrain	**3,300.0**	**7.72**	3,300.0	7.74
Arab Banking Corporation BSC	Bahrain	**3,300.0**	**7.72**	3,300.0	7.74
Gulf Investment Corporation GSC	Kuwait	**3,300.0**	**7.72**	3,300.0	7.74
Al Salam Bank - Bahrain BSC	Bahrain	**825.0**	**1.93**	825.0	1.93
Volaw Trust & Corp Service Ltd.	Jersey	**1,476.0**	**3.46**	1,402.3	3.29
		42,726	**100.0**	42,652.3	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.134 (2011: BD 0.127)

15. Statutory Reserve

In accordance with the Bahrain Commercial Companies Law 2001, 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 314 (2011: BD 49).

The share premium of BD 20 (2011: BD 41) arising from the issue of shares under employee share incentive scheme has been adjusted to statutory reserve.

16. General Reserve

In accordance with the Bank's Articles of Association and the recommendation of the Board of Directors, specific amounts are operated 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.

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17. Interest income / expense

	2012	2011
Interest income from:		
Placements and call deposits	**404**	488
Investments in debt instruments	**952**	637
Margin lending	**67**	81
	1,423	1,206
Interest expense on:		
Bank borrowings	**113**	122
Customer accounts	**13**	4
	1,297	1,080

18. Fee and commission income / expense

	2012	2011
Fee and commission income from trust or other fiduciary activities		
- Management fee	**2,020**	1,954
- Custody fee	**265**	294
	2,285	2,248
Fee and commission expense		
- Custody fee	**(30)**	(36)
- Collection fee	**-**	(32)
Net fee and commission income	**2,255**	2,180

19. Net investment income

	2012	2011
Net gain / (loss) on investments carried at fair value through profit or loss	**1,363**	(1,333)
Gain on sale of available-for-sale investments	**1,321**	1,288
Dividend income on investments carried at fair value through profit or loss	**196**	141
Dividend income on available-for-sale investments	**253**	222
	3,133	318

19. Net investment income contd.

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

	2012	2011
Realised gain / (loss) on sale	**1,096**	(371)
Unrealised fair value gain / (loss)	**267**	(962)
	1,363	(1,333)

20. Brokerage and other income

	2012	2011
Brokerage income	**385**	509
Investment banking income	**60**	125
Foreign exchange gain	**150**	347
Other income	**73**	68
	668	1,049

21. Staff and related expenses

	2012	2011
Salaries and allowances	**2,967**	2,556
Social security costs	**122**	115
Other costs	**99**	81
	3,188	2,752

As at 31 December 2012, the Group employed 51 (2011: 46) Bahrainis and 39 (2011: 30) expatriates.

The Group's contributions for the year to the General Organisation for Social Insurance in respect of its employees amounted to BD 122 (2011: BD 115).

Other liabilities include a provision of BD 99 (2011: 81) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

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22. Other operating expenses

	2012	2011
Rent	**119**	127
Communication expenses	**231**	219
Marketing expenses	**118**	172
Professional fees	**187**	145
Other operating expenses	**494**	507
Depreciation	**93**	63
	1,242	1,233

23. Related party transactions

Transactions with funds owned by the Subsidiary Companies

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

	2012	2011
Fee and commission income	**659**	707
Fee receivable	**159**	171
Investments:		
Available for sale investments		
- Khaleej Equity Fund	**777**	749
- SICO Selected Securities Fund	**152**	150
- SICO Kingdom Fund	**1,323**	1,893
Investments carried at fair value through profit or loss	**640**	-
- SICO Kingdom Fund	**1,166**	1,155
- SICO Money Market Fund		

The details of the own funds under management are in Note 25.

Transactions with shareholders

The Group obtained short term borrowings from its bank shareholders for a total of BD 3,847 (2011: 3,847). The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has un-utilised 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 from the excess funds are placed with the other banks as deposits on normal commercial terms.

23. Related party transactions contd.

	2012	2011
Fee and commission income	**301**	260
Fee receivable	**24**	24
Funds under management	**40,088**	37,864
Borrowings as at 31 December	**3,847**	3,847
Borrowings obtained during the year	**-**	46,318
Borrowings repaid during the year	**-**	45,414

Key management personnel

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

Compensation to key management personnel is as follows:

	2012	2011
Short term benefits	**992**	934
Post employment benefits	**51**	38
Equity compensation benefits	**106**	173
	1,149	1,145

Other operating expenses include BD 50 (2011: BD 138) towards attendance fees, remuneration and other related expenses for members of the Board and Investment Committee.

24. Employee share ownership plan

The Group has established an Employee Share Incentive scheme ("the Scheme") which is operated through a Trustee. The Trustee 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.

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme advance account classified under other assets. The employee share incentive scheme share advance account as at 31 December 2012 amounted to BD 1,395 (2011: 1,301).

The Group has recognised an employee liability of BD 1,601 (2011: 1,524) on the shares granted till date. This liability has been determined on the fair value of the Group's net assets as at 31 December 2012 in accordance with the rules of the Scheme.

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

	2012		2011	
	No. of shares issued	Value	No. of shares issued	Value (Restated)
As at 1 January	**14,020,230**	**1,301**	12,783,688	1,135
Shares issued during the year*	**738,710**	**94**	1,236,542	166
	14,758,940	**1,395**	14,020,230	1,301

During the year, the Bank issued 738,710 new shares under the Scheme for the year 2011 as proposed by the Board of Directors and approved at the Annual General meeting which was held on 26 March 2012. (1,057,240 eligible shares net of 318,530 shares pertaining to employees who left the Group in 2011 whose obligation was cash settled).

In 2011, the Bank issued 1,236,542 new shares under the Scheme for the year 2010 as proposed by the Board of Directors and approved at the Annual General meeting on 29 March 2011 (2,228,366 eligible shares net of 991,824 shares pertaining to employees who left the Group in 2011 whose obligation was cash settled).

25. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in SICO Selected Securities Fund a minimum of 5% of the fund's net asset value and 10% of the net assets value of the Khaleej Equity Fund at any time throughout its life. The Group has other investment commitments of BD 1,128 (2011: 1,129) and margin lending drawdown commitments of BD 546 (2011: 614).

	2012	2011
Funds under management (net asset value)		
SICO Selected Securities Fund	**2,523**	2,540
Khaleej Equity Fund	**24,528**	24,296
SICO Gulf Equity Fund	**8,682**	8,445
SICO Kingdom Equity Fund	**2,042**	2,195
SICO Arab Financial Fund	**1,819**	2,673
SICO Money Market Fund	**3,872**	4,283
Discretionary Portfolio Management Account	**184,759**	161,763

The Group is the fund manager for "SICO Selected Securities Fund" launched in May 1998, "Khaleej Equity Fund" launched in March 2004, "SICO Gulf Equity Fund" launched in March 2006,"SICO Arab Financial Fund" launched in August 2007, "SICO Money Market Fund" launched in May 2010, "SICO Kingdom Fund" launched in Feb 2011 and "SICO Fixed Income Fund" not launched yet. The net asset values of these funds are based on financial statements as prepared by the management.

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

The Bank has hedged its currency exchange risk in British pound for equivalent BD 613.

25. Contingencies, commitments and memorandum accounts contd.

	2012	2011
Assets under custody	**824,177**	864,152

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2012, assets amounting to BD 824,177 (2011: BD 864,152) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 144,196 (2010: BD 149,869) were registered in the name of the Bank.

26. Significant net open foreign currency positions

	2012	2011
QAR	**7,109**	6,089
US Dollar	**31,923**	35,002
KWD	**125**	520
SAR	**6,704**	484
GBP	**916**	883
AED	**2,011**	1,798

All the GCC Currencies except KWD are effectively pegged to the US Dollar at USD 1 = BD 0.377

27. Basic earnings per share

	2012	2011
Profit for the year	**2,739**	488
Weighted average number of equity shares (In 000's)	**427,085**	426,225
Earnings per share (in fils)	**6.41**	1.145

Diluted earnings per share have not been presented as the Group has no commitments that would dilute the earnings per share.

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28. Maturity profile of assets and liabilities

31 December 2012	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	**32,525**	**-**	**-**	**32,525**
Investments at fair value through profit or loss	**8,064**	**5,828**	**835**	**14,727**
Available-for-sale investments	**-**	**4,324**	**18,831**	**23,155**
Furniture and equipment	**-**	**235**	**-**	**235**
Fees receivable	**452**	**-**	**-**	**452**
Other assets	**3,894**	**3,377**	**-**	**7,271**
Total assets	**44,935**	**13,764**	**19,666**	**78,365**
Liabilities				
Short-term bank borrowings	**4,899**	**-**	**-**	**4,899**
Customer accounts	**13,416**	**-**	**-**	**13,416**
Other liabilities	**2,757**	**-**	**-**	**2,757**
Total liabilities	**21,072**	**-**	**-**	**21,072**
Liquidity gap	**23,863**	**13,764**	**19,666**	**57,293**
Cumulative liquidity gap	**23,863**	**37,627**	**57,293**	**57,293**

NOTES TO THE 31 DECEMBER 2012 CONSOLIDATED FINANCIAL STATEMENTS contd.

28. Maturity profile of assets and liabilities contd.

31 December 2011	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	19,964	-	-	19,964
Investments at fair value through profit or loss	8,533	1,689	6,516	16,738
Available-for-sale investments	-	1,843	25,195	27,038
Furniture and equipment	-	36	-	36
Fees receivable	390	-	-	390
Other assets	3,362	3,107	-	6,469
Total assets	32,249	6,675	31,711	70,635
Liabilities				
Short-term bank borrowings	6,108	-	-	6,108
Customer accounts	8,174	-	-	8,174
Other liabilities	2,470	-	-	2,470
Total liabilities	16,752	-	-	16,752
Liquidity gap	15,497	6,675	31,711	53,883
Cumulative liquidity gap	15,497	22,172	53,883	53,883

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29. Accounting classification and fair values

(i) The table below sets out the classification of each class of financial assets and liabilities, and their fair values:

	Fair value through profit or loss – held for trading	Available for sale	Loans and receivables	Others at amortised cost	Total carrying value	Fair value
31 December 2012						
Cash and bank balances	**-**	**-**	**32,525**	**-**	**32,525**	**32,525**
Investments at fair value through profit or loss	**14,727**	**-**	**-**	**-**	**14,727**	**14,727**
Available-for-sale investments	**-**	**23,155**	**-**	**-**	**23,155**	**23,155**
Fees receivable	**-**	**-**	**452**	**-**	**452**	**452**
Other assets	**-**	**-**	**3,984**	**-**	**3,984**	**3,984**
	14,727	**23,155**	**36,961**	**-**	**74,843**	**74,843**
Short-term bank borrowings	**-**	**-**	**-**	**4,899**	**4,899**	**4,899**
Customer accounts	**-**	**-**	**-**	**13,416**	**13,416**	**13,416**
Other liabilities	**-**	**-**	**-**	**2,757**	**2,757**	**2,757**
	-	**-**	**-**	**21,072**	**21,072**	**21,072**

	Fair value through profit or loss – held for trading	Available for sale	Loans and receivables	Others at amortised cost	Total carrying value	Fair value
31 December 2011						
Cash and bank balances	-	-	19,964	-	19,964	19,964
Investments at fair value through profit or loss	16,738	-	-	-	16,738	16,738
Available-for-sale investments	-	27,038	-	-	27,038	27,038
Fees receivable	-	-	390	-	390	390
Other assets	-	-	3,427	-	3,427	3,427
	16,738	27,038	23,781	-	67,557	67,557
Short-term bank borrowings	-	-	-	6,108	6,108	6,108
Customer accounts	-	-	-	8,174	8,174	8,174
Other liabilities	-	-	-	2,470	2,470	2,470
	-	-	-	16,752	16,752	16,752

29. Accounting classification and fair values contd.

(ii) Fair value hierarchy

The Group measures fair values of financial instruments 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 financial assets carried at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total
As at 31 December 2012				
Available-for-sale investments				
- Funds	**2,576**	**11,234**	**-**	**13,810**
- Equities	**4,596**	**-**	**425**	**5,021**
- Debt Instruments	**4,033**	**291**	**-**	**4,324**
Trading:				
- Funds	**2,685**	**1,119**	**-**	**3,804**
- Equities	**3,399**	**-**	**-**	**3,399**
- Debt Instruments	**6,663**	**861**	**-**	**7,524**
Total	**23,952**	**13,505**	**425**	**37,882**

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

	LEVEL 3 2012
At 1 January 2012	**430**
Total gains :	
- in income statement	**-**
- in other comprehensive income	**(5)**
Purchases	**-**
Settlements	**-**
Transfers into / (out) of level 3	**-**
At 31 December 2012	**425**
Total gain / (loss) for the year included in income statement for assets / liabilities held as at 31 December 2012	**-**

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

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	Level 1	Level 2	Level 3	Total
As at 31 December 2011				
Available-for-sale investments				
- Funds	5,982	12,437	-	18,419
- Equities	758	-	430	1,188
- Debt Instruments	7,431	-	-	7,431
Trading:				
- Funds	4,986	1,758	-	6,744
- Equities	2,747	-	-	2,747
- Debt Instruments	6,201	1,046	-	7,247
Total	28,105	15,241	430	43,776

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

	LEVEL 3 2011
At 1 January 2011	377
Total gains :	
- in income statement	-
- in other comprehensive income	53
Purchases	-
Settlements	-
Transfers into / (out) of level 3	-
At 31 December 2011	430
Total gain / (loss) for the year included in income statement for assets / liabilities held as at 31 December 2011	-

30. Comparative figures

Comparative figures have been regrouped to conform to the current year's presentation. Such regrouping has not affected the reported profit or total equity.

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