SECURITIES AND INVESTMENT COMPANY BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2016

Comprehensive investment services for the Bahrain and GCC securities market

Commercial registration	:	33469
Board of Directors	:	Abdulla bin Khalifa Al Khalifa, *Chairman of the Board and Chairman of the Investment Committee*
		Hussain Al Hussaini, *Vice Chairman of the Board & Member of the Investment Committee*
		Prakash Mohan *Member of the Investment Committee*
		Mohammed Abdulla *Vice Chairman of Nominations, Remuneration & Corporate Governance Committee*
		Mahmoud Zewam *Member of Nominations, Remuneration & Corporate Governance Committee*
		Anwar Abdulla Ghuloom *Member of Audit Committee*
		Fahad Murad *Chairman of Nominations, Remuneration & Corporate Governance Committee*
		Yousif Saleh Khalaf *Chairman of the Audit Committee*
		Waleed Al Braikan *Vice Chairman of the Audit Committee*
Chief Executive Officer	:	Najla M. Al Shirawi
Office	:	BMB Centre PO Box 1331, Kingdom of Bahrain Telephone 17515000, Fax 17514000
Bankers	:	Bank of Bahrain and Kuwait BSC
Auditors	:	KPMG

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2016

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Chairman's Statement

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2016. As predicted, this was another tough and testing twelve months, marked by continued economic and market volatility, a regional liquidity crunch, and subdued investor sentiment. It was also a year of the unexpected. Surprises such as the outcome of the Brexit referendum, results of elections in the US and Europe, and the devaluation of the Chinese currency, raised new concerns and heightened uncertainty.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2016. As predicted, this was another tough and testing twelve months, marked by continued economic and market volatility, a regional liquidity crunch, and subdued investor sentiment. It was also a year of the unexpected. Surprises such as the outcome of the Brexit referendum, results of elections in the US and Europe, and the devaluation of the Chinese currency, raised new concerns and heightened uncertainty.

Against such a challenging backdrop, SICO posted another positive financial performance. Operating income for the year was BD 7.9 million compared with BD 8.4 million in 2015, while total operating expenses amounted to BD 5.3 million against BD 5.5 million the previous year. The Bank reported a net profit of BD 2.3 million compared with BD 2.8 million in 2015, with basic earnings per share of Bahraini fils 5.5 versus 6.6 fils for the prior year. At the end of 2016, total balance sheet footings stood at BD 147.1 million compared with BD 112.8 million at the end of the previous year. SICO continued to maintain a solid capital base, with shareholders' equity of BD 58.1 million against BD 58.4 million in 2015. The Bank also maintained a very strong consolidated capital adequacy ratio of 61.4 per cent, which is substantially higher than the Central Bank of Bahrain's requirement.

Significantly, fee-based income accounted for 50 per cent of total income, while total assets under management exceeded US$ 1 billion, reflecting the resilient performance of our core business lines. Such achievements illustrate clients' continued confidence in SICO's ability to deliver a superior performance in challenging market conditions. They also reinforce the Bank's enduring commitment to actively support the development of Bahrain's banking sector, capital markets and economy.

From a strategic perspective, we further diversified our product offering during the year, with the introduction of new real estate-related business initiatives. Our entry into alternative investments asset management, which is not directly correlated to the performance of regional capital markets, will further diversify SICO's revenue generators, and provide a new source of recurring income that will help us to withstand the impact of ongoing market volatility.

During 2016, we continued to strengthen our institutional capability, with further investments in information technology and human capital. We also enhanced our corporate governance and risk management frameworks to ensure ongoing compliance with regulatory authorities in the jurisdictions in which SICO operates. At the same time, we continued to implement our corporate social responsibility programme to support the social well-being and economic prosperity of the Kingdom of Bahrain.

Looking ahead, 2017 is likely to be another highly-testing and unpredictable period. . However, improved stability in oil prices, together with the economic reforms being implemented by regional governments, should have a beneficial future impact on GCC economies. The Board has every confidence in the Bank's prospects, and its ability to seize growth opportunities, irrespective of the challenges that might lie ahead.

Based on SICO's 2016 financial results and in accordance with the Bahrain Commercial Companies Law 2001, BD 234 thousand has been transferred to the Statutory Reserve.

The Board is recommending payment of a cash dividend of BD 2.142 million to shareholders, representing 5 per cent of paid-up capital; and BD 25 thousand towards supporting charitable, cultural and educational activities; for approval by the shareholders at the annual general meeting.

The Board takes this opportunity 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. The Board also expresses its appreciation to the Central Bank of Bahrain, the Bahrain Bourse and the Bahrain Economic Development Board for their continued guidance and support. On behalf of the shareholders, management and staff of SICO, the Board conveys its 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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Securities and Investment Company BSC (c)
PO Box 1331
Manama
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of 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 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Early adoption of IFRS 9 *(refer to note 2(d) to the consolidated financial statements)*

Description	**How the matter was addressed in our audit**
The Group has early adopted IFRS 9: Financial Instruments effective 1 January 2016. In accordance with the standard, prior period consolidated financial statements have not been restated. The impact of adoption of the new accounting standard is significant due to change in classification and measurement of certain financial assets and new accounting policies for measurement of expected credit losses. Due to the judgment involved in determining appropriate parameters and assumptions used in implementation of the standard, this is one of the key areas that our audit was focused on.	*Classification and measurement:* • We have evaluated management classification of its investments based on its business model and the principles of relevant accounting standards. *Expected credit losses (ECL):* • With the assistance of our specialists, we have checked the appropriateness of the new accounting policies in line with our understanding of the current exposures and risk profile of the Group's investments in debt instruments and other financial assets. • We challenged the expected credit loss calculations for such instruments including use of appropriate methodology and inputs for calculations of expected credit losses. *Disclosures:* • We have tested the adjustments made to the opening retained earnings as well as current period adjustments for application of the revised accounting policies. We also assessed the adequacy of the Group's disclosure in relation to early adoption of IFRS 9 by reference to the requirements of relevant accounting standards.

KPMG

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

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

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Chairman's Statement set out on page 1-2. Prior to the date of this auditors' report, we obtained the Chairman's Statement which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

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

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the Chairman's Statement is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year 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, the Bahrain Bourse rules and procedures or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG

KPMG Fakhro
Partner registration number 137
16 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016 Bahraini Dinars '000

	Note	2016[1]	2015
Assets			
Cash and cash equivalents	7	80,900	60,974
Treasury bills		16,256	750
Investments at fair value through profit or loss	8	28,040	14,258
Investments at fair value through other comprehensive income	9(a)	4,793	-
Available-for-sale investments	9(b)	-	30,244
Investments at amortized cost		8,923	-
Fees receivable	10	1,164	1,138
Other assets	11	5,481	3,968
Furniture, equipment and intangibles	12	1,507	1,435
Total assets		**147,064**	**112,767**
Liabilities and equity			
Liabilities			
Short-term bank borrowings	13	39,255	19,777
Customer accounts	14	42,994	28,805
Other liabilities	15	3,903	2,910
Payable to other unit holders in consolidated funds	6	2,830	2,836
Total liabilities		**88,982**	**54,328**
Equity			
Share capital	16	42,849	42,849
Shares under employee share incentive scheme		(1,599)	(1,599)
Statutory reserve	17	6,661	6,427
General reserve	18	3,217	3,217
Investments fair value reserve		(251)	(567)
Retained earnings		7,205	8,112
Total equity		**58,082**	**58,439**
Total liabilities and equity		**147,064**	**112,767**

[1] December 2016 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.

The consolidated financial statements were approved by the board of directors on 16 February 2017 and signed on its behalf by:

Abdulla Bin Khalifa Al Khalifa Chairman	Hussain Al Hussaini Vice Chairman	Najla M. Al Shirawi Chief Executive Officer

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Securities and Investment Company BSC (c)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2016 Bahraini Dinars '000

	Note	2016[1]	2015
Net investment income	19	2,474	2,532
Net fee and commission income	20	2,634	3,602
Brokerage and other income	21	1,757	1,764
Other interest income	22	1,023	524
Total income		**7,888**	8,422
Staff and related expenses	23	(3,581)	(3,760)
Interest expense	22	(107)	(55)
Other operating expenses	24	(1,752)	(1,715)
Impairment		-	(140)
Share of (profit) / loss of other unit holders in consolidated funds	6	(103)	94
Profit for the year		**2,345**	2,846
Basic and diluted earnings per share (fils)	30	**5.47**	6.64

[1] December 2016 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016 Bahraini Dinars '000

	2016	2015
Profit for the year	**2,345**	2,846
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve (through other comprehensive income investments):		
- Net amount transferred to statement of profit or loss	(215)	(1,787)
Items that will not be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve (through other comprehensive income investments):		
- Net change in fair value transferred to retained earnings	880	-
- Net change in fair value	(345)	102
Total other comprehensive income for the year	**320**	(1,685)
Total comprehensive income for the year	**2,665**	1,161

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

Bahraini Dinars '000

2016	Note	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2016		42,849	(1,599)	6,427	3,217	(567)	8,112	58,439
- Impact of early adoption of IFRS 9 at 1 January 2016	2(d)	-	-	-	-	(4)	4	-
Balance as restated at 1 January 2016		**42,849**	**(1,599)**	**6,427**	**3,217**	**(571)**	**8,116**	**58,439**
Profit for the year		-	-	-	-	-	**2,345**	**2,345**
Other comprehensive income: Investments fair value reserve (Investments at fair value through other comprehensive income):								
Net change in fair value		-	-	-	-	(345)	-	(345)
Net amount transferred to profit or loss on sale		-	-	-	-	(215)	-	(215)
Net amount transferred to retained earnings		-	-	-	-	880	(880)	-
Total other comprehensive income		-	-	-	-	**320**	**(880)**	**(560)**
Total comprehensive income for year		-	-	-	-	**320**	**1,465**	**1,785**
- Transfer to statutory reserve		-	-	234	-	-	(234)	-
Transaction with owners recognized directly in equity:								
- Dividends declared for 2015		-	-	-	-	-	(2,142)	(2,142)
Balance at 31 December 2016		**42,849**	**(1,599)**	**6,661**	**3,217**	**(251)**	**7,205**	**58,082**

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016 *(continued)*

Bahraini Dinars '000

2015	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2015	42,849	(1,599)	6,142	2,642	1,118	9,946	61,098
Comprehensive income for the year:							
Profit for the year	-	-	-	-	-	2,846	2,846
Other comprehensive income:							
Fair value reserve (Investments at fair value through other comprehensive income):							
Net change in fair value	-	-	-	-	102	-	102
Net amount transferred to profit or loss on sale / impairment	-	-	-	-	(1,787)	-	(1,787)
Unrealized gain on consolidated funds transferred to retained earnings	-	-	-	-	-	36	36
Total other comprehensive income	-	-	-	-	(1,685)	-	(1,685)
Total comprehensive income for the year					(1,685)	2,882	1,197
- Transfer to general reserve	-	-	-	575	-	(575)	-
- Transfer to statutory reserve	-	-	285	-	-	(285)	-
Transaction with owners recognized directly in equity:							
- Dividends declared for 2014	-	-	-	-	-	(3,856)	(3,856)
Balance at 31 December 2015	42,849	(1,599)	6,427	3,217	(567)	8,112	58,439

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016 — Bahraini Dinars '000

	Note	2016	2015
Operating activities			
Net interest received		1,981	1,540
Sale of investments at fair value through profit or loss		22,835	40,999
Purchase of investments at fair value through profit or loss		(36,122)	(39,062)
Sale of Investments at fair value through other comprehensive income		34,973	31,728
Purchase of Investments at fair value through other comprehensive income		(14,902)	(33,063)
Purchase of amortized cost investments		(3,860)	-
Net increase / (decrease) in customer accounts		14,189	(4,073)
Dividends received		544	701
Brokerage and other fees received		3,080	6,892
Payments for staff and related expenses		(3,618)	(4,292)
Payments for other operating expenses		(583)	(1,361)
Net cash from operating activities		**18,517**	9
Investing activities			
Net capital expenditure on furniture and equipment		(284)	(213)
Net cash used in investing activities		**(284)**	(213)
Financing activities			
Net proceeds from short-term bank borrowings		19,478	3,557
Net (payments) / proceeds from issue / (redemption) of units		(169)	828
Proceeds / (Distribution) to other unit holders in consolidated funds		32	(28)
Dividends paid		(2,142)	(3,856)
Net cash from financing activities		**17,199**	501
Net increase in cash and cash equivalents during the year		**35,432**	297
Cash and cash equivalents at the beginning of the year		61,724	61,427
Cash and cash equivalents at the end of the year	7	**97,156**	61,724

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

1. Reporting entity

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 and operates under a wholesale banking license from the Central Bank of Bahrain. On 7 May 2003, the Bank was listed on the Bahrain Stock Exchange as a closed company.

The primary objectives of the Bank are:

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

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the 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 investments at fair value through profit or loss and Investments at fair value through other comprehensive income.

(c) Use of estimates and judgments

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

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

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

(d) Early adoption of standards

IFRS 9 – Financial Instruments: Recognition and Measurement

The Group has adopted IFRS 9 Financial Instruments: Recognition and Measurement (IFRS 9) in advance of its compulsory effective date. The Group has chosen 1 January 2016 as the date of initial application, i.e. the date on which the Group has assessed the classification and measurement of its existing financial assets and financial liabilities. The Group has voluntarily early adopted this standard, as it is considered to result in the recognition and measurement of financial instruments on a basis that more appropriately reflects the operations and performance of the Group.

The standard has been applied retrospectively and, as permitted by IFRS 9, comparative figures have not been restated. The impact of the early adoption of IFRS as at 1 January 2016 has been recognized in retained earnings and investments fair value reserve at that date.

2 Basis of preparation (continued)

IFRS 9 specifies how an entity should classify and measure its financial assets and financial liabilities. IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. It eliminates the existing IAS 39 categories of fair value through profit or loss, available-for-sale, held to maturity loans and receivables.

Financial assets, including debt instruments, are measured at amortized cost using the effective interest rate method if:

(i) The assets are held within a business model whose objectives is to hold assets in order to collect contractual cash flows, and
(ii) The contractual cash flows of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal

If either of these two criteria is not met, the financial assets are classified and measured at fair value, either through the profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"). Additionally, even if a financial asset meets the amortized cost criteria the entity may choose at initial recognition to designate the financial asset at FVTPL.

Investments in equity instruments are classified as FVTPL, unless the Group designates an equity investment that is not held for trading as FVTOCI on initial recognition. At initial recognition, the Group can make an irrevocable election on an instrument-by instrument basis to designate equity investments as FVTOCI. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in profit or loss.

A financial asset is held for trading if:
(i) it has been acquired principally for the purpose of selling in the near term;
(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short term profitability; or
(iii) it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

Only financial assets that are measured at amortized cost and debt instruments classified as FVTOCI are tested for impairment.

The Group's existing financial assets at the date of the initial application of IFRS 9 on 1 January 2016 have been reviewed and assessed, and as a result:

- the Group's investments in debt instruments meeting the required criteria have been classified as financial assets at amortized cost;
- the Group's equity investments not held for trading have been designated as FVTOCI; and
- the Group's remaining investments in equity have been designated as FVTPL.

The Group currently has certain debt securities measured at FVTOCI and equity investments designated as at FVTOCI.

For debt securities measured at FVTOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method;
- Expected credit losses (ECL) and reversals; and
- Foreign exchange gains and losses.

Notes to the 31 December 2016 consolidated financial statements Bahraini Dinars '000

2 Basis of preparation (continued)

When debt security measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

The impact of this change in accounting policy at the beginning of the current period on 1 January 2016 has been to increase retained earnings by BD 4, and to decrease the investment fair value reserve by BD 4.

The following table summarises the impact of transition to IFRS 9 on reserves and retained earnings:

	Retained earnings	**Fair value reserve**
Balance at 31 December 2015 under IAS 39	**8,112**	**(567)**
Impact on reclassification and re-measurments:		
Investment securities from FVTPL to FVTOCI	67	(67)
Investment securities from AFS to FVTPL	(62)	62
Impact on recognition of Expected Credit Losses:		
Expected credit losses under IFRS 9	(1)	1
Opening balance under IFRS 9 on date of initial application of 1 January 2016	**8,116**	**(571)**

If IFRS 9 had not been adopted during the current period, the profit for the period would have been lower by BD 1,347 resulting principally from the recognition of impairment losses on certain securities classified as AFS under IAS 39 and fair value gains on securities classified as FVTPL but earlier classified as AFS under IAS 39. The following table shows the impact of early adopting IFRS 9:

	Post implementation	**Pre implementation**	**Net effect**
Net investment income	2,474	2,229	245
Impairment on investments	-	(1,102)	1,102
Total			**1,347**

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The following tables is reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2016.

i) Investments that has been reclassified from IAS 39 to IFRS 9:

	FVTPL	FVTOCI	Amortized cost	Total
Fair value through profit or loss	-	195	-	**195**
Available-for-sale investments	16,812	10,280	3,152	**30,244**
Total investments reclassified	**16,812**	**10,475**	**3,152**	**30,439**
Fair value through profit or loss	14,063	-	-	**14,063**
Total investments not reclassified	**14,063**	-	-	**14,063**
Total investments	**30,875**	**10,475**	**3,152**	**44,502**

ii) Total investments held in books as at 31 December:

	2016	2015
Fair value through profit or loss	28,040	14,258
Fair value through other comprehensive income	4,793	-
Available-for-sale investments	-	30,244
Amortized cost	8,923	-
Total investments	**41,756**	44,502

(e) New standards, amendments and interpretations effective from 1 January 2016

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Group:

Disclosure Initiative (Amendments to IAS 1)

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

Materiality - an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

Disaggregation and subtotals - line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

Notes - confirmation that the notes do not need to be presented in a particular order.

OCI arising from investments accounted for under the equity method - the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The application of this standard will have no significant impact on the consolidated financial statements of the Bank.

The above amendments are not expected to have a significant impact on the consolidated financial statements of the Group.

Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle

The annual improvements to IFRSs to 2010-2012 and 2011-2013 include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2015; earlier application are permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.
The amendments are not expected to have a significant impact on the consolidated financial statements of the Group.

3. Significant accounting policies

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

(a) Consolidation

(i) Subsidiaries

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

(ii) Non-controlling interests (NCI)

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

3 *Significant accounting policies (continued)*

(b) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Bank and its subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, representing the Group's functional and presentation currency. The other Group companies functional currencies are either denominated in currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the group companies that have a functional currency different from the presentation currency do not result in exchange differences.

(ii) Transactions and balances

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

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

A. Under IFRS 9 (effective from 1 January 2016)

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

Judgments

Classification of investments

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

Determination of control over investees – Investment funds

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

B. Under IAS 39 (effective upto December 2015)

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 investments 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 judgment. 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 Group 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.

3 *Significant accounting policies (continued)*

(d) Investment securities

A. *Under IFRS 9 (effective from 1 January 2016)*

(i) Classification

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

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

(iv) Fair value measurement

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

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

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

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

For investments in the debt instruments that are not quoted in an active market, the Group uses information from the pricing services such as Bloomberg for use as inputs in their fair value measurement that maximize the use of relevant observable inputs.

3 *Significant accounting policies (continued)*

For investments in funds not quoted in an active market the Group uses net asset values as provided by the fund managers / administrator as their fair value.

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

(v) Impairment

Financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group measures loss allowances for its trade and other receivables at an amount equal to lifetime ECL. For other financial instruments on which credit risk has not increased significantly since their initial recognition impairment is measured as 12-month ECL.

Key changes in the Group's accounting policy for impairment of financial assets are listed below:

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortized cost and debt instruments classified as FVTOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since intial recognition, the portion of the lifetime ECL associated with the probability of default events occuring within next 12 months is recognised.

Stage 2: Lifetime ECL - not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset.

Stage 3: Lifetime ECL - credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance). As this uses the same criteria as under IAS 39, the Groups methodology for specific provisions remains largely unchanged.

B. *Under IAS 39 (effective upto 31 December 2015)*

(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 profit or loss when the investments are managed, evaluated and reported internally on a fair value basis.

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

3 Significant accounting policies (continued)

Available-for-sale investments (AFS investments) are initially recognized at fair value, with transaction costs recognized directly in the statement of profit or loss. Unrealised gains and losses arising from changes in the fair values of AFS investments are recognized in the statement of 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 investments whose fair value cannot be reliably measured are carried at cost less impairment.

(iii) 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.

Objective evidence that the financial assets are impaired includes significant financial difficulty of the issuer, default of the issuer, indicators that the issuer will enter bankruptcy and the disappearance of an active market for a security.

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 recognized in profit or loss – is reclassified from fair value reserve to profit or loss. Impairment losses recognized 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 recognized 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 amortization, and the current fair value, less impairment loss previously recognized in the statement of profit or loss. 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 statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

(e) De-recognition of financial liabilities

The Group derecognizes 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, placements with banks that have an original maturity of three months or less when acquired and which are subject to insignificant risk of changes in their fair value.

(g) Amortized cost measurement

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

3 Significant accounting policies (continued)

(h) Impairment of other financial assets carried at amortized cost

For other financial assets carried at amortized 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 recognized in statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

(i) Furniture, equipment and core banking software

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

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

Core banking software	10 years
Furniture and equipment	3 years

(j) Bank borrowings

Borrowings are initially measured at fair value minus transaction costs, and subsequently measured at their amortized 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 derecognized. As the Bank retains all or substantially all the risks and rewards of the transferred assets, amounts received under these agreements are treated as liabilities and the difference between the sales and repurchase price treated as interest expense using the effective interest method.

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

(l) Customer accounts

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

(m) Post employment benefits

(i) Bahraini employees

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

(ii) Expatriate employees

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

(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.

3 Significant accounting policies (continued)

(n) Dividends

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

(o) Provisions

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

(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.

(q) Settlement date accounting

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

(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 recognized amounts and intends to settle either on a net basis, or to realize 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 income and expense

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

Interest income and expense presented in the statement of profit or loss include interest on financial assets and financial liabilities at amortized cost, fair value through other comprehensive income debt securities and debt securities 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 Group. Custody and investment management fees are recognized as the related services are performed and the Group becomes entitles to the fee.

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

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

(v) Net investment income

Net investment income includes all realized and unrealized fair value changes on investment at fair value through profit or loss and on the investment at fair value through other comprehensive and the related dividend.

(w) Dividend income

Dividend income is recognized 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 foreign exchange income. This income is recognized 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 Group's decision in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, corporate finance, 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 these consolidated financial statements.

4. Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

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

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

The Audit 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.

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4 *Financial risk management (continued)*

In Asset Management and Investment and Treasury Departments, deals routed through counterparty brokers gives rise to counterparty credit risk.

Investments in debt securities

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

The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of debt securities classified as FVTOCI or at amortized cost (2015: Incurred losses). The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets.

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

Management of credit risk

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

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

The risks in proprietary 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:

	2016	2015
Cash and cash equivalents	80,900	60,974
Treasury bills	16,256	750
FVTOCI Debt securities	2,231	-
FVTPL debt securities	11,650	8,721
Investments at amortised cost	8,923	-
Available-for-sale investments	-	12,517
Fee receivable	1,164	1,138
Other receivables	5,236	3,759

Currently the margin trading lending on the GCC Stock Exchange and REPO transactions are subject to formal collateral arrangement. The margin scheme is undertaken in accordance with the related regulation issued by the Central Bank of Bahrain. 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.

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4 Financial risk management (continued)

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

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

Risk Exposure Concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits. Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2016 was BD 8,856 (2015: BD 10,018), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive".

Geographical Exposure Distribution

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

2016	**Middle East & Asia countries**	**North America**	**Europe**	**Total**
Assets				
Cash and cash equivalents	80,078	-	822	80,900
Treasury bills	16,256	-	-	16,256
Investments at fair value through profit or loss	16,093	4,031	7,915	28,040
Investments at fair value through other comprehensive income	4,793			4,793
Investments at amortized cost	8,923	-	-	8,923
Fees receivable	1,164	-	-	1,164
Other assets	6,923	-	65	6,988
Total assets	**134,230**	**4,031**	**8,802**	**147,064**
Liabilities				
Short-term bank borrowings	26,082	-	13,173	39,255
Customer accounts	40,014	1,669	1,311	42,994
Other liabilities	3,903	-	-	3,903
Payable to unit holders	2,830	-	-	2,830
Total liabilities	**72,829**	**1,669**	**14,485**	**88,982**

Notes to the 31 December 2016 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

2015	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	53,706	-	7,268	60,974
Treasury bills	750	-	-	750
Investments at fair value through profit or loss	12,834	-	1,424	14,258
Available-for-sale investments	17,866	4,003	8,375	30,244
Fees receivable	1,118	-	20	1,138
Other assets	5,364	-	39	5,403
Total assets	91,638	4,003	17,126	112,767
Liabilities				
Short-term bank borrowings	12,083	-	7,694	19,777
Customer accounts	27,975	4	826	28,805
Other liabilities	2,910	-	-	2,910
Payable to unit holders	2,836	-	-	2,836
Total liabilities	53,498	4	826	54,328

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

2016	**Financial services**	**Others**	**Total**
Total assets	86,232	60,832	**147,064**
Total liabilities	61,895	27,087	**88,982**

2015	Financial services	Others	Total
Total assets	82,219	30,548	112,767
Total liabilities	35,571	16,757	54,328

The changes in gross carrying amount of financial instruments during the period, which contributed to changes in loss allowance is as follows:

	2016 Impact: increase/(decrease)		
	12 - months ECL	**Lifetime ECL not credit-Impaired**	**Lifetime ECL credit-impaired**
Debt investment securities at FVTOCI	1	-	-
Debt investment securities at amortized cost	-	-	-

Investments in debt securities classified as FVTOCI are entirely in investment grade debt instruments i.e. credit grade A to BBB.

All investments at amortized costs are exposures to the domestic sovereign debt. No credit loss is expected to materialize on these investments. The calculated expected credit loss of cash and bank balances and treasury bills is not material for recognition purposes given its short-term nature.

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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 honor its obligations to deliver cash, securities or other assets as contractually agreed.

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

It originates from the mismatches in the maturity pattern of assets and liabilities or other defaults that could result in its funding and credit lines drying up. Measuring and managing liquidity needs are considered vital for effective operation of the 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 crystallization of contingent, off balance sheet liabilities and inability to undertake profitable business opportunities when desirable.

Management of liquidity risk
Liquidity risk is currently managed by the Treasury unit monitoring the cash flow and funding requirements on a daily basis. Credit Lines have been established with a few 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:

2016	**Carrying value**	**Gross outflow**	**Less than 1 year**
Short-term bank borrowings	39,255	39,312	39,312
Customer accounts	42,994	42,994	42,994
Other liabilities	3,903	3,903	3,903
Payable to unit holders in consolidated funds	2,830	2,830	2,830
	88,982	**89,039**	**89,039**

2015	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	19,777	19,794	19,794
Customer accounts	28,805	28,805	28,805
Other liabilities	2,910	2,910	2,910
Payable to unit holders in consolidated funds	2,836	2,836	2,836
	54,328	54,345	54,345

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4 Financial risk management (continued)

(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 fair value through other comprehensive income securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio Guidelines set by the 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 unrealized gains and losses are accounted for on a daily basis. Externally managed funds and portfolios are valued at Net Asset Value provided by the external investment managers 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 unrealized profit or loss for the investments at fair value through profit or loss and FVTOCI reserve for Investments at fair value through other comprehensive income is given below:

	Investments at fair value through profit or loss		**Investments at fair value through other comprehensive income**	
	2016	2015	**2016**	2015
Increase of 1%	**280**	143	48	302
Decrease of 1%	**(280)**	(143)	(48)	(302)

(ii) *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The investments in debt instruments, placements, borrowings and call deposits are subject to interest rate risk. The Treasury Unit carefully monitors these exposures in order to mitigate this risk.

The Bank minimizes its exposure to interest rate risk by careful monitoring of exposures. Placements and call deposits with banks are at fixed interest rates and mature within three months. The liabilities of the Bank include customer advances for purchase of investments on their behalf.

The Bank maintains cash balances with various banks in different currencies to meet liquidity requirements for equity share deals settlement in these currencies. These arise due to the need for timely payment of settlement amounts by clients as well as proprietary trades.

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4 Financial risk management (continued)

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

Interest rate re-pricing profile

2016	**Effective interest rate % p.a.**	**Within 1 year**	**Over 1 year**	**Non-interest sensitive**	**Total**
Cash and bank	-	-	-	24,737	24,737
Call deposits*	-	1,203	-	-	1,203
Placements	1.93%	54,960	-	-	54,960
Treasury bills	-	16,256	-	-	16,256
Investments at fair value through profit or loss	6.34%	235	11,414	16,391	28,040
Investments at fair value through other comprehensive income	3.41%	-	2,231	2,562	4,793
Available-for-sale investments	-	-	-	-	-
Investments at amortized cost**	-	-	8,923	-	8,923
Fees receivable		-	-	1,164	1,164
Other assets		-	-	5,481	5,481
Furniture, equipment and intangibles		-	-	1,507	1,507
Total assets		**72,654**	**22,568**	**51,842**	**147,064**
Short-term bank borrowings	1.46%	39,255	-	-	39,255
Customer accounts		-	-	42,994	42,994
Other liabilities		-	-	3,903	3,903
Payable to unit holders in consolidated funds		-	-	2,830	2,830
Total liabilities		**39,255**	**-**	**49,727**	**88,982**
Equity		**-**	**-**	**58,082**	**58,082**
Total liabilities and equity		**39,255**	**-**	**107,809**	**147,064**
Interest rate sensitivity gap		**33,399**	**22,568**	**(55,967)**	**-**
Cumulative interest rate sensitivity gap		**33,399**	**55,967**	**-**	

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4 Financial risk management (continued)
(d) Market risk (continued)
(ii) Interest rate risk (continued)

Interest rate re-pricing profile

2015	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	17,649	17,649
Call deposits*	-	2,900	-	-	2,900
Placements	1.45%	40,425	-	-	40,425
Treasury bills	-	750	-	-	750
Investments at fair value through profit or loss	6.50%	899	7,820	5,539	14,258
Investments at fair value through other comprehensive income		-	-	-	-
Available-for-sale investments	5.09%	-	12,517	17,727	30,244
Fees receivable		-	-	1,138	1,138
Other assets		-	-	3,968	3,968
Furniture, equipment and intangibles		-	-	1,435	1,435
Total assets		44,974	20,337	47,456	112,767
Short-term bank borrowings	0.84%	19,777	-	-	19,777
Customer accounts		-	-	28,805	28,805
Other liabilities		-	-	2,910	2,910
Payable to unit holders in consolidated funds		-	-	2,836	2,836
Total liabilities		19,777	-	34,551	54,328
Equity		-	-	58,439	58,439
Total liabilities and equity		19,777	-	92,990	112,767
Interest rate sensitivity gap		25,197	20,337	(45,534)	-
Cumulative interest rate sensitivity gap		25,197	45,534	-	-

** At 31 December 2016 the effective interest rate on Bahraini Dinar call deposits is 0.425% (2015: 0.425%) and on USD call deposits is 0.15% (2015: 0.15%).*
*** At 31 December 2016 the effective interest rate of Investments at amortized cost is 6.43%*

(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.

4 Financial risk management (continued)

The Bank has a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organizational structure, policies and procedures

guidelines, segregation of duties, approval authorities, reconciliations, and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provides support in this control activity.

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

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

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

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

(f) Capital Management

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

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

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

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

Based on year end balances

	2016	2015
Risk weighted exposure		
Credit risk	51,728	73,214
Market risk	26,588	19,673
Operational risk	16,263	16,108
Total risk weighted assets	**94,579**	108,995
Common Equity (CET 1)	58,082	58,438
Additional Tier 1	-	-
Total regulatory capital	**58,082**	58,438
Capital adequacy ratio	**61.41%**	53.62%

Based on full year average balances

	2016	2015
Risk weighted exposure		
Credit risk	70,500	68,389
Market risk	21,320	25,065
Operational risk	16,262	16,108
Total risk weighted assets	**108,082**	109,562
Common Equity (CET 1)	56,394	59,016
Additional Tier 1	-	-
Total regulatory capital	**56,394**	59,016
Capital adequacy ratio	**52.18%**	53.87%

The capital adequacy ratio as at 31 December 2016 has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

Capital allocation

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

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5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2016. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund.

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

Subsidiary	Percentage ownership	Year of incorporation /	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company VII BSC (c)	100%	2010	Bahrain	Umbrella company for SICO mutual funds
7. SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
8. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO.
9. Securities and Investment Company(UAE) LLC	100%	2011	UAE	Brokerage services
10. SICO Kingdom Equity Fund	59%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
11. SICO Fixed Income Fund	63%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks.

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6. Payable to other unit holders in consolidated funds

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

SICO Kingdom Equity Fund

	2016	2015
Other unit holders' share	**41%**	43%
Cash and cash equivalents	841	534
Investment at fair value through profit or loss	2,638	3,051
Other assets	-	-
Other liabilities	18	49
Net assets	**3,461**	3,536
Carrying amount of payable to other unit holders	**1,417**	1,531
Investment income	120	(202)
Profit / (loss)	52	(272)
Total comprehensive income	**52**	(272)
Profit / (loss) allocated to other unit holders	**21**	(118)
Cash flows from operating activities	463	76
Cash flows from financing activities	(156)	429
Net increase in cash and cash equivalents	**307**	505

SICO Fixed Income Fund

	2016	2015
Other unit holders' share	**37%**	35%
Cash and cash equivalents	925	915
Investment at fair value through profit or loss	3,514	3,422
Other assets	51	46
Short-term bank borrowings	682	696
Other liabilities	11	10
Net assets	**3,797**	3,677
Carrying amount of payable to other unit holders	**1,413**	1,305
Investment income	54	(97)
Interest income	220	210
Profit	219	66
Total comprehensive income	**219**	66
Profit allocated to other unit holders	**82**	24
Cash flows from operating activities	110	(138)
Cash flows from financing activities	(99)	303
Net increase in cash and cash equivalents	**10**	165

7. Cash and cash equivalents

	2016	2015
Cash and bank balances	24,737	17,649
Call deposits	1,203	2,900
Short-term placements	37,991	25,472
Due from other institutions	16,969	14,953
Total cash and cash equivalent as per balance sheet	**80,900**	60,974
Treasury bills	16,256	750
Total cash and cash equivalent as per cash flow	**97,156**	61,724

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7. *Cash and cash equivalents (continued)*

Cash and cash equivalents include bank balances amounting to BD 12,394 (2015: BD 6,582) held on behalf of discretionary customer accounts.

Due from other institutions of BD 16,969 (2015: BD 14,953) represent repurchase agreements transactions.

8. Investments at fair value through profit or loss

	2016	2015
Quoted equity securities – (listed)		
- Consolidated funds	2,638	3,050
- Parent	3,215	2,201
Funds	10,537	286
		-
Quoted debt securities		
- Parent	8,136	5,299
- Consolidated funds	3,514	3,422
	28,040	14,258

Investments at fair value through profit or loss as at 31 December 2016 include securities amounting to BD 4,108 (31 December 2016: BD 5,297), sold under agreement to repurchase (note 13).

** December 2016 results reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.*

9. (a) Investments at fair value through other comprehensive income

	2016	2015
Equity securities		
- Quoted	2,185	-
- Unquoted	377	-
	2,562	-
Debt securities		
- Quoted	112	-
- Unquoted	2,119	-
	2,231	-
	4,793	

** December 2016 results reflect the adoption of IFRS 9. Prior periods have not been restated. Refer note 2(d) for further details.*

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9. (b) Available-for-sale investments

	2016	2015
Equity securities		
- Quoted	-	5,356
- Unquoted	-	322
	-	5,678
Funds		
- Quoted	-	7,417
- Unquoted	-	4,632
	-	12,049
Debt securities		
-Quoted	-	11,357
-Unquoted	-	1,160
	-	12,517
	-	30,244

** December 2015 reflect results as per IAS 39 and prior to the adoption of IFRS 9.*

10. Fees receivable

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

	2016	2015
Management and administration fees	1,086	651
Performance fee	61	459
Custody fee	17	28
	1,164	**1,138**

11. Other assets

	2016	2015
Receivables from clients and brokers	3,526	2,568
Guarantee deposit with the Bahrain Stock Exchange	500	500
Prepaid expenses	245	209
Interest receivable	480	288
Other receivables	730	403
	5,481	**3,968**

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12. Furniture, equipment and intangibles

	Software	Furniture and Equipment & Others	Capital work in progress	2016 Total	2015 Total
Cost					
At 1 January	2,100	905	205	3,210	3,001
Additions	23	28	233	284	213
Disposals	-	(39)	-	(39)	(4)
At 31 December	**2,123**	**894**	**438**	**3,455**	3,210
Depreciation/Amortisation					
At 1 January	899	876	-	1,775	1,501
Charge for the year	184	28	-	212	278
Disposals	-	(39)	-	(39)	(4)
At 31 December	**1,083**	**865**	-	**1,948**	1,775
Net book value at 31 December 2016	**1,040**	**29**	**438**	**1,507**	-
Net book value at 31 December 2015	1,201	29	205	-	1,435
Cost of fully depreciated assets in use	-	-	-	**1,280**	**1,091**

13. Short-term bank borrowings

Short-term bank borrowings include borrowings under repurchase agreements of BD 34,354 (2015: BD 17,777) and time deposits of BD 4,901 (2015: 2,000). The fair value of the investments at fair value through profit or loss and Investments at fair value through other comprehensive income pledged as collateral amounts to BD 4,108 (2015: BD 5,297) (refer to note 8 and 9). Additionally repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 25,088 (2015: BD 15,649) are pledged as collateral.

14. Customer accounts

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

15. Other liabilities

	2016	2015
Accrued expenses	262	189
Provision for employee indemnities	485	448
Employee share incentive scheme liability	1,348	1,435
Other payables	1,808	838
	3,903	2,910

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16. Share capital

	2016	2015
Authorized share capital		
1,000,000,000 (2015: 1,000,000,000) shares of 100 fils each	**100,000**	100,000

	2016	2015
Issued and fully paid		
At 1 January 2016: 428,487,741 ordinary shares of 100 fils each (2015: 428,487,741 ordinary shares of 100 fils each)	42,849	42,849
Issue of shares to employee share incentive scheme trustees during the year	-	-
As at 31 December 2016: 428,487,741 ordinary shares of 100 fils each (2015: 428,487,741 ordinary shares of 100 fils each)	**42,849**	42,849

During the year, the Bank did not issue any shares under the employee share incentive scheme.

Appropriations

	2016	2015
Proposed dividend 5% (2015: 5%)	**2,142**	2,142
General reserve	-	-

The shareholders are:

	Nationality	**2016**		2015	
		Capital	% holding	Capital	% holding
Pension Fund Commission	Bahrain	9,322.5	21.76	9,322.5	21.76
Social Insurance Organization	Bahrain	6,600	15.40	6,600	15.40
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	5,115	11.94	5,115	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	4,125	9.63	4,125	9.63
Arab Investment Resources Co EC	Bahrain	3,300	7.70	3,300	7.70
Bank ABC	Bahrain	3,300	7.70	3,300	7.70
Gulf Investment Corporation GSC	Kuwaiti	3,300	7.70	3,300	7.70
Al Salam Bank – Bahrain BSC	Bahrain	825	1.93	825	1.93
Volaw Trust & Corp Service Ltd.	Jersey	1,599	3.73	1,599	3.73
		42,849	100	42,849	100

Based on these consolidated financial statements, the Net Asset Value per share is BD 0.136 (2015: BD 0.136).

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17. 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 234 (2015: BD 285).

18. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2016, no appropriations to general reserve are recommended.

19. Net investment income

	2016	2015
Net gain / (loss) on investments carried at fair value through profit or loss	458	(1,202)
Gain on sale of Investments at fair value through other comprehensive income	215	-
Gain on sale of available-for-sale investments	-	1,927
Interest income from debt instruments	1,257	1,106
Dividend income	544	701
	2,474	2,532

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

	2016	2015
Realized loss on sale	(484)	(210)
Unrealized fair value gain / (loss)	942	(992)
	458	(1,202)

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

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

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20. Fee and commission income/ expense

	2016	2015
Fee and commission income from trust or other fiduciary activities		
- Management fee	2,279	2,592
- Performance fee	61	625
- Custody fee	314	411
	2,654	3,628
Fee and commission expense		
- Custody fee	(20)	(26)
Net fee and commission income	**2,634**	3,602

21. Brokerage and other income

	2016	2015
Brokerage income	905	1,061
Investment banking income	394	111
Foreign exchange gain	229	433
Other income	229	159
	1,757	1,764

22. Other interest income / expense

	2016	2015
Interest income from:		
Placements and call deposits	873	361
Margin lending	150	163
	1,023	524
Interest expense on:		
Bank borrowings	(107)	(55)
Net other interest income	**916**	469

23. Staff and related expenses

	2016	2015
Salaries, allowances and bonus	3,321	3,498
Social security costs	160	157
Other costs	100	105
	3,581	3,760

As at 31 December 2016, the Group employed 59 (2015: 66) Bahrainis and 36 (2015: 33) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 160 (2015: BD 157).

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24. Other operating expenses

	2016	2015
Rent	219	206
Communication expenses	382	342
Marketing expenses	139	148
Professional fees	144	133
Other operating expenses	656	608
Depreciation	212	278
	1,752	1,715

25. Related party transactions

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

	2016	2015
Fee and commission income	316	600
Fee receivable	200	120
Investments:		
Available-for-sale investments		
- Khaleej equity fund	-	979
- SICO selected securities funds	-	171
Investments at fair value through profit or loss		
- Khaleej equity fund	1,036	-
- SICO selected securities funds	-	-
- Bahrain liquidity fund company	1,209	-

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

Transactions with shareholders
The Group obtained short term borrowings from its bank shareholders for a total of BD 3,770 (2015: BD 2,000). The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilized credit facilities with certain of its shareholders that are local banks. All such transactions are in the ordinary course of business and on normal commercial terms.

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

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25. Related party transactions (continued)

	2016	2015
Fee and commission income	395	505
Fee receivable	115	105
Funds under management	55,429	55,361
Placements	11,056	1,000
Borrowings as at 31 December	3,770	2,000

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 and head of departments.

Compensation to key management personnel is as follows:

	2016	2015
Salaries and short term benefits	965	868
Post employment benefits	42	40
Equity compensation benefits	91	98
	1,098	1,006

Other operating expenses include BD 48 (2015: BD 93) towards attendance fees, remuneration and other related expenses for members of the Board and Investment Committee.

26. 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 2016 amounted to BD 1,559 (2015: BD 1,559).

The Group has recognized an employee liability of BD 1,348 (2015: BD 1,435) 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 2016 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

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26. Employee Share Ownership Plan (continued)

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

	2016		2015	
	No. of shares issued	**Value**	No. of shares issued	Value
As at 1 January	15,987,741	1,559	15,987,741	1,559
Shares issued during the year *	-	-	-	-
	15,987,741	1,559	15,987,741	1,559

**During the year, the Bank did not issue new shares under the Scheme.*

27. Involvement in unconsolidated structured entities

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	• To generate fees from managing assets on behalf of third party investors. • These vehicles are financed through the issue of units to investors.	• Investment in units issued by the fund • Management fee • Performance fee

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

	2016	2015
Investments in funds (FVTPL)		
SICO selected securities fund	-	171
Khaleej equity fund	1,036	979
Bahrain liquidity fund	1,209	-
	2,245	1,150

28. 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 106 (2015: BD 106) and margin lending drawdown commitments of BD 1,516 (2015: BD 1,356).

	2016	2015
Funds under management (net asset value)		
SICO Selected Securities Fund	-	1,773
Khaleej Equity Fund	17,432	17,184
SICO Gulf Equity Fund	2,939	9,663
Bahrain Liquidity Fund	41,517	-
SICO Kingdom Equity Fund	3,462	3,536
SICO Fixed Income Fund	3,796	3,677
Discretionary portfolio management account	326,758	296,506

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

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28 Contingencies, commitments and memorandum accounts (continued)

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

	2016	2015
Assets under custody	**1,947,789**	1,696,650

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2016, assets amounting to BD 1,947,789 (2015: BD 1,696,650) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 277,555 (2015: BD 290,895) were registered in the name of the Bank.

Legal claims

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

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

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

At this stage of the action, the Group's lawyers believe the subsidiary is in a strong position to defend itself and no liability is likely to arise from this claim.

Contingencies

The Company has letters of guarantee in the amount of BD 5.1 million (31 December 2015: BD 5.1 million) in favour of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

29. Significant net open foreign currency positions

	2016	2015
QAR	7,212	11,932
US Dollar	25,718	49,652
JOD	45	32
KWD	(348)	73
SAR	13,620	4,088
GBP	14	2
AED	5,372	11,698
OMR	(186)	(26)
EUR	3	25
EGP	241	6

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

30. Basic earnings per share

	2016	2015
Profit for the year	**2,345**	2,846
Weighted average number of equity shares (In 000's)	**428,487**	428,487
Earnings per share (in fils)	**5.47**	6.64

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

31. Maturity profile of assets and liabilities

31 December 2016	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	80,900	-	-	80,900
Treasury bills	16,256	-	-	16,256
Investments at fair value through profit or loss	16,625	5,811	5,604	28,040
Investments at fair value through other comprehensive income	-	112	4,681	4,793
Available-for-sale investments	-	-	-	-
Investments at amortized cost	-	-	8,923	8,923
Furniture, equipment and intangibles	-	484	1,023	1,507
Fees receivable	1,164	-	-	1,164
Other assets	5,481	-	-	5,481
Total assets	**120,426**	**6,407**	**20,231**	**147,064**
Liabilities				
Short-term bank borrowings	39,255	-	-	39,255
Customer accounts	42,994	-	-	42,994
Other liabilities	3,903	-	-	3,903
Payable to other unit holders	2,830	-	-	2,830
Total liabilities	**88,982**	**-**	**-**	**88,982**
Liquidity gap	**31,444**	**6,407**	**20,231**	**58,082**
Cumulative liquidity gap	**31,444**	**37,851**	**58,082**	**58,082**

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31 Maturity profile of assets and liabilities (continued)

31 December 2015	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	60,974	-	-	60,974
Treasury bills	750	-	-	750
Investments at fair value through profit or loss	6,438	6,079	1,741	14,258
Investments at fair value through other comprehensive income	-	-	-	-
Available-for-sale investments	-	5,151	25,093	30,244
Furniture, equipment and intangibles	-	238	1,197	1,435
Fees receivable	1,138	-	-	1,138
Other assets	3,968	-	-	3,968
Total assets	73,268	11,468	28,031	112,767
Liabilities				
Short-term bank borrowings	19,777	-	-	19,777
Customer accounts	28,805	-	-	28,805
Other liabilities	2,910	-	-	2,910
Payable to other unit holders	2,836	-	-	2,836
Total liabilities	54,328	-	-	54,328
Liquidity gap	18,940	11,468	28,031	58,439
Cumulative liquidity gap	18,940	30,408	58,439	58,439

Notes to the 31 December 2016 consolidated financial statements Bahraini Dinars '000

32. Accounting classification and fair values

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

31 December 2016	Fair value through profit or loss	Fair value through other comprehensive income	At amortized cost	Liabilities at fair value	Total carrying value
Cash and cash equivalents	-	-	80,900	-	80,900
Treasury bills	-	-	16,256	-	16,256
Investments at fair value through profit or loss	28,040	-	-	-	28,040
Available-for-sale investments					
Investments at fair value through other comprehensive income	-	4,793	-	-	4,793
Available-for-sale investments	-	-	-	-	-
Investments at amortized cost	-	-	8,923	-	8,923
Fees receivable	-	-	1,164	-	1,164
Other assets	-	-	5,236	-	5,236
	28,040	**4,793**	**112,479**	**-**	**145,312**
Short-term bank borrowings	-	-	39,255	-	39,255
Customer accounts	-	-	42,994	-	42,994
Other liabilities	-	-	3,903	-	3,903
Payable to unit holders in consolidated funds	-	-	-	2,830	2,830
	-	**-**	**86,152**	**2,830**	**88,982**

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

Notes to the 31 December 2016 consolidated financial statements Bahraini Dinars '000

32. Accounting classification and fair values (continued)

31 December 2015	Fair value through profit or loss	Available for sale investments	Loans and receivables	Liabilities at fair value	At amortized cost	Total carrying value
Cash and cash equivalents	-	-	60,974	-	-	60,974
Treasury bills	-	-	-	-	750	750
Investments at fair value through profit or loss	14,258	-	-	-	-	14,258
Investments at fair value through other comprehensive income	-	-	-	-	-	-
Available-for-sale investments	-	30,244	-	-	-	30,244
Fees receivable	-	-	1,138	-	-	1,138
Other assets	-	-	3,759	-	-	3,759
	14,258	30,244	65,871	-	750	111,123
Short-term bank borrowings	-	-	-	-	19,777	19,777
Customer accounts	-	-	-	-	28,805	28,805
Other liabilities	-	-	-	-	2,910	2,910
Payable to unit holders in consolidated funds	-	-	-	2,836	-	2,836
	-	-	-	2,836	51,492	54,328

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

Notes to the 31 December 2016 consolidated financial statements Bahraini Dinars '000

32. Accounting classification and fair values (continued)

(ii) Fair value hierarchy

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

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

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

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

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

As at 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Fair value through other comprehensive income investments:				
- Equities	2,185	-	377	2,562
- Debt securities	112	2,119	-	2,231
Fair value through profit or loss:				
- Equity	5,853	-	-	5,853
- Debt securities	11,180	470	-	11,650
- Funds	6,870	2,780	887	10,537
Investments at amortized cost:				
- Debt securities	8,923	-	-	8,923
Liabilities				
- Payable to unit holders in consolidated funds	(2,830)	-	-	(2,830)
	32,293	**5,369**	**1,264**	**38,926**

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

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

	Level 3 2016
At 1 January 2016	575
Total loss :	
- in income statement	57
- in other comprehensive income	130
Purchases	878
Settlements	(376)
Transfers into / (out) of level 3	-
At 31 December 2016	**1,264**

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32. Accounting classification and fair values (continued)
(ii) Fair value hierarchy (continued)

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

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale investments:				
- Funds	10,635	1,161	256	12,052
- Equities	5,356	-	319	5,675
- Debt securities	8,270	4,247	-	12,517
Investments at fair value through profit or loss:				
- Funds	286	-	-	286
- Equity	5,251	-	-	5,251
- Debt securities	8,721	-	-	8,721
Liabilities				
- Payable to unit holders in consolidated funds	(2,836)	-	-	(2,836)
	35,683	5,408	575	41,666

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

	Level 3 2015
At 1 January 2015	515
Total loss :	
- in statement of profit or loss	-
- in other comprehensive income	60
Purchases	-
Settlements	-
Transfers into / (out) of level 3	-
At 31 December 2015	575

32. Accounting classification and fair values (continued)

(iii) Valuation technique and significant unobservable input

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

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

33. Comparatives

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