SECURITIES AND INVESTMENT COMPANY BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2013

Comprehensive investment services for the Bahrain and GCC securities market

Commercial registration	:	33469
Board of Directors	:	Shaikh Abdulla bin Khalifa Al Khalifa, Chairman of the Board and Chairman of the Investment Committee
		Hussain Al Hussaini, *Vice Chairman of the Board and Member of the Investment Committee*
		Sawsan Abul Hassan *Vice Chairman of the Investment Committee*
		Mohammed Abdulla *Vice Chairman Of Nominations, Remuneration & Corporate Governance Committee*
		Mahmoud Zewam *Member of the Audit Committee*
		Anwar Abdulla Ghuloom *Member of Nominations, Remuneration & Corporate Governance Committee*
		Fahad Murad *Chairman Of Nominations, Remuneration & Corporate Governance Committee*
		Meshary Al Judaimi *Vice Chairman of the Audit Committee*
		Yousif Saleh Khalaf *Chairman of the Audit Committee*
Chief Executive Officer	:	Anthony C Mallis
Office	:	1st & 2nd Floor, 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 2013

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BOARD OF DIRECTORS' REPORT
for the year ended 31 December 2013

Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2013. The Bank posted an excellent overall performance as measured by financial results, business activities and infrastructure enhancements.

I am pleased to report that SICO posted a very strong financial performance in 2013, with net profit increasing by 76% to BD 5.1 million compared with BD 2.9 million in the previous year; while operating income rose to BD 10.6 million from BD 7.5 million in 2012. Basic earnings per share grew by 77% to 11.89 fils from 6.71 fils in 2012. At the end of 2013, total balance sheet footings had grown by 20% to BD 94.2 million from BD 78.4 million at the end of the previous year. SICO continued to maintain a solid capital base, with shareholders' equity increasing to BD 61.9 million from BD 57.3 in 2012, and a strong consolidated capital adequacy ratio of 62.3%, which is substantially higher than Central Bank of Bahrain's requirement.

Our financial results for 2013 reflect the encouraging growth recorded by all of the Bank's business lines, and the receipt of new mandates in the areas of discretionary portfolio management, agency brokerage, corporate finance, and custody and administration. In particular, assets under management increased by 39% to BD 317 million from BD 228 million at the end of last year, reinforcing SICO's growing reputation as a leading institutionally-focused GCC public markets asset manager; and with the highest graded equity funds by Standard & Poor's Capital IQ in the MENA region. It is encouraging that fee and commission-based income now accounts for 50% of total income, achieving the optimum 50:50 balance between proprietary income and fee and commission based revenue. Balanced and diversified revenue generators will enable SICO to better withstand market volatility.

Based on SICO's 2013 financial results, and in accordance with the Bahrain Commercial Companies Law 2001, BD 542 thousand has been transferred to the Statutory Reserve.

Further, the Board is recommending the following appropriations for approval by the shareholders:

1. Transfer of BD 542 thousand to the General Reserve;
2. Payment of a cash dividend of BD 3.2 million to shareholders, representing 7.5 per cent of paid-up capital;
3. Directors' remuneration of BD 120 thousand.

Total shareholders' equity after appropriation of the Statutory Reserve is BD 61.9 million compared with BD 57.3 million in 2012.

The Bank is authorised to spend BD 30 thousand in the year 2014 on supporting charitable, cultural and educational activities.

During the year, we enhanced the Bank's highly-regarded independent research services with the launch of a new interactive research portal. This provides clients with convenient and flexible access to one of the most comprehensive research databases in the MENA region to complement their investment decision-making process. In addition, we significantly strengthened the Bank's operating infrastructure through the successful testing, implementation and auditing of phase I of the new core banking system. A world-class support infrastructure is a critical success factor of SICO's vision to be a leading regional investment bank, operating at highest levels of efficiency, effectiveness and customer service.

In 2013, we further enhanced the Bank's corporate governance and risk management framework in line with global best practice, and to ensure ongoing compliance with the latest regulatory requirements by the Central Bank of Bahrain and the Bahrain Bourse. A significant development was the promotion of Chief Operating Officer Ms Najla M. Al Shirawi to the newly-created position of Deputy Chief Executive Officer. This illustrates SICO's continuous commitment to enhancing its corporate structure and succession planning in preparation for a time when the baton is transferred to a younger generation. On behalf of the Board, I take this opportunity to congratulate Najla, who will add depth and continuity to the management team, and play an even closer role in SICO's evolving strategic development across the region.

It is pleasing to note that the Bank continued to make encouraging progress in implementing its strategic expansion plans in the region, with our brokerage subsidiary – SICO UAE – completing its first full year of operations in 2013. We are currently looking at opportunities to replicate this development in other parts of the GCC, and also to expand the footprint of other core business lines. In line with our traditionally prudent approach, any future expansion will be conducted only if it makes sound business sense, and is aligned with the best interests of our shareholders and clients.

Looking ahead to 2014, we are optimistic on the new growth opportunities for SICO. Given the buoyant market conditions in the GCC – in contrast to the lackluster performance of most major emerging markets – the Bank is well-positioned to take advantage of the vast amount of liquidity in the system, and the likelihood of increased inflows to the region.

SICO is well capitalised, highly liquid and largely unleveraged. We will maintain our prudent risk philosophy and disciplined business philosophy to honor our commitment to provide shareholders with acceptable risk-adjusted returns in a volatile economic and financial environment.

In October 2013, the Chief Executive Officer, Tony Mallis, announced his decision to retire from the Bank. The Board accepted his retirement with regret, while respecting his reasons. He will remain in his present role until a successor is appointed. The timing of his decision enabled the Board to facilitate an orderly transition of leadership without undue haste or disruption to the Bank's operations.

Since joining in December 2000, Tony has spearheaded the transformation of SICO from essentially a brokerage house to a greatly-respected regional investment bank. His prudent business approach and enlightened management style enabled SICO to survive and prosper during a period of global economic upheaval and financial crises, and escalating regional socio-political tensions. Working closely with the directors and management, he has guided the expansion of the Bank's business activities and support infrastructure, and reinforced its reputation for the highest standards of governance and professionalism. We thank him most sincerely for his enormous contribution, and wish him well in his future endeavors.

While his retirement is a sad occasion, we should remember that it is part of the natural evolution of any business. The Board has every confidence that the new CEO will build upon Tony's sterling groundwork over the past 13 years to lead our high-caliber management team and staff in implementing the next phase of SICO's strategic evolution in the region, and continue to transform the Bank in a world of change.

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

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

Abdulla bin Khalifa Al-Khalifa
Chairman of the Board

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
Securities and Investment Company BSC(c)
Manama, Kingdom of Bahrain

17 February 2014

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Securities and Investment Company BSC (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

KPMG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

Bahraini Dinars '000

	Note	2013	2012 (restated)	2011 (restated)
Assets				
Cash and cash equivalents	7	32,799	32,544	20,050
Investments at fair value through profit or loss	8	19,815	16,123	18,873
Available-for-sale investments	9	32,743	21,832	25,145
Fees receivable	10	1,980	444	382
Other assets	11	5,046	7,271	6,472
Furniture, equipment and intangibles	12	1,812	235	36
Total assets		**94,195**	78,449	70,958
Liabilities and equity				
Liabilities				
Short-term bank borrowings	13	7,094	4,899	6,108
Customer accounts	14	19,620	13,416	8,174
Other liabilities	15	3,244	2,763	2,486
Payable to other unit holders	6	2,373	82	307
Total liabilities		**32,331**	21,160	17,075
Equity				
Share capital	16	42,849	42,726	42,652
Statutory reserve	17	5,567	4,984	4,650
General reserve	18	2,100	1,786	1,737
Available-for-sale investments fair value reserve		2,456	911	435
Retained earnings		8,892	6,882	4,409
Total equity (page 7)		**61,864**	57,289	53,883
Total liabilities and equity		**94,195**	78,449	70,958

The Board of Directors approved the consolidated financial statements consisting of pages 4 to 46 on 17 February 2014, and sign on its behalf by:

Shaikh Abdulla Bin Khalifa Al Khalifa Chairman	Hussain Al Hussaini Vice Chairman	Anthony C. Mallis Chief Executive Officer

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2013

Bahraini Dinars '000

	Note	2013	2012 (restated)
Interest income	19	1,395	1,423
Interest expense	19	(80)	(126)
Net interest income		**1,315**	1,297
Net fee and commission income	20	3,989	2,220
Net investment income	21	4,027	3,310
Brokerage and other income	22	1,249	671
Total income		**10,580**	7,498
Staff and related expenses	23	(3,688)	(3,188)
Other operating expenses	24	(1,646)	(1,259)
Impairment on available-for-sale investments		(155)	(184)
Profit for the year		**5,091**	2,867
Basic and diluted earnings per share (fils)	30	**11.89**	6.71

	Note	2013	2012 (restated)
Attributable to:			
Equity holders of the parent		4,884	2,859
Unit holders	6	207	8
		5,091	2,867

Shaikh Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Anthony C. Mallis
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 2013

Bahraini Dinars '000

	2013	2012 (restated)
Profit for the year	**5,091**	2,867
Other comprehensive income		
Items to be reclassified to profit or loss in subsequent periods:		
Fair value reserve (available-for-sale investments):		
- Net change in fair value	3,304	1,613
- Net amount transferred to statement of profit or loss on sale / impairment	(1,268)	(1,054)
- Profit on part disposal of consolidated fund	(491)	(83)
Total other comprehensive income for the year	**1,545**	476
Total comprehensive income for the year	**6,636**	3,343

Attributable to:		
Equity holders of the parent	6,429	3,335
Unit holders	207	8
	6,636	3,343

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 2013

Bahraini Dinars '000

2013	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2013 (restated – page 8)	42,726	4,984	1,786	911	6,882	57,289
- Transfer to general reserve	-	-	314	-	(314)	-
- Transfer to Statutory reserve	-	542	-	-	(542)	-
- Issue of shares to employees' scheme	123	41	-	-	-	164
Comprehensive income for the year:						
Profit for the year	-	-	-	-	4,884	4,884
Other comprehensive income:						
Revaluation reserve (available-for-sale securities):						
Net change in fair value	-	-	-	3,304	-	3,304
Net amount transferred to statement of profit or loss on sale / impairment	-	-	-	(1,268)	-	(1,268)
Profit on part disposal of consolidated fund	-	-	-	(491)	676	185
Unrealised gain on consolidated funds transferred to retained earnings	-	-	-	-	(558)	(558)
Total other comprehensive income	-	-	-	1,545	-	1,545
Total comprehensive income for the year	-	-	-	1,545	5,002	6,547
Transactions with owners:						
- Dividends paid	-	-	-	-	(2,136)	(2,136)
Balance at 31 December 2013	42,849	5,567	2,100	2,456	8,892	61,864

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 2013 *(continued)*

Bahraini Dinars '000

2012 (restated)	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2012(as previously reported)	42,652	4,650	1,737	443	4,401	53,883
Adjustment due to adoption of IFRS 10 (note 5)	-	-	-	(8)	8	-
Restated balance	42,652	4,650	1,737	435	4,409	53,883
- Transfer to general reserve	-	-	49	-	(49)	-
- Issue of shares to employees' scheme	74	20	-	-	-	94
Transfer to statutory reserve		314			(314)	-
Comprehensive income for the year:						
Profit for the year	-	-	-	-	2,859	2,859
Other comprehensive income:						
Revaluation reserve (available-for-sale securities):						
Net change in fair value	-	-	-	1,613	-	1,613
Net amount transferred to statement of profit or loss on sale / impairment	-	-	-	(1,054)	-	(1,054)
Profit on part disposal of consolidated fund	-	-	-	(83)	83	-
Unrealised gain on consolidated fund transferred to retained earnings	-	-	-	-	(106)	(106)
Total other comprehensive income	-	-	-	476	-	476
Total comprehensive income for the year	-	-	-	476	2,836	3,312
Balance at 31 December 2012	42,726	4,984	1,786	911	6,882	57,289

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 2013 Bahraini Dinars '000

	Note	2013	2012 (restated)
Operating activities			
Net interest received		1,250	1,296
Sale of investments at fair value through profit or loss		149,442	143,293
Purchase of investments at fair value through profit or loss		(151,082)	(138,958)
Sale of available-for-sale investments		18,597	53,377
Purchase of available-for-sale investments		(26,693)	(48,536)
Net increase in customer accounts		6,204	5,242
Dividends received		703	543
Brokerage and other fees received		4,513	2,276
Payments for staff and related expenses		(3,268)	(3,026)
Payments for other operating expenses		(1,574)	(1,022)
Net cash (used In) / from operating activities		**(1,908)**	14,485
Investing activities			
Advance for purchase of equipment		-	(241)
Net capital expenditure on furniture and equipment		(92)	(289)
Net cash used in investing activities		**(92)**	(530)
Financing activities			
Net proceeds / (repayments) of short-term bank borrowings		2,195	(1,209)
Net proceeds / (payments) from issue / (redemption) of units		2,196	(252)
Dividends paid		(2,136)	-
Net cash from / (used in) financing activities		**2,255**	(1,461)
Net increase in cash and cash equivalents		**255**	12,494
Cash and cash equivalents at the beginning of the year		32,544	20,050
Cash and cash equivalents at the end of the year	7	**32,799**	32,544

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

These consolidated financial statements include the accounts 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 investment securities at fair value through profit or loss and available-for-sale securities.

(c) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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) New standards, amendments and interpretations effective from 1 January 2013

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group.

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

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. Comparative information has been represented on the same basis.

2 Basis of preparation (continued)

(d) New standards, amendments and interpretations effective from 1 January 2013 (continued)

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

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. As a consequence, the Group has changed its consolidation conclusions for certain funds.

The adoption of IFRS 10 resulted in the Group consolidating SICO Kingdom Equity Fund ("SKEF") for which the Group acts as fund manager. Accordingly, the comparatives have been restated. The interest in SFIF was acquired during the current year and hence it did not result in any restatement of prior period comparatives.

IFRS 12 - Disclosures of interests in other entities

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

As a result of IFRS 12, the Group has expanded its disclosures for its interests in subsidiaries and other entities comprising the funds managed by the Bank (see note 5 and 6).

IFRS 13 - Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

The change had no significant impact on the measurements of the Group's assets and liabilities but the Group has included additional disclosures in the financial statements (see note 32). In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

Improvements to IFRSs (2011)

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

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

The following standards and interpretations have been issued and are expected to be relevant to the Group but not yet effective for the year ended 31 December 2013.

IFRS 9 'Financial Instruments'

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions to the standard relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

2 Basis of preparation (continued)

(e) New standards, amendments and interpretations issued but not yet effective (continued)
IFRS 9 'Financial Instruments' (continued)

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

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

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

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

The Group is considering the implications of the standard, the impact and timing of its adoption.

2 *Basis of preparation (continued)*

(e) *New standards, amendments and interpretations issued but not yet effective (continued)*

Amendments to IAS 32 on offsetting financial assets and financial liabilities (2011)
Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement.

The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

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

Amendments to IAS 36 on recoverable amount disclosures for non-financial assets
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) have expanded disclosures of recoverable amounts when the amounts are based on fair value less costs of disposals and impairment is recognized.

The amendments are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

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

(f) Early adoption of standards
The Group did not early adopt new or amended standards in 2013.

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 except for the changes arising from adoption of new and amended standards (refer note 2(d)).

(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 recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

3 *Significant accounting policies (continued)*

(b) Foreign currencies

(i) Functional and presentation currency

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

(ii) 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. Realized and unrealized foreign exchange profits and losses are included in other income except with regards to available-for-sale securities which are taken to equity.

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

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, 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.

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.

Estimations

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity security is impaired when there is objective evidence of impairment. A significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. This determination of what is significant or prolonged requires 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.

(d) Investment securities

(i) Classification

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

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

3 Significant accounting policies (continued)

(d) Investment securities (continued)

(ii) Recognition and de-recognition

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

(iii) Measurement

Investments at fair value through profit or loss are initially recognised at fair value, with transaction costs recognized directly in the 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.

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

(iv) Fair value measurement

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

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of the relevant observable inputs and 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 maximise the use of relevant observable inputs.

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

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

(v) Impairment

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

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.

3 Significant accounting policies (continued)

(d) Investment securities (continued)

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 and 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.

(h) Impairment of financial assets carried at amortised cost

For 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 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

3 *Significant accounting policies (continued)*

(j) Bank borrowings

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

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

(l) Customer accounts

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

(m) Employee benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General 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.

(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 recognised on the settlement date i.e. the date the Group receives or delivers the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3 Significant accounting policies (continued)

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

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

(u) Fee and commission

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

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

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

(v) Net investment income

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

(w) Dividend income

Dividend income is 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 marketing income. These fees are 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 Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, corporate finance, market making and custody business. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in the financial statements.

4. Financial risk management

(a) Introduction and overview

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

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

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

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

The Board has set up an independent Risk Management Unit that provides leadership, direction and coordination of the efforts in managing the risks. It provides a holistic, integrated, future-focused, and process-oriented approach to enable the Group to balance its key business risks and opportunities with the intent of 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. In Asset Management and Investment and Treasury Departments, deals routed through counterparty brokers gives rise to counterparty credit risk.

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

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

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

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

Notes to the 31 December 2013 consolidated financial statements Bahraini Dinars '000

4 *Financial risk management (continued)*

(b) *Credit risk (continued)*

Exposure to credit risk

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

	2013	2012 (restated)
Cash and cash equivalents	32,799	32,544
Investments at fair value through profit or loss	9,162	7,524
Available-for-sale investments	7,331	4,324
Fee receivable	1,980	444
Other receivables	3,238	3,984
	54,510	48,820

Currently only the Margin Trading Lending on the GCC Stock Exchange is subject to formal collateral arrangement. This scheme is undertaken in accordance with the related regulation issued by the Central Bank of Bahrain. The shares in the Margin Trading portfolio is held as collateral against the amount lent to the customer. Such shares are marked to market on a daily basis. If there is any deficit in the minimum equity ratio, then a maintenance margin call is issued.

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

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 2013 was BD 11,569 (2012: BD 10,724), relating to "cash and cash equivalents, investments at fair value through profit or loss and available for sale investments".

Notes to the 31 December 2013 consolidated financial statements — Bahraini Dinars '000

4 Financial risk management (continued)
(b) Credit risk (continued)

Geographical Exposure Distribution

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

2013	**GCC countries**	**North America**	**Europe**	**Total**
Assets				
Cash and cash equivalents	32,002	-	797	32,799
Investments at fair value through profit or loss	18,332	-	1,483	19,815
Available-for-sale investments	16,392	7,033	9,318	32,743
Fees receivable	1,980	-	-	1,980
Other assets	3,190	9	39	3,238
Total assets	71,896	7,042	11,637	**90,575**
Liabilities				
Short-term bank borrowings	7,094	-	-	7,094
Customer accounts	19,401	10	209	19,620
Other liabilities	3,244	-	-	3,244
Payable to unit holders	2,373	-	-	2,373
Total liabilities	31,112	10	209	32,331

2012 (restated)	GCC countries	North America	Europe	Total
Assets				
Cash and cash equivalents	28,508	-	4,036	32,544
Investments at fair value through profit or loss	14,125	1,119	879	16,123
Available-for-sale investments	11,092	3,140	7,600	21,832
Fees receivable	444	-	-	444
Other assets	3,949	27	8	3,984
Total assets	58,118	4,286	12,523	74,927
Liabilities				
Short-term bank borrowings	3,847	-	1,052	4,899
Customer accounts	13,336	41	39	13,416
Other liabilities	2,763	-	-	2,763
Payable to unit holders	82	-	-	82
Total liabilities	20,028	41	1,091	21,160

Notes to the 31 December 2013 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

(b) Credit risk (continued)

The distribution of assets by industry sector is as follows:

2013	**Financial services**	**Others**	**Total**
Total Assets	63,407	27,168	**90,575**
Total Liabilities	11,584	20,747	**32,331**

2012 (restated)	Financial services	Others	Total
Total Assets	51,371	23,556	74,927
Total Liabilities	10,154	11,006	21,160

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 SFSCO.

It originates from the mismatches in the maturity pattern of assets and liabilities or other defaults that could result in its funding and credit lines drying up. Measuring and managing liquidity needs are considered vital for effective operation of the Bank.

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

The Bank faces three types of liquidity risks as follows:

- Funding Risk – need to replace net outflows due to unanticipated withdrawal/non-renewal of call deposit accounts, borrowing or inability to liquidate financial assets in time;
- Operating Liquidity - need to compensate for low liquidity of investments or markets and non-receipt of expected inflows of funds;
- Call Risk - due to 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.

Notes to the 31 December 2013 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

(c) Liquidity risk (continued)

The residual contractual maturity of financial liabilities is as follows:

2013	**Carrying value**	**Gross outflow**	**Less than 1 year**	**1 to 5 years**	**Above 5 years**
Short-term bank borrowings	7,094	7,097	7,097	-	-
Customer accounts	19,620	19,620	19,620	-	-
Other liabilities	3,244	3,244	3,244	-	-
Payable to unit holders	2,373	2,373	2,373	-	-
	32,331	**32,334**	**32,334**	-	-

2012 (restated)	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short-term bank borrowings	4,899	4,902	4,902	-	-
Customer accounts	13,416	13,416	13,416	-	-
Other liabilities	2,763	2,763	2,763	-	-
Payable to unit holders	82	82	82	-	-
	21,160	21,163	21,163	-	-

(d) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether these changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Bank, as part of its normal operations, is exposed to market risk with regard to its investments in trading and available-for-sale securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio and Market Making Policies and Guidelines set by the Investment Committee and the Group's management.

Market Risk Management thus involves management of equity price risk, interest rate risk and foreign exchange risk.

(i) *Equity Price Risk*

Equity investment activities have a significant impact on earnings and business relationships in the bank. Only the equities and equity based funds are considered by the Bank for the purpose of market risk management and market risk capital computation.

Active management of investments is a well-known method of risk management in equities. Portfolio diversification on the basis of industry, sector, geographic, and market factors enables the Bank to diversify its risks. There are well defined Investment Policies and Procedures approved by the Board that govern the Trading as well as Available-for-Sale Portfolios.

Formal valuation policies that specify appropriate and sound portfolio valuation methodologies have been established for investments in listed companies and indirect fund investments. Marking the equity portfolio to market on a daily basis ensures that the 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.

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4 Financial risk management (continued)

(d) Market risk (continued)

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 portfolio and AFS reserve is given below:

	Investments at fair value through profit or loss		**Available-for-sale investments**	
	2013	2012 (restated)	**2013**	2012 (restated)
Increase of 1%	**198**	161	327	218
Decrease of 1%	**(198)**	(161)	(327)	(218)

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

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

The Bank has exposures to debt instruments issued by GCC institutions in its proprietary portfolios. There is no ready market for selling some of these instruments and these can only be traded Over-The-Counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. Some debt instruments are unrated.

The Bank follows the 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.

Notes to the 31 December 2013 consolidated financial statements Bahraini Dinars '000

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

Interest rate re-pricing profile

2013	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	9,584	9,584
Call deposits*	-	1,347	-	-	1,347
Placements with banks	1.41%	21,868	-	-	21,868
Investments at fair value through profit or loss	7.01%	444	8,718	10,653	19,815
Available-for-sale investments	5.92%	-	7,332	25,411	32,743
Furniture and equipment	-	-	-	1,812	1,812
Fees receivable	-	-	-	1,980	1,980
Other assets	-	-	-	5,046	5,046
Total assets		**23,659**	**16,050**	**54,486**	**94,195**
Short-term bank borrowings	0.94%	7,094	-	-	7,094
Customer accounts		-	-	19,620	19,620
Other liabilities		-	-	3,244	3,244
Payable to unit holders		-	-	2,373	2,373
Total liabilities		**7,094**	**-**	**25,237**	**32,331**
Equity		**-**	**-**	**61,864**	**61,864**
Total liabilities and equity		**-**	**-**	**87,101**	**94,195**
Interest rate sensitivity gap		**16,565**	**16,050**	**32,615**	**-**
Cumulative interest rate sensitivity gap		**16,565**	**32,615**	**-**	**-**

Notes to the 31 December 2013 consolidated financial statements Bahraini Dinars '000

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

Interest rate re-pricing profile

2012 (restated)	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	7,830	7,830
Call deposits*	-	3,304	-	-	3,304
Placements with banks	1.52%	21,410	-	-	21,410
Investments at fair value through profit or loss	7.60%	861	6,664	8,598	16,123
Available-for-sale investments	6.27%	-	4,324	17,508	21,832
Furniture and equipment	-	-	-	235	235
Fees receivable	-	-	-	444	444
Other assets	-	-	-	7,271	7,271
Total assets		25,575	10,988	41,886	78,449
Short-term bank borrowings	0.96%	4,899	-	-	4,899
Customer accounts	-	-	-	13,416	13,416
Other liabilities	-	-	-	2,763	2,763
Payable to unit holders	-	-	-	82	82
Total liabilities		4,899	-	16,261	21,160
Equity		-	-	57,289	57,289
Total liabilities and equity		4,899	-	73,550	78,449
Interest rate sensitivity gap		20,676	10,988	31,664	-
Cumulative interest rate sensitivity gap		20,676	31,664	-	-

* At 31 December 2013 the effective interest rate on Bahraini Dinar call deposits is NIL (2012: 0.225% p.a.) and on USD call deposits is Nil (2012: NIL).

(iii) Exchange risk

Exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. Most of the Bank's foreign currency exposures are in GCC currencies and United States Dollar. Such exposures include short-term fixed deposits, investments in securities and due from/ to customers. Since the Bahraini Dinar and all GCC currencies except for KWD are effectively pegged to the US Dollar, currency risk is minimal.

(e) Operational risk

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

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, and segregation of duties, approval authorities, reconciliations, and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provides support in this control activity. Regular custodial position reconciliations and bank reconciliations provide key strengths to mitigate operational risks. There is also a professional indemnity insurance cover in place.

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4 *Financial risk management (continued)*

(e) *Operational risk (continued)*

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. There is a well laid out plan to introduce middle office functionalities to ensure better compliance management. 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.

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

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

Based on year end balances

	2013	2012 (restated)
Risk weighted exposure		
Credit risk	56,668	42,131
Market risk	29,922	23,736
Operational risk	10,167	10,071
Total risk weighted assets	**96,757**	75,938
Tier 1 Capital	59,365	56,158
Tier 2 Capital	919	157
Total regulatory capital	**60,284**	56,315
Capital adequacy ratio	**62.31%**	74.16%

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4 Financial risk management (continued)

(f) Capital management (continued)

Based on full year average balances

	2013	2012 (restated)
Risk weighted exposure		
Credit risk	53,607	56,240
Market risk	28,106	20,808
Operational risk	10,167	10,053
Total risk weighted assets	**91,880**	87,101
Tier 1 Capital	55,579	53,843
Tier 2 Capital	2,057	1,235
Total regulatory capital	**57,636**	55,078
Capital adequacy ratio	**62.73%**	63.23%

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

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to 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.

5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2013. 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:

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5 Subsidiaries (continued)

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 II BSC (c)	100%	2005	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company V BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
7. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
8. SICO Funds Company VII BSC (c)	100%	2010	Bahrain	Umbrella company for SICO mutual funds
9. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO.
10. Securities and Investment Company(UAE) LLC	100%	2011	UAE	Brokerage services
11. SICO Kingdom Equity Fund	70%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
12. SICO Fixed Income Fund	59%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks

The adoption of IFRS 10 resulted in the Group consolidating SICO Kingdom Equity Fund ("SKEF") and the SICO Fixed Income Fund ("SFIF"). In accordance with the transitional requirements of IFRS 10, the Group has re-assessed the control conclusion for its investees as of 1 January 2013. As a consequence, the Group has changed its consolidation conclusion in respect of SKEF for which the Group acts as fund manager. Accordingly, the comparatives have been restated. The interest in SFIF was acquired during the current year and hence it did not result in any restatement of prior period comparatives.

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The effect of the restatement from consolidation of SKEF is given below:

Statement of financial position

	31 December 2012		
	As previously reported	Restatement adjustment	After restatement
ASSETS			
Cash and cash equivalents	32,525	19	32,544
Investments at fair value through profit or loss	14,727	1,396	16,123
Available-for-sale investments	23,155	(1,323)	21,832
Fees receivable	452	(8)	444
Liabilities			
Other liabilities	2,757	6	2,763
Payable to unit holders	-	82	82
Equity			
Available-for-sale investments fair value reserve	1,020	(109)	911
Retained earnings	6,777	105	6,882

	31 December 2011		
	As previously reported	Restatement adjustment	After restatement
ASSETS			
Cash and cash equivalents	19,964	86	20,050
Investments at fair value through profit or loss	16,738	2,135	18,873
Available-for-sale investments	27,038	(1,893)	25,145
Fees receivable	390	(8)	382
Liabilities			
Other liabilities	2,470	16	2,486
Payable to unit holders	-	307	307
Equity			
Available-for-sale investments fair value reserve	443	(8)	435
Retained earnings	4,401	8	4,409

Statement of profit or loss

	31 December 2012		
	As previously reported	Restatement adjustment	After restatement
Investment income	3,133	177	3,310
Net fee and commission income	2,255	(35)	2,220
Brokerage and other income	668	3	671
Other operating expenses	1,242	18	1,260

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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

	2013	2012
Other unit holders' share	30%	4%
Cash and cash equivalents	93	19
Investment at fair value through profit or loss	2,655	2,036
Other assets	38	-
Other liabilities	15	12
Net assets	2,771	2,043
Carrying amount of payable to other unit holders	**821**	82
Investment income	805	240
Profit	745	191
Total comprehensive income	745	191
Profit allocated to other unit holders	**221**	7
Cash flows from operating activities	92	280
Cash flows from financing activities	(18)	(347)
Net increase / (decrease) in cash and cash equivalents	74	(67)

SICO Fixed Income Fund

	2013
Other unit holders' share	41%
Cash and cash equivalents	217
Investment at fair value through profit or loss	3,531
Other assets	58
Other liabilities	10
Net assets	3,796
Carrying amount of payable to other unit holders	**1,552**
Investment income	4
Loss	(35)
Total comprehensive income	(35)
Loss allocated to other unit holders	(14)
Cash flows from operating activities	(3,614)
Cash flows from financing activities	3,831
Net increase / (decrease) in cash and cash equivalents	**217**

7. Cash and cash equivalents

	2013	2012 (restated)
Cash and bank balances	9,584	7,830
Call deposits	1,347	3,304
Short term placements with banks	21,868	21,410
	32,799	32,544

Cash and cash equivalents include bank balances amounting to BD 3,228 (2012: BD 5,134) held on behalf of discretionary customer accounts.

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8. Investments at fair value through profit or loss

	2013	2012 (restated)
Trading		
Equity securities – listed	9,473	5,435
Funds		
- Quoted	1,180	2,045
- Unquoted	-	1,119
	1,180	3,164
Debt securities – quoted	**9,162**	6,663
Total Trading	**19,815**	15,262
Designated *securities*		
Debt securities – unquoted	-	861
	19,815	16,123

Investments at fair value through profit or loss as at 31 December 2013 include securities amounting to BD 2,819 (31 December 2012: 1,319), sold under agreement to repurchase.

9. Available-for-sale investments

	2013	2012 (restated)
Equity securities		
- Quoted (listed)	7,904	4,596
- Unquoted	2,269	425
	10,173	5,021
Funds		
- Quoted	7,008	1,253
- Unquoted	8,231	11,234
	15,239	12,487
Debt securities		
-Quoted	7,033	4,033
-Unquoted	298	291
	7,331	4,324
	32,743	21,832

Available-for-sale investments as at 31 December 2013 include securities amounting to BD 1,598 (31 December 2012: Nil), sold under agreement to repurchase.

10. Fees receivable

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

	2013	2012 (restated)
Management & administration fees	484	361
Performance fee	1,452	-
Custody fee	44	83
	1,980	444

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11. Other assets

	2013	2012
Receivables from clients and brokers	2,469	3,254
Guarantee deposit with the Bahrain Stock Exchange	500	500
Employee share incentive scheme	1,559	1,395
Prepaid expenses	248	1,892
Interest receivable	256	191
Other receivables	14	39
	5,046	7,271

12. Furniture, equipment and intangibles

	Software	Furniture and Equipment	2013 Total	2012 Total
Cost				
At 1 January	327	790	1,117	826
Additions	1,686	192	1,878	292
Disposals	-	(19)	(19)	(1)
At 31 December	**2,013**	**963**	**2,976**	1,117
Depreciation				
At 1 January	315	567	882	790
Charge for the year	146	155	301	94
Disposals	-	(19)	(19)	(2)
At 31 December	**461**	**703**	**1,164**	882
Net book value at 31 December 2013	**1,552**	**260**	**1,812**	
Net book value at 31 December 2012	12	223		235
Cost of fully depreciated assets in use			786	787

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

13. Short-term bank borrowings

Short-term bank borrowings include borrowings under repurchase agreements of BD 3,209 (2012: BD 1,052). The fair value of the investments at fair value through profit or loss and available-for-sale investments pledged as collateral amounts to BD 4,417 (2012: BD 1,319).

14. Customer accounts

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

15. Other liabilities

	2013	2012 (restated)
Brokerage fee payable to counterparty	3	173
Accrued expenses	186	225
Provision for employee indemnities	490	435
Employee share incentive scheme liability	1,655	1,601
Other payables	910	329
	3,244	2,763

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16. Share capital

	2013	2012
Authorized share capital		
1,000,000,000 (2012: 1000,000,000) shares of 100 fils each	**100,000**	100,000

	2013	2012
Issued and fully paid		
At 1 January 2013: 427,258,940 ordinary shares of 100 fils each (2012: 426,520,230 ordinary shares of 100 fils each)	42,726	42,652
Issue of shares to employee share incentive scheme trustees during the year	123	74
As at 31 December 2013: 428,487,741 ordinary shares of 100 fils each (2012: 427,258,940 ordinary shares of 100 fils each)	**42,849**	42,726

During the current year, the Bank issued 1,228,801 shares of BD 100 fils each under the employee share incentive scheme for the year 2012 to Volaw Trust & Corp service Ltd. at the 31 December 2012 NAV of 134 fils per share (2012: 738,710 shares of 100 fils each at the 31 December 2011 NAV of 127 fils per share). Accordingly the share capital was increased by BD 123 (2012: BD 74) to the extent of the nominal value of the shares of 100 fils each. The share premium of BD 41 (2012: BD 20) relating to the issue of these shares at a premium of 34 fils (2012: 27 fils) per share has been credited to the statutory reserve.

Appropriations

	2013	2012
Proposed dividend – 7.5 % (2012: 5%)	**3,214**	2,136
General reserve	542	314

The shareholders are:

	Nationality	**2013**		2012	
		Capital	% holding	Capital	% holding
Pension Fund Commission	Bahrain	9,322.5	21.76	9,322.5	21.82
General Org. for Social Insurance	Bahrain	6,600.0	15.40	6,600.0	15.45
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.55
Ahli United Bank (Bahrain) BSC	Bahrain	5,115.0	11.94	5,115.0	11.97
Bank of Bahrain and Kuwait BSC	Bahrain	4,125.0	9.63	4,125.0	9.66
Arab Investment Resources Co EC	Bahrain	3,300.0	7.70	3,300.0	7.72
Arab Banking Corporation BSC	Bahrain	3,300.0	7.70	3,300.0	7.72
Gulf Investment Corporation GSC	Kuwaiti	3,300.0	7.70	3,300.0	7.72
Al Salam Bank – Bahrain BSC	Bahrain	825.0	1.93	825.0	1.93
Volaw Trust & Corp Service Ltd.	Jersey	1,599.0	3.73	1,476.0	3.46
		42,849	**100.0**	42,726	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.144 (2012: BD 0.134).

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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 542 (2012: BD 314).

The share premium of BD 41 (2012: BD 20) arising from the issue of shares under employee share incentive scheme has been adjusted to statutory reserve.

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.

19. Interest income/ expense

	2013	2012
Interest income from:		
Placements and call deposits	348	404
Investments in debt instruments	962	952
Margin lending	85	67
	1,395	1,423
Interest expense on:		
Bank borrowings	80	113
Customer accounts	-	13
	1,315	1,297

20. Fee and commission income/ expense

	2013	2012 (restated)
Fee and commission income from trust or other fiduciary activities		
- Management fee	2,241	1,985
- Performance fee	1,458	-
- Custody fee	386	265
	4,085	2,250
Fee and commission expense		
- Custody fee	(37)	(30)
- Collection fee	(59)	-
Net fee and commission income	**3,989**	2,220

21. Net investment income

	2013	2012 (restated)
Net gain / (loss) on investments carried at fair value through profit or loss	1,901	1,529
Gain on sale of available-for-sale investments	1,423	1,238
Dividend income on investments carried at fair value through profit or loss	310	290
Dividend income on available-for-sale investments	393	253
	4,027	3,310

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21 Net investment income (continued)

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

	2013	2012 (restated)
Realized gain / (loss) on sale	1,171	1,306
Unrealized fair value gain / (loss)	730	223
	1,901	1,529

22. Brokerage and other income

	2013	2012 (restated)
Brokerage income	837	385
Investment banking income	166	60
Foreign exchange gain	224	150
Other income	22	76
	1,249	671

23. Staff and related expenses

	2013	2012
Salaries and allowances	3,460	2,967
Social security costs	130	122
Other costs	98	99
	3,688	3,188

As at 31 December 2013, the Group employed 55 (2012: 51) Bahrainis and 36 (2012: 39) expatriates.

The Group's contributions for the year to the General Organization for Social Insurance in respect of its employees amounted to BD 130 (2012: BD 122).

Other costs include a provision of BD 98 (2012: 99) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

24. Other operating expenses

	2013	2012 (restated)
Rent	114	119
Communication expenses	241	231
Marketing expenses	137	118
Professional fees	125	187
Other operating expenses	728	511
Depreciation	301	93
	1,646	1,259

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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 II BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC, SICO Funds Company V BSC (c), SICO Funds Company VI BSC (c), SICO Funds Company VII BSC (c) and SICO Ventures Company SPC. in the ordinary course of business and also has investments in certain funds.

	2013	2012 (restated)
Fee and commission income	657	624
Fee receivable	202	151
Investments:		
Available for sale investments		
- Khaleej Equity Fund	987	777
- SICO Selected Securities Fund	175	152
Investments carried at fair value through profit or loss		
SICO Money Market Fund	1,179	1,166

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 3,885 (2012: 3,847). 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.

	2013	2012 (restated)
Fee and commission income	1,597	301
Fee receivable	1,266	24
Funds under management	50,541	40,088
Borrowings as at 31 December	**3,885**	3,847
Borrowings obtained during the year	3,885	3,847
Borrowings repaid during the year	3,847	3,847

Key Management Personnel

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

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Compensation to key management personnel is as follows:

	2013	2012
Short term benefits	991	992
Post employment benefits	51	51
Equity compensation benefits	113	106
	1,155	1,149

Other operating expenses include BD 170 (2012: BD 50) 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 2013 amounted to BD 1,559 (2012: 1,395).

The Group has recognized an employee liability of BD 1,655 (2012: 1,601) 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 2013 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

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

	2013		2012	
	No. of shares issued	**Value**	No. of shares issued	Value (Restated)
As at 1 January	14,758,940	1,395	14,020,230	1,301
Shares issued during the year *	1,228,801	164	738,710	94
	15,987,741	**1,559**	14,758,940	1,395

During the year, the Bank issued 1,228,801 new shares under the Scheme for the year 2012 as proposed by the Board of Directors and approved at the Annual General meeting which was held on 25 March 2013. (1,365,669 eligible shares net of 136,868 shares pertaining to employees who left the Group in 2012 whose obligation was cash settled).

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

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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
Employee share incentive scheme trust	• To hold the shares in trust under Employee share incentive scheme.	• None

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

	2013	2012
Investments in funds		
SICO Selected Securities Fund	175	152
Khaleej Equity Fund	987	776
SICO Money Market Fund	1,179	1,166
	2,341	2,094

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 730 (2012: 1,128) and margin lending drawdown commitments of BD 730 (2012: 546).

	2013	2012
Funds under management (net asset value)		
SICO Selected Securities Fund	2,916	2,523
Khaleej Equity Fund	28,270	24,528
SICO Gulf Equity Fund	10,926	8,682
SICO Arab Financial Fund	-	1,819
SICO Money Market Fund	4,398	3,872
SICO Khaleej Equity Fund	2,770	2,042
SICO Fixed Income Fund	3,796	-
Discretionary Portfolio Management Account	263,837	184,759

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

The funds under discretionary portfolio management account were held in trust or in a fiduciary capacity and are not treated as assets of the Group and, accordingly, have not been included in the consolidated financial statements.
The Bank has hedged its currency exchange risk in British pound for equivalent BD 607.

	2013	2012
Assets under custody	**1,258,081**	824,177

28 Contingencies, commitments and memorandum accounts (continued)

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2013, assets amounting to BD 1,258,081 (2012: BD 824,177) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 289,812 (2012: BD 144,196) were registered in the name of the Bank.

Legal claims

As at 31 December 2013, legal suits pending against the Bank aggregated to BD 30 (2012: BD 30). Based on the opinion of the Bank's legal advisors, management believes that no liability is likely to arise from the suits and does not consider it necessary to carry any specific provision in this respect.

29. Significant net open foreign currency positions

	2013	2012 (restated)
QAR	14,716	7,109
US Dollar	31,708	29,979
KWD	222	125
SAR	14,563	8,740
GBP	832	916
AED	6,167	2,475
OMR	222	-

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

30. Basic earnings per share

	2013	2012 (restated)
Profit for the year	5,091	2,867
Weighted average number of equity shares (In 000's)	428,205	427,085
Earnings per share (in fils)	11.89	6.71

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 2013	**Less than 1 year**	**1 to 5 Years**	**Above 5 Years**	**Total**
Assets				
Cash and cash equivalents	32,799	-	-	32,799
Investments at fair value through profit or loss	11,097	6,161	2,557	19,815
Available-for-sale investments	-	4,676	28,067	32,743
Furniture, equipment and intangibles	-	260	1,552	1,812
Fees receivable	1,980	-	-	1,980
Other assets	2,913	2,133	-	5,046
Total assets	**48,789**	**13,230**	**32,176**	**94,195**
Liabilities				
Short-term bank borrowings	7,094	-	-	7,094
Customer accounts	19,620	-	-	19,620
Other liabilities	3,244	-	-	3,244
Payable to other unit holders	2,373	-	-	2,373
Total liablilities	**32,331**	**-**	**-**	**32,331**
Liquidity gap	**16,458**	**13,230**	**32,176**	**61,864**
Cumulative liquidity gap	**16,458**	**29,688**	**61,864**	**61,864**

Notes to the 31 December 2013 consolidated financial statements Bahraini Dinars '000

31. Maturity profile of assets and liabilities (continued)

31 December 2012 (restated)	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	32,544	-	-	32,544
Investments at fair value through profit or loss	9,460	5,828	835	16,123
Available-for-sale investments	-	4,324	17,508	21,832
Furniture and equipment	-	235	-	235
Fees receivable	444	-	-	444
Other assets	3,654	1,902	1,715	7,271
Total assets	46,102	12,289	20,058	78,449
Liabilities				
Short-term bank borrowings	4,899	-	-	4,899
Customer accounts	13,416	-	-	13,416
Other liabilities	2,763	-	-	2,763
Payable to other unit holders	82	-	-	82
Total liabilities	21,160	-	-	21,160
Liquidity gap	24,942	12,289	20,058	57,289
Cumulative liquidity gap	24,942	37,231	57,289	57,289

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32. Accounting classification and fair values

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

31 December 2013	Fair value through profit or loss	Available for sale	Loans and receivables	Liabilities at fair value	Others at amortized cost	Total carrying value
Cash and bank balances	-	-	32,799	-	-	32,799
Investments at fair value through profit or loss	19,815	-	-	-	-	19,815
Available-for-sale investments	-	32,743	-	-	-	32,743
Fees receivable	-	-	1,980	-	-	1,980
Other assets	-	-	3,238	-	-	3,238
	19,815	**32,743**	**38,017**	**-**	**-**	**90,575**
Short-term bank borrowings	-	-	-	-	7,094	7,094
Customer accounts	-	-	-	-	19,620	19,620
Other liabilities	-	-	-	-	3,244	3,244
Payable to unit holders	-	-	-	2,373	-	2,373
	-	**-**	**-**	**2,373**	**29,958**	**32,331**

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32. Accounting classification and fair values (continued)

31 December 2012 (restated)	Fair value through profit or loss	Available for sale	Loans and receivables	Liabilities at fair value	Others at amortized cost	Total carrying value
Cash and bank balances	-	-	32,544	-	-	32,544
Investments at fair value through profit or loss	16,123	-	-	-	-	16,123
Available-for-sale investments	-	21,832	-	-	-	21,832
Fees receivable	-	-	444	-	-	444
Other assets	-	-	3,984	-	-	3,984
	16,123	21,832	36,972		-	74,927
Short-term bank borrowings	-	-	-	-	4,899	4,899
Customer accounts	-	-	-	-	13,416	13,416
Other liabilities	-	-	-	-	2,763	2,763
Payable to unit holders				82	-	82
	-	-	-	82	21,078	21,160

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

Notes to the 31 December 2013 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 2013	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale investments				
- Funds	7,009	6,483	1,747	15,239
- Equities	7,904	-	384	8,288
- Debt Instruments	7,034	298	-	7,332
Fair value through profit or loss:				
- Funds	1,180	-	-	1,180
- Equity	9,473	-	-	9,473
- Debt Instruments	9,162	-	-	9,162
Liabilities				
- Payable to unit holders	2,373	-	-	2,373
Total	**39,389**	**6,781**	**2,131**	**48,301**

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 2013
At 1 January 2013	2,746
Total loss :	(155)
- in statement of profit or loss	(200)
- in other comprehensive income	
Purchases	-
Settlements	(260)
Transfers into / (out) of level 3	-
At 31 December 2013	**2,131**
Total gain / (loss) for the year included in statement of profit or loss for assets / liabilities held as at 31 December 2013	(155)

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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 available-for-sale financial assets is assessed as not significant to the other comprehensive income and total equity.

As at 31 December 2012 (restated)	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale investments				
- Funds	1,253	8,913	2,321	12,487
- Equities	4,596	-	425	5,021
- Debt Instruments	4,033	291	-	4,324
Fair value through profit or loss:				
- Funds	2,046	1,118	-	3,164
- Equity	5,435	-	-	5,435
- Debt Instruments	6,663	861	-	7,524
Liabilities				
- Payable to unit holders	82	-	-	82
Total	23,944	11,183	2,746	37,873

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

	Level 3 2012
At 1 January 2012	2,806
Total loss :	
- in statement of profit or loss	(14)
- in other comprehensive income	(58)
Purchases	15
Settlements	(3)
Transfers into / (out) of level 3	-
At 31 December 2012	2,746
Total gain / (loss) for the year included in statement of profit or loss for assets / liabilities held as at 31 December 2012	(14)

32. Accounting classification and fair values (continued)
(ii) Fair value hierarchy (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.
Equity	Adjusted net asset value	Net assets of the company adjusted for discounts on investment in real estate and venture capital	The estimated fair value would increase (decrease) if there are any changes in the net assets (equity) of the company.

33. Comparatives

Certain comparatives have been reclassified / restated as a result of adoption of new standards (refer note 5).