

**SECURITIES AND INVESTMENT
COMPANY BSC (c)**

**CONSOLIDATED FINANCIAL
STATEMENTS
31 DECEMBER 2017**

Comprehensive investment services for the Bahrain and GCC securities market

Commercial registration	:	33469
Board of Directors	:	Abdulla bin Khalifa Al Khalifa, <i>Chairman of the Board and the Investment Committee</i>
		Hussain Al Hussaini, <i>Vice Chairman of the Board and the Investment Committee</i>
		Prakash Mohan <i>Member of Investment Committee</i>
		Fahad Murad <i>Chairman of Nominations, Remuneration & Corporate Governance Committee</i>
		Mohammed Abdulla <i>Vice Chairman of Nominations, Remuneration & Corporate Governance Committee</i>
		Khurram Ali Mirza <i>Member of Nominations, Remuneration & Corporate Governance Committee</i>
		Waleed Al Braikan <i>Chairman of the Audit Committee</i>
		Anwar Abdulla Ghuloom <i>Vice Chairman of the Audit Committee</i>
		Emad Al Saudi <i>Member of the Audit Committee</i>
Chief Executive Officer	:	Najla M. Al Shirawi
Office	:	BMB Centre PO Box 1331, Kingdom of Bahrain Telephone 17515000, Fax 17514000
Bankers	:	Bank of Bahrain and Kuwait BSC
Auditors	:	KPMG Fakhro

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017**

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SICO AR17 Chairman's Statement On Solid Ground

On behalf of the Board of Directors, it is my great honor and privilege to present to you SICO's annual report and financial statements for the year ending 31 December 2017. In many ways this year's annual report marks a new beginning for us as a company. With the publication of this report we are officially launching our new brand name, logo and a full revamped corporate identity that reflects the company's progressive forward-looking approach. As you will see in the pages ahead this new identity reaches beyond the visual realm and delves deeper into the core of what we do, be it our appetite to better serve our clients by catering to their changing investment needs or our ability to innovate while maintaining the prudent approach to investing that we have built our reputation on for more than two decades.

In a year where regional and global headwinds threatened to alter the path of many in our industry we were able to remain on solid ground delivering healthy growth across all lines of business. A significant increase in our net profits to BD 3.3 million from BD 2.3 million and 41 percent growth year-on-year, are encouraging indications that we are safely in recovery mode after a period of heightened volatility. Higher revenue across almost all business lines resulted in a total net operating income of BD 9.3 million in 2017 up from BD 7.8 million in the previous year with basic earnings per share standing at 8.01 Bahraini fils compared to 5.69 fils in 2016.

Despite a difficult operating environment, we have witnessed healthy AUM growth through both market appreciation and new client acquisition. In 2017 we were able to penetrate new pools of clients by bringing innovative products to market such as Bahrain's first REIT, the launch of our first US real estate fund, and a new state-of-the-art online trading platform. We were also very proud to be one of the few investment banks in the region to become IFRS 9 compliant in 2017.

Our positive results can largely be attributed to the continuity and steady leadership exhibited by our talented management team throughout the year. Backed by a strong and supportive Board, management has confidently executed on a strategy that focuses on our core asset management business while opportunistically expanding in complimentary areas that will enable us to deliver future growth in a manner that takes into account the geopolitical uncertainty that has become a given in our part of the world.

While the first 9 months of 2017 saw public markets positively correct as improvements in Brent led to a mini stock rally, geopolitical uncertainties have had a negative impact on client sentiment that led to a region-wide liquidation of assets in the final months of the year.

We do however expect 2018 to be a transformational year as countries across the region fully embrace reform and take serious steps to diversify their economies thereby creating a sustainable eco-system that is less dependent on oil. The GCC's largest economy, Saudi Arabia, is already leading the pack with an ambitious set of reforms that include further subsidy reduction as exhibited through higher electricity tariffs and gasoline prices, as well as the introduction of VAT. The additional sources of revenue will be channeled into an expansionary budget that will help create more jobs and boost non-oil GDP. A complimentary set of capital market reforms are also in progress as Saudi Arabia seeks inclusion in the MSCI and FTSE Emerging Markets Indices which will go a long way in helping the Kingdom attract the foreign investments it needs to grow the economy.

Similarly, other economies in the region are also taking credible measures to boost their non-oil revenues. Another positive region-wide trend that we have started witnessing is the creation of appropriate regulatory and legal frameworks to encourage public private partnerships that will help sustain a cohesive growth model that is not entirely dependent on government support. The unprecedented structural reforms that are now taking place will require the participation and support of all stakeholders.

In Bahrain, the government has made an impressive effort to address our fiscal and monetary challenges by reforming its balance sheet, working to increase revenue, introducing the new VAT, gradually redirecting subsidies to those in need, and following through with a push to diversify the economy into promising new sectors such as Fintech.

We are cautiously optimistic about 2018 for both Bahrain and SICO. As a company we have a clear vision and a renewed commitment to expand our core asset management business both organically and inorganically making it our largest revenue generator with less of a reliance on treasury and investments. As Saudi Arabia and the UAE become more critical to the MSCI Indices we expect more foreign investment to come to the region and we are perfectly positioned to capture the upside of that development as it unfolds. We will keep challenging our investment banking team to dive into alternative investments and new asset classes. Through our existing brokerage presence in Abu Dhabi we will look at new opportunities in asset management and investment banking that give us direct presence in high-growth markets.

I would like to take this opportunity to reiterate that SICO's Board of Directors, which welcomed two new members this year, Mr. Khurram Ali Mirza and Mr. Emad Al Saudi, has full confidence in the ability of our management team to mitigate risk and deliver on these ambitious goals. I am confident that we have right people and know-how in place to take us to the next level. I would also like to express our gratitude to SICO's two outgoing Board members, Mr. Mahmoud Al Zewam Al Amari (representing Bank ABC since 2004) and Mr. Yusuf Saleh Khalaf (an independent director since 2012) for their longstanding service and commitment to the company. We wish them the best of luck with their new endeavors.

The Board would also like to express its appreciation to the Central Bank of Bahrain and the Bahrain Bourse for their continued guidance and support. On behalf of the shareholders, management and staff of SICO, the Board conveys its best wishes and sincere gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership and support of Bahrain's financial sector.

Finally, I would like to pay special tribute to our valued shareholders, clients, business partners and all the members of the SICO family. Each and every one of you has been instrumental to our success and we highly value your loyalty and commitment.



Abdulla bin Khalifa Al Khalifa
Chairman of the Board



KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Securities and Investment Company BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Description

The Group's portfolio of quoted equity, debt and fund investments at fair value make up 23% of the Group's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they comprise liquid, quoted investments. However, due to the materiality in the context of the consolidated financial statements as a whole, they are considered to be one of the areas which had the greatest impact on our overall audit strategy and location of resources in planning and completing our audit.

How the matter was addressed in our audit

Our procedures included:

- Agreeing the valuation of investments in the portfolio to externally quoted prices;
- Agreeing investments holdings in the portfolio to independently received third party confirmations; and
- Assessing the adequacy of Group's disclosures.



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the *Board of directors' report* set out on page 1.

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

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

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

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

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

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

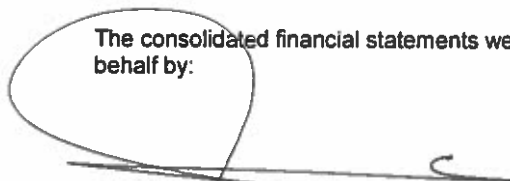
KPMG Fakhro
Partner registration number 137
25 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

Bahraini Dinars '000

	Note	2017	2016
Assets			
Cash and cash equivalents	7	67,328	80,900
Treasury bills		1,495	16,256
Placements with banks		4,974	-
Investments at fair value through profit or loss	8	29,496	28,040
Investments at fair value through other comprehensive income	9	6,158	4,793
Investments at amortized cost		10,008	8,923
Fees receivable	10	875	1,164
Other assets	11	9,589	5,481
Furniture, equipment and intangibles	12	1,420	1,507
Total assets		131,343	147,064
Liabilities and equity			
Liabilities			
Short-term bank borrowings	13	38,043	39,255
Customer accounts	14	26,718	42,994
Other liabilities	15	4,173	3,903
Payable to other unit holders in consolidated funds	6	2,651	2,830
Total liabilities		71,585	88,982
Equity			
Share capital	16	42,849	42,849
Shares under employee share incentive scheme		(1,599)	(1,599)
Statutory reserve	17	6,992	6,661
General reserve	18	3,217	3,217
Investments fair value reserve		307	(251)
Retained earnings		7,992	7,205
Total equity		59,758	58,082
Total liabilities and equity		131,343	147,064

The consolidated financial statements were approved by the board of directors on 25 February 2018 and signed on its behalf by:



Abdulla Bin Khalifa Al Khalifa
Chairman



Hussain Al Hussaini
Vice Chairman




Najla M. Al Shirawi
Chief Executive Officer

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

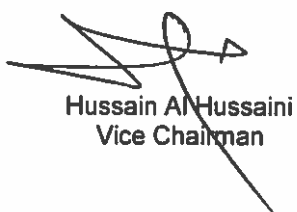
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2017

Bahraini Dinars '000

	Note	2017	2016
Net investment income	19	3,014	2,533
Net fee income	20	3,164	2,966
Brokerage and other income	21	2,072	1,425
Other interest income	22	1,743	1,187
Total income		9,993	8,111
Staff and related expenses	23	(3,934)	(3,581)
Interest expense	22	(715)	(330)
Other operating expenses	24	(1,908)	(1,752)
Share of (profit) of other unit holders in consolidated funds	6	(130)	(103)
Profit for the year		3,306	2,345
Basic and diluted earnings per share (fils)	30	8.01	5.69



Abdulla Bin Khalifa Al Khalifa
Chairman



Hussain Al Hussaini
Vice Chairman



Najla M. Al Shirawi
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

Bahraini Dinars '000

	2017	2016
Profit for the year	3,306	2,345
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve:		
- Net change in fair value of FVTOCI debt instruments	(30)	-
- Net amount transferred to profit or loss on sale of debt instruments	-	(215)
Items that will not be reclassified to profit or loss in subsequent periods:		
Investments fair value reserve:		
- Net change in fair value of FVTOCI equity instruments	567	(345)
Total other comprehensive income for the year	537	(560)
Total comprehensive income for the year	3,843	1,785

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 2017

Bahraini Dinars '000

2017

	Share capital	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2017	42,849	(1,599)	6,661	3,217	(251)	7,205	58,082
Profit for the year	-	-	-	-	-	3,306	3,306
Other comprehensive income:							
Investments fair value reserve (Investments at fair value through other comprehensive income):	-	-	-	-	537	-	537
Net change in fair value of FVTOCI instruments	-	-	-	-	21	(21)	-
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	558	(21)	537
Total other comprehensive income	-	-	-	-	558	3,285	3,843
Total comprehensive income for year	-	-	-	-	-	-	-
Appropriations:							
- Transfer to statutory reserve	-	-	331	-	-	(331)	-
- Transfer to charitable donations - 2016	-	-	-	-	-	(25)	(25)
- Dividends declared for 2016	-	-	-	-	-	(2,142)	(2,142)
Balance at 31 December 2017	42,849	(1,599)	6,992	3,217	307	7,992	59,758

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 2017 (continued)

Bahraini Dinars '000

2016

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

Bahraini Dinars '000

	Note	2017	2016
Operating activities			
Net interest received		2,480	1,981
Net (increase) in placements with banks		(4,974)	-
Net (purchase) of investments at fair value through profit or loss		(499)	(13,287)
Net (purchase) / sale of investments at fair value through other comprehensive income		(1,365)	20,071
Net (purchase) of investments at amortized cost		(1,107)	(3,860)
Net (decrease) / increase in customer accounts		(16,276)	14,189
Dividends received		567	544
Movement in brokerage accounts and other receivables		1,630	3,080
Movement in other liabilities		175	1,030
Payments for staff and related expenses		(3,839)	(3,618)
Payments for other operating expenses		(1,340)	(1,581)
Net cash (used in) / from operating activities		(24,548)	18,549
Investing activities			
Net capital expenditure on furniture and equipment		(149)	(284)
Net cash used in investing activities		(149)	(284)
Financing activities			
Net (settlements) / proceeds of short-term bank borrowings		(1,212)	19,478
Distribution to other unit holders in consolidated fund		(282)	(169)
Dividends paid		(2,142)	(2,142)
Net cash (used in) / from financing activities		(3,636)	17,167
Net (decrease) / increase in cash and cash equivalents during the year		(28,333)	35,432
Cash and cash equivalents at the beginning of the year		97,156	61,724
Cash and cash equivalents at the end of the year	7	68,823	97,156

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

1. Reporting entity

Securities and Investment Company BSC(c) ("the Bank") is a closed joint stock company registered in Bahrain under commercial registration number 33469 on 11 February 1995 and operates under a wholesale banking license from the Central Bank of Bahrain. On 7 May 2003, the Bank was listed on the Bahrain Stock Exchange as a closed company.

The primary objectives of the Bank are:

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

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of investments at fair value through profit or loss and Investments at fair value through other comprehensive income.

(c) Use of estimates and judgments

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

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

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

(d) Amendments and interpretations effective from 1 January 2017

The following standards, amendments and interpretations, which became effective as of 1 January 2017, are relevant to the Group:

i. Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities (Refer Note 13).

2 Basis of preparation (continued)**ii. Annual Improvements to IFRSs 2012–2014 Cycle – various standards**

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs, which applies prospectively for annual periods beginning on or after 1 January 2017.

The adoption of these amendments had no significant impact on the consolidated financial statements.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, except for early adoption of IFRS 9 in consolidated financial statements for the year ended 31 December 2016 and 31 December 2017 respectively. Those which are relevant to the Group are set out below.

IFRS 15 – Revenue from Contracts with Customers

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

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

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.

The amendments cover three accounting areas:

- measurement of cash-settled share-based payments;
- classification of share-based payments settled net of tax withholdings; and
- accounting for a modification of a share-based payment from cash-settled to equity-settled.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. There is currently no guidance in IFRS 2 on how to measure the fair value of the liability incurred in a cash-settled share-based payment.

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability:

- market and non-vesting conditions are taken into account in measuring its fair value; and
- the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions

The amendments can be applied prospectively so that prior periods do not have to be restated. Retrospective, or early, application is permitted if companies have the required information. The amendments are effective for annual periods commencing on or after 1 January 2018. The Bank does not expect to have a significant impact on its financial statements.

2 Basis of preparation (continued)**IFRS 16 Leases**

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Bank has started an initial assessment of the potential impact on its financial statements. The Bank has not yet decided whether it will use the optional exemptions.

(f) Early adoption of standards

The Bank did not early adopt new or amended standards in 2017.

3. Significant accounting policies

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

(a) Consolidation**(i) Subsidiaries**

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

(ii) Non-controlling interests (NCI)

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Foreign currencies**(i) Functional and presentation currency**

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

3 Significant accounting policies (continued)**(ii) Transactions and balances**

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

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

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

Judgments**Classification of investments**

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

Determination of control over investees – Investment funds

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

(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.

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

3 Significant accounting policies (continued)

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

(iv) Fair value measurement

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

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

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

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

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

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

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

(v) Impairment**Financial assets**

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

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

Stage 1: 12 months ECL

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

3 Significant accounting policies (continued)**Stage 2: Lifetime ECL - not credit impaired**

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

Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

(e) De-recognition of financial liabilities

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

(f) Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, placements with banks that have an original maturity of three months or less when acquired and which are subject to insignificant risk of changes in their fair value.

(g) Amortized cost measurement

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

(h) Impairment of other financial assets carried at amortized 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	3-5 years

(j) Bank borrowings

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

(k) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognized. As the Bank retains all or substantially all the risks and rewards of the transferred assets, amounts received under these agreements are treated as liabilities and the difference between the sales and repurchase price treated as interest expense using the effective interest method.

3 Significant accounting policies (continued)

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

(l) Customer accounts

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

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

(r) Offsetting

Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and intends to settle either on a net basis, or to realize the asset and settle the liability simultaneously.

(s) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

3 Significant accounting policies (continued)**(t) Interest income and expense**

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

(u) Fee and commission

Fee and commission income comprises custody fee, investment management fee and performance fee earned by the Group. Custody and investment management fees are recognized as the related services are performed and the Group becomes entitled to the fee.

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

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

(v) Net investment income

Net investment income includes all realized and unrealized fair value changes on investment at fair value through profit or loss and on the debt investment at fair value through other comprehensive income 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, other income and foreign exchange income. This income is recognized when the related services are performed.

(y) Operating Segments

IFRS 8 "Operating Segments" prescribes the "management approach" to segment reporting which requires the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's decision in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, corporate finance, investments, market making and custody business. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in these consolidated financial statements.

4. Financial risk management**(a) Introduction and overview**

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

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

3 Significant accounting policies (continued)

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.

Investments in debt securities

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

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

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

Management of credit risk

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

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

4 Financial risk management (continued)

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

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

Exposure to credit risk

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

	2017	2016
Cash and cash equivalents	67,328	80,900
Treasury bills	1,495	16,256
Placements with banks	4,974	-
FVTPL debt securities	12,682	2,231
FVTOCI debt securities	2,201	11,650
Fee receivable	875	1,164
Other receivables	9,191	5,236
	98,746	117,437

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

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

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

Risk Exposure Concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits. Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2017 was BD 12,451 (2016: BD 8,856), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income".

4 Financial risk management (continued)

Geographical Exposure Distribution

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

2017	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	65,168	-	2,160	67,328
Treasury bills	1,495	-	-	1,495
Placements with banks	4,974	-	-	4,974
Investments at fair value through profit or loss	22,118	1,382	5,996	29,496
Investments at fair value through other comprehensive income	6,158	-	-	6,158
Investments at amortized cost	10,008	-	-	10,008
Fees receivable	866	-	9	875
Other assets	11,006	-	3	11,009
Total assets	121,793	1,382	8,168	131,343
Liabilities				
Short-term bank borrowings	24,490	-	13,553	38,043
Customer accounts	25,808	247	663	26,718
Other liabilities	4,157	-	16	4,173
Payable to unit holders	2,651	-	-	2,651
Total liabilities	57,106	247	14,232	71,585

2016	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and cash equivalents	80,078	-	822	80,900
Treasury bills	16,256	-	-	16,256
Investments at fair value through profit or loss	16,093	4,031	7,916	28,040
Investments at fair value through other comprehensive income	4,793	-	-	4,793
Investments at amortized cost	8,923	-	-	8,923
Fees receivable	1,164	-	-	1,164
Other assets	6,923	-	65	6,988
Total assets	134,230	4,031	8,803	147,064
Liabilities				
Short-term bank borrowings	26,082	-	13,173	39,255
Customer accounts	40,014	1,669	1,311	42,994
Other liabilities	3,903	-	-	3,903
Payable to unit holders	2,830	-	-	2,830
Total liabilities	72,829	1,669	14,484	88,982

4 Financial risk management (continued)

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

	Financial services	Others	Total
2017			
Total assets	92,880	38,463	131,343
Total liabilities	52,727	18,858	71,585
2016			
Total assets	86,232	60,832	147,064
Total liabilities	61,895	27,087	88,982

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

	Impact: increase/(decrease)					
	12 – months ECL		Lifetime ECL			
	2017	2016	Not credit-impaired		Credit-impaired	
			2017	2016	2017	2016
Debt investment securities at FVTOCI	4	1	-	-	-	-
Debt investment securities at amortized cost	-	-	-	-	-	-

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

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

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

(c) Liquidity risk

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

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

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.

4 Financial risk management (continued)

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; and
- 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 financial institutions to be drawn upon in case of need. The Bank has set up the ALIC (Asset-Liability Investment Committee) to closely supervise the liquidity management and associated risks.

The residual contractual maturity of financial liabilities is as follows:

2017	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	38,043	38,120	38,120
Customer accounts	26,718	26,718	26,718
Other liabilities	4,173	4,173	4,173
Payable to unit holders in consolidated funds	2,651	2,651	2,651
	71,585	71,662	71,662

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

(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 FVTPL securities and fair value through other comprehensive income securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio Guidelines set by the Investment Committee and the Group's management.

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

(i) Equity Price Risk

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

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

4 Financial risk management (continued)

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 and administrators on a periodic basis.

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

Sensitivity analysis of a 1% change in market prices on the unrealized profit or loss for the investments at fair value through profit or loss and FVTOCI reserve for Investments at fair value through other comprehensive income is given below:

	Investments at fair value through profit or loss		Investments at fair value through other comprehensive income	
	2017	2016	2017	2016
Increase of 1%	295	280	62	48
Decrease of 1%	(295)	(280)	(62)	(48)

(ii) Interest rate risk

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

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

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

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

The Bank has exposures to debt instruments issued by GCC institutions in its proprietary portfolios. Some of these instruments are not listed but can 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.

4 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate re-pricing profile

2017	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	16,840	16,840
Call deposits*	-	261	-	-	261
Placements	2.28%	55,201	-	-	55,201
Treasury bills	-	1,495	-	-	1,495
Investments at fair value through profit or loss	6.46%	2,866	9,817	16,813	29,496
Investments at fair value through other comprehensive income	3.41%	113	2,088	3,957	6,158
Investments at amortized cost**	-	-	10,008	-	10,008
Fees receivable	-	-	-	875	875
Other assets	-	-	-	9,589	9,589
Furniture, equipment and intangibles	-	-	-	1,420	1,420
Total assets		59,936	21,913	49,494	131,343
Short-term bank borrowings	2.19%	38,043	-	-	38,043
Customer accounts	-	-	-	26,718	26,718
Other liabilities	-	-	-	4,173	4,173
Payable to unit holders in consolidated funds	-	-	-	2,651	2,651
Total liabilities		38,043	-	33,542	71,585
Equity		-	-	59,758	59,758
Total liabilities and equity		38,043	-	93,300	131,343
Interest rate sensitivity gap		21,893	21,913	(43,806)	-
Cumulative interest rate sensitivity gap		21,893	43,806	-	-

4 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate re-pricing profile

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

* At 31 December 2017 the effective interest rate on Bahraini Dinar call deposits is 0.45% (2016: 0.425%) and on USD call deposits is 0.15% (2016: 0.15%).

** At 31 December 2017 the effective interest rate of Investments at amortized cost is 6.44% (2016: 6.43%).

(iii) Exchange risk

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

(e) Operational risk

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

4 Financial risk management (continued)

The Bank has a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organizational structure, policies and procedures guidelines, and segregation of duties, approval authorities, reconciliations, and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provides support in this control activity.

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

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

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

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

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

(f) Capital Management

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

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

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2016. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

4 Financial risk management (continued)

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

Based on year end balances

	2017	2016
Risk weighted exposure		
Credit risk	55,725	52,168
Market risk	30,063	26,588
Operational risk	15,288	16,263
Total risk weighted assets	101,076	95,019
Common Equity (CET 1)	59,758	58,082
Additional Tier 1	-	-
Total regulatory capital	59,758	58,082
Capital adequacy ratio	59.12%	61.13%

Based on full year average balances

	2017	2016
Risk weighted exposure		
Credit risk	63,359	70,610
Market risk	30,285	21,320
Operational risk	15,288	16,262
Total risk weighted assets	108,932	108,192
Common Equity (CET 1)	58,683	56,394
Additional Tier 1	-	-
Total regulatory capital	58,683	56,394
Capital adequacy ratio	53.87%	52.12%

The capital adequacy ratio as at 31 December 2017 has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

Capital allocation

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

5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2017. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund.

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

Subsidiary	Percentage ownership	Year of incorporation /	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
7. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO.
8. Securities and Investment Company(UAE) LLC	100%	2011	UAE	Brokerage services
9. SICO Kingdom Equity Fund	64%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
10. SICO Fixed Income Fund	62%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks.

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

	2017 36%	2016 41%
Other unit holders' share		
Cash and cash equivalents	202	841
Investment at fair value through profit or loss	3,107	2,638
Other liabilities	(70)	(18)
Net assets	3,239	3,461
Carrying amount of payable to other unit holders – 36%	1,155	1,417
Investment income	288	120
Profit	214	52
Total comprehensive income	214	52
Profit allocated to other unit holders	76	21
Cash flows (used in) / from operating activities	(202)	463
Cash flows (used in) financing activities	(437)	(156)
Net (decrease) / increase in cash and cash equivalents	(639)	307

SICO Fixed Income Fund

	2017 38%	2016 35%
Other unit holders' share		
Cash and cash equivalents	804	925
Investment at fair value through profit or loss	3,748	3,514
Other assets	60	51
Short-term bank borrowings	(659)	(682)
Other liabilities	(11)	(11)
Net assets	3,942	3,797
Carrying amount of payable to other unit holders – 38%	1,496	1,413
Investment income	165	54
Interest income	28	220
Profit	141	219
Total comprehensive income	141	219
Profit allocated to other unit holders	54	82
Cash flows (used in) / from operating activities	(125)	110
Cash flows from / (used in) financing activities	4	(99)
Net (decrease) / increase in cash and cash equivalents	(121)	11

7. Cash and cash equivalents

	2017	2016
Cash and bank balances	16,840	24,737
Call deposits	261	1,203
Short-term placements	18,594	37,991
Due from other institutions	31,633	16,969
Total cash and cash equivalent as per balance sheet	67,328	80,900
Treasury bills	1,495	16,256
Total cash and cash equivalent as per cash flow	68,823	97,156

7. Cash and cash equivalents (continued)

Cash and bank balances include bank balances amounting to BD 5,058 (2016: BD 12,394) held on behalf of discretionary customer accounts.

Due from other institutions of BD 31,633 (2016: BD 16,969) represent repurchase agreements transactions.

8. Investments at fair value through profit or loss

	2017	2016
Quoted equity securities – (listed)		
- Consolidated funds	3,107	2,638
- Parent	2,948	3,215
Funds		
- Quoted	7,051	3,710
- Unquoted	3,708	6,827
Quoted debt securities		
- Parent	8,934	8,136
- Consolidated funds	3,516	3,514
Unquoted debt securities		
- Consolidated funds	232	-
	29,496	28,040

Investments at fair value through profit or loss as at 31 December 2017 include securities amounting to BD 1,155 (31 December 2016: BD 4,108), sold under agreement to repurchase (note 13).

9. Investments at fair value through other comprehensive income

	2017	2016
Equity securities		
- Quoted	3,662	2,185
- Unquoted	295	377
	3,957	2,562
Debt securities		
- Quoted	113	112
- Unquoted	2,088	2,119
	2,201	2,231
	6,158	4,793

10. Fees receivable

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

	2017	2016
Management and administration fees	735	1,086
Performance fee	109	61
Custody fee	31	17
	875	1,164

11. Other assets

	2017	2016
Receivables from clients and brokers	6,946	3,526
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	398	245
Interest receivable	540	480
Other receivables	1,205	730
	9,589	5,481

12. Furniture, equipment and intangibles

	Software	Furniture and Equipment & Others	Capital work in progress	2017 Total	2016 Total
Cost					
At 1 January	2,472	983	-	3,455	3,211
Additions	-	149	-	149	284
Disposals	(8)	(88)	-	(96)	(39)
At 31 December	2,464	1,044	-	3,508	3,455
Depreciation					
At 1 January	1,083	865	-	1,948	1,775
Charge for the year	194	43	-	237	212
Disposals	-	(97)	-	(97)	(39)
At 31 December	1,277	811	-	2,088	1,948
Net book value at 31 December 2017	1,187	233	-	1,420	-
Net book value at 31 December 2016	1,040	29	438	-	1,507
Cost of fully depreciated assets in use	-	-	-	2,863	1,280

13. Short-term bank borrowings

Short-term bank borrowings include borrowings under repurchase agreements of BD 32,388 (2016: BD 34,354) and short-term inter-bank advances of BD 5,655 (2016: BD 4,901). The fair value of the investments at fair value through profit or loss and Investments at fair value through other comprehensive income pledged as collateral amounts to BD 1,155 (2016: BD 4,108) (refer to note 8 and 9). Additionally repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 39,103 (2016: BD 42,686) are pledged as collateral.

The following represents the movement in short-term bank borrowings during the year:

At 1 January 2017	39,255
Borrowings made during the year	33,868
Borrowings settled during the year	(35,080)
At 31 December 2017	38,043

14. Customer accounts

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

15. Other liabilities

	2017	2016
Accrued expenses	952	868
Provision for employee indemnities	593	485
Employee share incentive scheme liability	1,634	1,348
Other payables	994	1,202
	4,173	3,903

16. Share capital

	2017	2016
Authorized share capital		
1,000,000,000 (2016: 1,000,000,000) shares of 100 fils each	100,000	100,000
Issued and fully paid		
At 1 January 2017: 428,487,741 ordinary shares of 100 fils each (2016: 428,487,741 ordinary shares of 100 fils each)	42,849	42,849
Issue of shares to employee share incentive scheme trustees during the year	-	-
As at 31 December 2017: 428,487,741 ordinary shares of 100 fils each (2016: 428,487,741 ordinary shares of 100 fils each)	42,849	42,849

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

Pursuant to a resolution of the extraordinary general meeting of the shareholders dated 11 December 2017, the Bank completed the repurchase of 10% of its issued and outstanding share capital. The repurchase was undertaken through an offer availed to all shareholders of the Bank at a price of BD 0.138 per share. The offer closed on 22 January 2018 with a total repurchase of 42,848,774 shares of SICO, representing the maximum legal limit of 10% of the Bank's issued and outstanding share capital. The repurchased shares will currently be held as treasury shares.

Appropriations

	2017	2016
Proposed dividend 5% (2016: 5%)	1,928	2,142

The shareholders are:

	Nationality	2017		2016	
		Capital	% holding	Capital	% holding
Social Insurance Organization	Bahrain	15,922.5	37.16	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	5,115	11.94	5,115	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	4,125	9.63	4,125	9.63
Arab Investment Resources Co EC	Bahrain	3,300	7.70	3,300	7.70
Bank ABC	Bahrain	3,300	7.70	3,300	7.70
Gulf Investment Corporation GSC	Kuwaiti	3,300	7.70	3,300	7.70
Al Salam Bank – Bahrain BSC	Bahrain	825	1.93	825	1.93
Volaw Trust & Corp Service Ltd.	Jersey	1,599	3.73	1,599	3.73
		42,849	100	42,849	100

Based on these consolidated financial statements, the Net Asset Value per share is BD 0.140 (2016: BD 0.136).

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 331 (2016: BD 234).

18. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2017, no appropriations to general reserve are recommended.

19. Net investment income

	2017	2016
Net gain on investments carried at fair value through profit or loss	935	458
Gain on sale of Investments at fair value through other comprehensive income	-	215
Interest income from debt instruments	1,512	1,316
Dividend income	567	544
	3,014	2,533

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

	2017	2016
Realized gain / (loss) on sale	858	(484)
Unrealized fair value gain	77	942
	935	458

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

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

20. Fee income / (expense)

	2017	2016
Fee income from trust or other fiduciary activities		
- Management fee	2,537	2,217
- Performance fee	110	61
- Custody fee	374	314
- Investment banking fee	173	394
	3,194	2,986
Fee expense		
- Custody fee	(30)	(20)
	3,164	2,966

21. Brokerage and other income

	2017	2016
Brokerage income	1,275	967
Foreign exchange gain	661	229
Other income	136	229
	2,072	1,425

22. Other interest income / (expense)

	2017	2016
Interest income from:		
Placements, call deposits and reverse repos	1,635	1,037
Margin lending	108	150
	1,743	1,187
Interest expense on:		
Bank borrowings and repos	(715)	(330)
	1,028	857

23. Staff and related expenses

	2017	2016
Salaries, allowances and bonus	3,655	3,321
Social security costs	168	160
Other costs	111	100
	3,934	3,581

As at 31 December 2017, the Group employed 62 (2016: 59) Bahrainis and 38 (2016: 36) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 168 (2016: BD 160).

24. Other operating expenses

	2017	2016
Rent	229	219
Communication expenses	403	382
Marketing expenses	150	139
Professional fees	146	144
Other operating expenses	743	656
Depreciation	237	212
	1,908	1,752

25. Related party transactions**Transactions with funds owned by the Subsidiary Companies**

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

	2017	2016
Fee and commission income	351	316
Fee receivable	106	200
Investments at fair value through profit or loss:		
-Khaleej equity fund	1,055	1,036
-Bahrain liquidity fund company	1,203	1,209

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

Transactions with shareholders

The Group obtained short term borrowings from its bank shareholders for a total of BD 5,655 (2016: BD 3,770). 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.

Securities and Investment Company BSC (c)

Notes to the 31 December 2017 consolidated financial statements

Bahraini Dinars '000

25. Related party transactions (continued)

	2017	2016
Fee and commission income	495	395
Fee receivable	107	115
Funds under management	56,362	55,429
Placements	5,199	11,056
Borrowings	5,655	3,770

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 financial officer and head of departments.

Compensation to key management personnel is as follows:

	2017	2016
Salaries and short term benefits	1,019	965
Post employment benefits	45	42
Equity compensation benefits	94	91
	1,158	1,098

Other operating expenses include BD 142 (2016: BD 48) 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 Trust 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.

The liability under the scheme has different vesting conditions based on the nature of incentive, which is based on the period of service with the Group. The liability vests pro-rata from the date of grant over a period of 5 years. 50% of the liability can be settled after 5 years, at the option of the employee while the remaining liability is settled after the employee leaves his employment. The settlement is based on the last net assets value as per the last annual financial statements of the Group.

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme account classified under equity.

The Group has recognized an employee liability of BD 1,634 (2016: BD 1,348) on the shares granted till date. This liability has been determined on the value of the Group's net assets as at 31 December 2016 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

26. Employee Share Ownership Plan (continued)

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

	2017	2016
	No. of shares issued	No. of shares issued
As at 1 January	15,987,741	15,987,741
Shares issued during the year *	-	-
	15,987,741	15,987,741

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

27. Involvement in unconsolidated structured entities

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	<ul style="list-style-type: none"> • To generate fees from managing assets on behalf of third party investors. • These vehicles are financed through the issue of units to investors. 	<ul style="list-style-type: none"> • Investment in units issued by the fund • Management fee • Performance fee
Employee share incentive scheme trust	<ul style="list-style-type: none"> • To hold the shares in trust under Employee share incentive scheme. 	<ul style="list-style-type: none"> • 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.

	2017	2016
Investments in funds		
Khaleej equity fund	1,055	1,036
Bahrain liquidity fund	1,203	1,209
	2,258	2,245

28. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in SICO Selected Securities Fund a minimum of 5% of the fund's net asset value and 10% of the net assets value of the Khaleej Equity Fund at any time throughout its life. The Group has other investment commitments of BD 106 (2016: BD 106) and margin lending drawdown commitments of BD 3,124 (2016: BD 1,516).

Funds under management (net asset value)	2017	2016
Khaleej Equity Fund	16,114	17,432
SICO Gulf Equity Fund	1,506	2,939
Bahrain Liquidity Fund	41,298	41,517
SICO Kingdom Equity Fund	3,239	3,462
SICO Fixed Income Fund	3,941	3,796
Discretionary portfolio management accounts	399,268	326,758

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

28 Contingencies, commitments and memorandum accounts (continued)

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

	2017	2016
Assets under custody	2,152,893	1,947,789

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2017, assets amounting to BD 2,152,893 (2016: BD 1,947,789) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 294,024 (2016: BD 277,555) were registered in the name of the Bank.

Legal claims

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

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

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

The civil case in relation to the above claim is under suspension by the court and at this stage of the action, we believe there is no need for a provision to be created in these consolidated financial statements, unless the civil case is taken up by the court and a possible claim is envisaged.

Contingencies

The Company has letters of guarantee in the amount of BD 5,133 (31 December 2016: BD 5,133) in favour of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

29. Significant net open foreign currency positions

	2017	2016
QAR	418	7,212
US Dollar	46,106	25,718
JOD	4	45
KWD	637	(348)
SAR	8,852	13,620
GBP	16	14
AED	10,892	5,372
OMR	33	(186)
EUR	8	3
EGP	344	241

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

30. Basic earnings per share

	2017	2016
Profit for the year	3,306	2,345
Weighted average number of equity shares (In 000's)	428,487	428,487
Less: Shares issued for employee share incentive scheme	(15,988)	(15,988)
Weighted average number of shares as at 31 December	412,499	412,499
Earnings per share (in fils)	8.01	5.69

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 2017	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	67,328	-	-	67,328
Treasury bills	1,495	-	-	1,495
Placements with banks	4,974	-	-	4,974
Investments at fair value through profit or loss	19,679	4,067	5,750	29,496
Investments at fair value through other comprehensive income	113	-	6,045	6,158
Investments at amortized cost	-	-	10,008	10,008
Furniture, equipment and intangibles	10	237	1,173	1,420
Fees receivable	875	-	-	875
Other assets	9,589	-	-	9,589
Total assets	104,063	4,304	22,976	131,343
Liabilities				
Short-term bank borrowings	38,043	-	-	38,043
Customer accounts	26,718	-	-	26,718
Other liabilities	4,173	-	-	4,173
Payable to other unit holders	2,651	-	-	2,651
Total liabilities	71,585	-	-	71,585
Liquidity gap	32,478	4,304	22,976	59,758
Cumulative liquidity gap	32,478	36,782	59,758	59,758

31 Maturity profile of assets and liabilities (continued)

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

32. Accounting classification and fair values

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

31 December 2017

	Fair value through profit or loss	Fair value through other comprehensive income	Loans and receivables	Liabilities at fair value	At amortized cost	Total carrying value
Cash and cash equivalents	-	-	67,328	-	-	67,328
Treasury bills	-	-	-	-	1,495	1,495
Placements	-	-	4,974	-	-	4,974
Investments at fair value through profit or loss	29,496	-	-	-	-	29,496
Investments at fair value through other comprehensive income	-	6,158	-	-	-	6,158
Investments at amortized cost	-	-	-	-	10,008	10,008
Fees receivable	-	-	875	-	-	875
Other assets	-	-	9,191	-	-	9,191
	29,496	6,158	82,368	-	11,503	129,525
Short-term bank borrowings	-	-	-	-	38,043	38,043
Customer accounts	-	-	-	-	26,718	26,718
Other liabilities	-	-	-	-	4,173	4,173
Payable to unit holders in consolidated funds	-	-	-	2,651	-	2,651
	-	-	-	2,651	68,934	71,585

32. Accounting classification and fair values (continued)

31 December 2016

	Fair value through profit or loss	Fair value through other comprehensive income	Loans and receivables	Liabilities at fair value	At amortized cost	Total carrying value
Cash and cash equivalents	-	-	80,900	-	-	80,900
Treasury bills	-	-	-	-	16,256	16,256
Investments at fair value through profit or loss	28,040	-	-	-	-	28,040
Investments at fair value through other comprehensive income	-	4,793	-	-	-	4,793
Investments at amortized cost	-	-	-	-	8,923	8,923
Fees receivable	-	-	1,164	-	-	1,164
Other assets	-	-	5,236	-	-	5,236
	28,040	4,793	87,300	-	25,179	145,312
Short-term bank borrowings	-	-	-	-	39,255	39,255
Customer accounts	-	-	-	-	42,994	42,994
Other liabilities	-	-	-	-	3,903	3,903
Payable to unit holders in consolidated funds	-	-	-	2,830	-	2,830
	-	-	-	2,830	86,152	88,982

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

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 the fair value of financial assets and liabilities, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Assets				
Fair value through other comprehensive income investments:				
- Equities	3,662	-	295	3,957
- Debt securities	113	2,088	-	2,201
Fair value through profit or loss:				
- Equity	6,055	-	-	6,055
- Debt securities	12,450	232	-	12,682
- Funds	7,444	2,330	985	10,759
Investments at amortized cost:				
- Debt securities	10,126	-	-	10,126
Liabilities				
- Payable to unit holders in consolidated funds	(2,651)	-	-	(2,651)
	37,119	4,650	1,280	43,129
As at 31 December 2016				
Assets				
Fair value through other comprehensive income investments:				
- Equities	2,185	-	377	2,562
- Debt securities	112	2,119	-	2,231
Fair value through profit or loss:				
- Equity	5,853	-	-	5,853
- Debt securities	11,180	470	-	11,650
- Funds	6,870	2,780	887	10,537
Investments at amortized cost:				
- Debt securities	9,065	-	-	9,065
Liabilities				
- Payable to unit holders in consolidated funds	(2,830)	-	-	(2,830)
	32,435	5,369	1,264	39,068

32. Accounting classification and fair values (continued)

(ii) Fair value hierarchy (continued)

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 2017
At 1 January 2017	1,264
Total gain:	
- in income statement	-
- in other comprehensive income	16
Purchases	-
Settlements	-
Transfers into / (out) of level 3	-
	1,280
At 31 December 2017	
	1,280

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

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

32. Accounting classification and fair values (continued)

(iii) Valuation technique and significant unobservable input

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

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Level 2			
Debt instruments	Market Comparison technique: The valuation is based on observable market multiples derived from quoted prices of comparable debt instruments.	Not applicable	Not applicable
Funds	Net asset values of the funds obtained from the fund managers	Not applicable	Not applicable
Level 3			
Private equity funds	Net asset values of the funds obtained from the fund managers	Net assets of the funds and the valuations of the underlying investments	The estimated fair value would increase (decrease) if there are any changes in the net assets of the funds based on the performance of the underlying investments.
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 regrouped where necessary to conform to the current year's presentation. The regrouping did not affect previously reported profit, for the year or total equity of the Group.