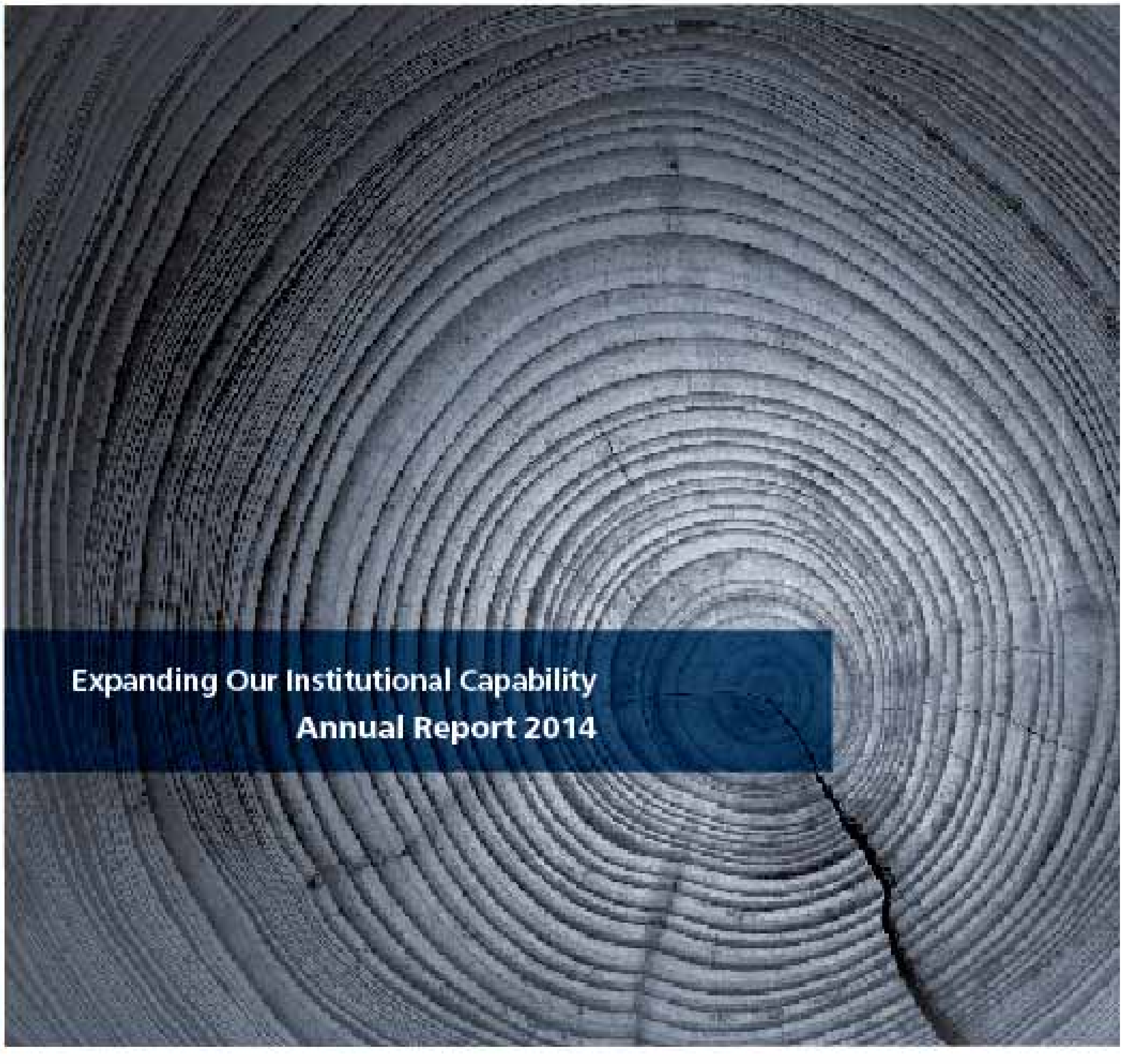
بنك استثماري
sico
Investment Bank



Expanding Our Institutional Capability

Annual Report 2014

BUILDING
A SOLID FINANCIAL INSTITUTION

DURING 2014, SICO FOCUSED ON EXPANDING THE BANK'S INSTITUTIONAL CAPABILITY. KEY INITIATIVES INCLUDE STRENGTHENING THE IT INFRASTRUCTURE AND ENHANCING HUMAN RESOURCES IN AREAS SUCH AS PERFORMANCE MANAGEMENT AND REMUNERATION. AT THE SAME TIME, THE BANK REINFORCED ITS CORPORATE GOVERNANCE AND RISK MANAGEMENT FRAMEWORKS IN LINE WITH GLOBAL BEST PRACTICE AND IN COMPLIANCE WITH RELEVANT REGULATORY REQUIREMENTS.

Securities & Investment Company BSC (c)

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HIS ROYAL HIGHNESS
PRINCE KHALIFA BIN
SALMAN AL KHALIFA

The Prime Minister of the
Kingdom of Bahrain

HIS MAJESTY
KING HAMAD
BIN ISA AL KHALIFA

The King of the
Kingdom of Bahrain

HIS ROYAL HIGHNESS
PRINCE SALMAN BIN
HAMAD AL KHALIFA

The Crown Prince, Deputy
Supreme Commander and
First Deputy Prime Minister

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CORPORATE OVERVIEW

HEADQUARTERED IN THE KINGDOM OF BAHRAIN, AND WITH A GROWING REGIONAL PRESENCE AND INTERNATIONAL FOOTPRINT, SECURITIES & INVESTMENT COMPANY (SICO) IS A PREMIER WHOLESALE BANK IN THE GCC OFFERING INVESTMENT BANKING SERVICES.

PROFILE

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

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

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

MISSION

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

VALUES

SICO's business activities and corporate relationships, together with the professional and personal conduct of our team members, are governed by a set of enduring values:

- Pioneering new products and services
- Maintaining a client-focused approach
- Acting prudently and professionally
- Upholding transparency in all dealings

FINANCIAL HIGHLIGHTS

SICO POSTED A STRONG FINANCIAL PERFORMANCE IN 2014, WITH NET PROFIT INCREASING BY 11.3 PER CENT TO BD 5.4 MILLION COMPARED WITH BD 4.9 MILLION THE PREVIOUS YEAR; WHILE OPERATING INCOME ROSE TO BD 12.4 MILLION FROM BD 10.6 MILLION IN 2013.

TOTAL REVENUE BD Million

	2014	2013
Net interest income	1.362	1.315
Net investment income	3.928	4.027
Brokerage	1.908	0.837
Asset management & other fee income	4.415	3.989
Investment banking income	0.175	0.166
Other income	0.544	0.246

RETURN ON AVERAGE ASSETS

Annual Ratio

2010	5%
2011	1%
2012	3%
2013	6%
2014	5%

EARNINGS PER SHARE (FILS)

Annual Ratio

2010	8.9
2011	1.1
2012	6.7
2013	11.4
2014	12.7

COST-TO-INCOME

Annual Ratio

2010	50%
2011	86%
2012	60%
2013	50%
2014	55%

RETURN ON AVERAGE EQUITY

Annual Ratio

2010	7%
2011	1%
2012	5%
2013	9%
2014	9%

DIVIDENDS PER SHARE (FILS)

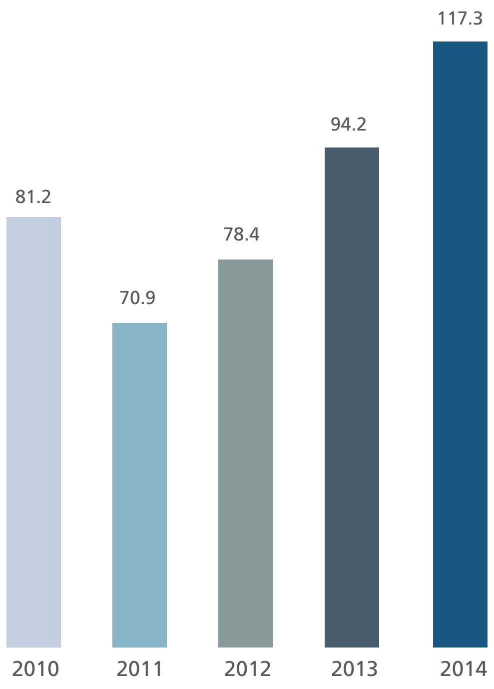
Annual Ratio

2010	6
2011	-
2012	5
2013	7.5
2014	9

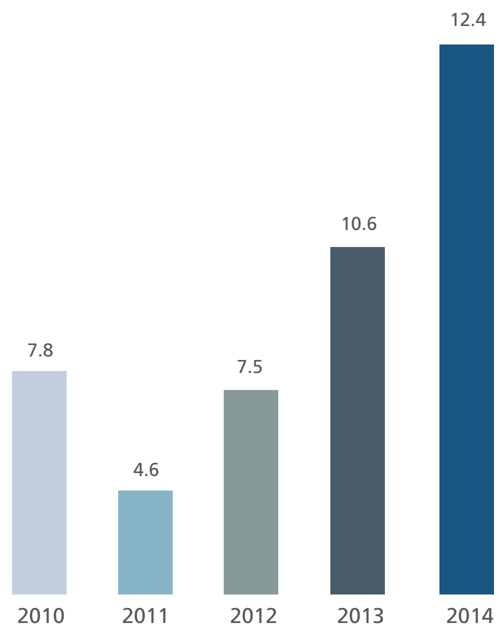
NET INTEREST MARGIN

Annual Ratio

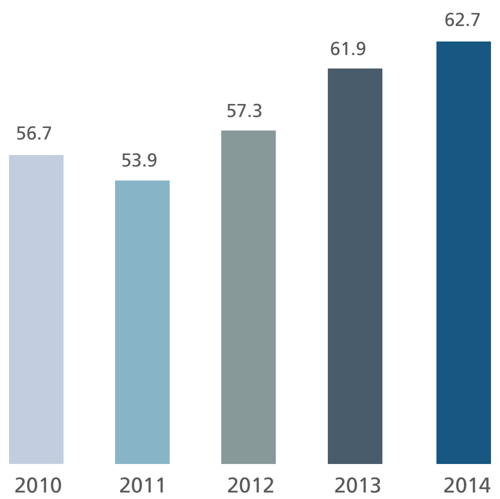
2010	4%
2011	3%
2012	3%
2013	3%
2014	3%



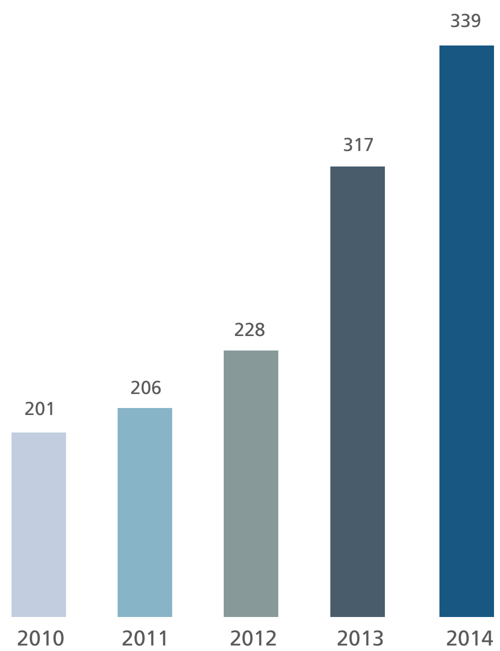
Totel Assets
BD Million



Total Revenue
BD Million



Shareholders' Equity
BD Million



Assets Under Management
BD Million

CHAIRMAN'S STATEMENT

Shaikh Abdulla bin Khalifa Al-Khalifa
Chairman of the Board

On behalf of the Board of Directors, it is my pleasure to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2014. This proved to be a very exciting year for SICO, highlighted by a smooth transition of leadership, strong financial results, and robust business performance. At the same time, we continued to focus on strengthening and expanding the institutional capability of the Bank.

FINANCIAL RESULTS

Despite severe volatility in GCC markets during the fourth quarter following the decline in oil prices, which affected SICO's profitability, I am pleased to report that the Bank posted a strong financial performance in 2014. Net profit for the year increased by 11.3 per cent to BD 5.4 million compared with BD 4.9 million the previous year; while operating income rose by 17 per cent to BD 12.4 million from BD 10.6 million in 2013. Basic earnings per share rose by 11 percent to12.68 fils from 11.41 fils in 2013. At the end of 2014, total balance sheet footings had grown by 24.5 per cent to BD 117.3 million from BD 94.2 million at the end of the previous year. SICO continued to maintain a solid capital base, with shareholders' equity increasing to BD 62.7 million from BD 61.9 million in 2013. The Bank maintains a very strong consolidated capital adequacy ratio of 63.64 per cent, which is substantially higher than the Central Bank of Bahrain's requirement.

Our financial results for 2014 reflect the strong performance by all core business lines, which exceeded our expectations. This was underlined by the receipt of new mandates in the areas of asset management, brokerage, corporate finance, and custody and administration. Assets under management increased by 6.9 per cent to US$ 899 million, reinforcing SICO's growing reputation as a leading institutionally-focused GCC public markets asset manager. It is also extremely encouraging that fee, commission, brokerage and other income now accounts for 57 per cent of total income. Balanced and diversified revenue generators will enable SICO to better withstand market volatility.

APPROPRIATIONS

Based on SICO's 2014 financial results and in accordance with the Bahrain Commercial Companies Law 2001, BD 575 thousand has been transferred to the Statutory Reserve.

Furthermore, the Board is recommending the following appropriations for approval by the shareholders at the annual general meeting to be held on 30 March 2015:

1. Transfer of BD 575 thousand to the General Reserve
2. Payment of a cash dividend of BD 3.86 million to shareholders, representing 9 per cent of paid-up capital
3. Directors' remuneration of BD 130 thousand

Total shareholders' equity after appropriation of the Statutory Reserve is BD 62.7 million compared with BD 61.9 million in 2013. The Bank is authorised to spend BD 30 thousand in 2015 on supporting charitable, cultural and educational activities.

INSTITUTIONAL CAPABILITY

Building a solid and sustainable financial institution remains a key strategic objective of the Bank, and in 2014 we took a number of steps to expand the Bank's institutional capability. A world-class operating infrastructure is a critical success factor of SICO's vision to be a leading regional wholesale bank, operating at highest levels of efficiency, effectiveness and customer service. Accordingly, we re-grouped all control and support functions under a newly-appointed Chief Operating Officer; invested further in technology, and strengthened our human resources systems. We also enhanced the Bank's corporate governance and risk management frameworks in line with global best practice, to ensure ongoing compliance with the latest regulatory requirements by the Central Bank of Bahrain, Bahrain Bourse, Emirates Securities & Commodities Authority, and other relevant regulatory bodies.

STRATEGIC FOCUS

Our prudent and consistent strategy remains on course. This entails a firm focus on serving the GCC region and selective MENA markets; growing and diversifying our business lines and revenue streams; pursuing a best-in-class, client-focused business model; and maintaining a disciplined approach to managing our costs, risk and capital. Following SICO's entry into the UAE, we are continuously examining opportunities to extend our presence in the region and grow our market share. In line with our traditionally prudent approach, any future expansion will be conducted only if it makes sound business sense, and is aligned with the best interests of our shareholders and clients.

CHANGE IN LEADERSHIP

At the annual general meeting held on 24 March 2014, the Board and shareholders of SICO approved the appointment of Ms. Najla M. Al Shirawi as the Bank's new Chief Executive Officer, expressing their trust and confidence in her ability to lead our team in implementing the next phase of SICO's strategic evolution. I would like to pay tribute to Najla's phenomenal performance since taking over at the helm, which has more than repaid the trust placed in her. With her distinctive hands-on approach, Najla has introduced a new energy and discipline to the business, and enhanced the esprit de corps of the entire SICO team.

LOOKING AHEAD

Looking ahead, we are confident about the future outlook for the GCC. In a recent regional economic outlook report, the IMF retained its growth forecast of between 4 and 4.5 per cent in 2014 and 2015 for the region, despite risks arising from the decline in oil prices. With their healthy reserves, GCC governments have reaffirmed their commitment to ongoing economic and social reforms, and increased investment in major infrastructure projects. Closer to home, the IMF forecasts that GDP growth for Bahrain in 2014 is expected to be around 4 per cent, and will continue to grow faster in 2015 than the global and wider Middle East economies.

The Board has full confidence in the ability of our high-calibre management team to capture attractive new business opportunities and address all future challenges. SICO is strongly capitalised, highly liquid and largely unleveraged; while our client base is predominantly institutional, which is more predictable and stable in nature. We will maintain our prudent risk philosophy and disciplined business philosophy to honour our commitment to provide shareholders with acceptable risk-adjusted returns in a volatile economic and financial environment. As such, we remain cautiously optimistic about SICO's prospects in 2015.

ACKNOWLEDGEMENTS

There were some changes to the Board of Directors in 2014. I would like to thank outgoing director Mr. Meshari Al-Judaimi (representing the Gulf Investment Corporation) for his valuable contribution since 2009; and in turn welcome his replacement, Mr. Waleed Al-Braikan, who brings with him extensive experience in international and regional investment banking.

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

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

Abdulla bin Khalifa Al-Khalifa
Chairman of the Board

BOARD OF DIRECTORS

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

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

Anwar Abdulla Ghuloom
Director - Non-independent and Executive
Represents Social Insurance Organisation - Bahrain

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

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

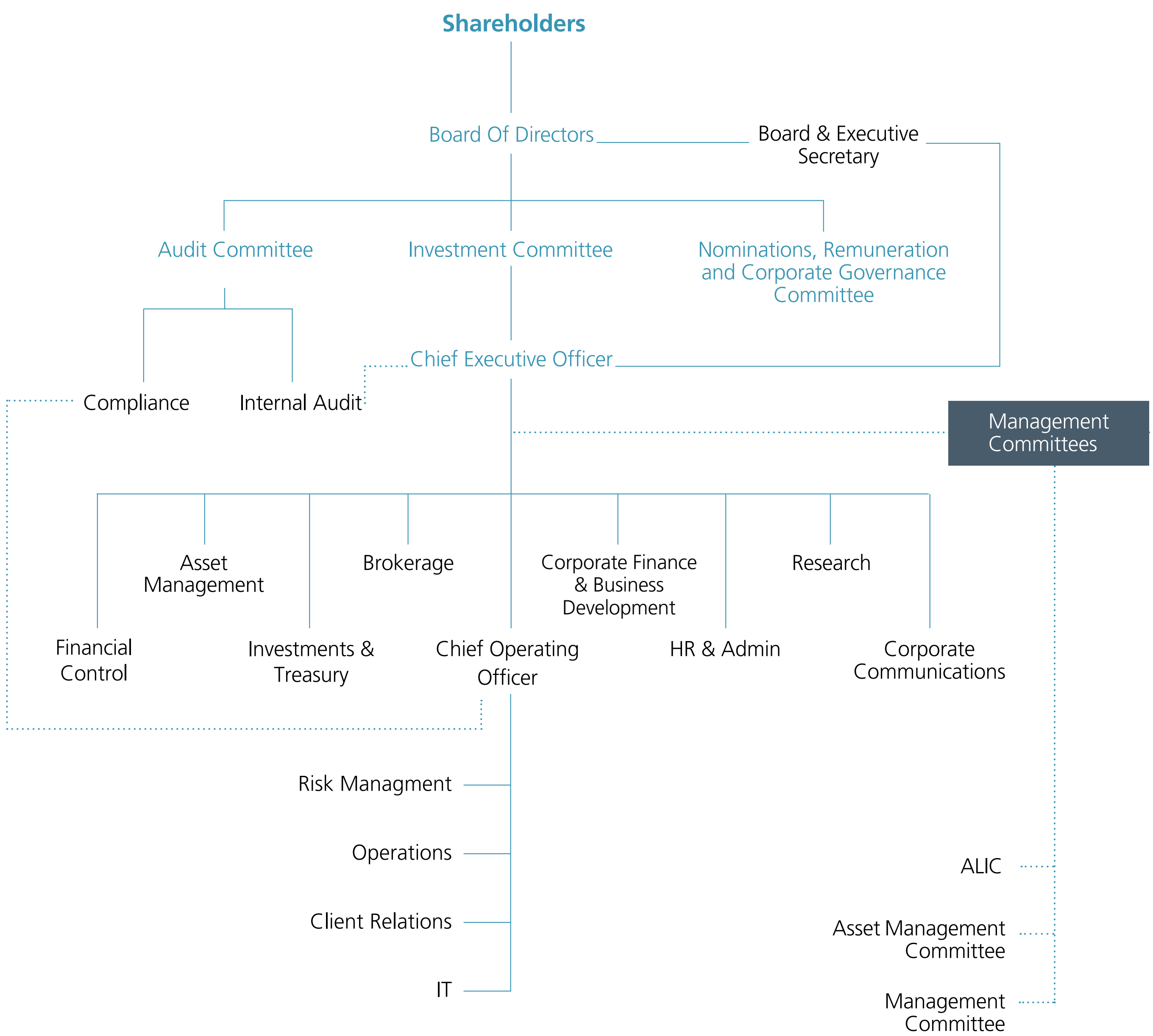
Mahmoud Al Zewam Al Amari
Director - Independent and Non-Executive
Represents Arab Banking Corporation - Bahrain

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

Waleed Al Braikan
Director - Independandt and Non-Executive
Represents Gulf Investment Corporation - Kuwait

Yusuf Saleh Khalaf
Director - Independent and Non-Executive
Represents Minority Shareholders

GOVERNANCE & ORGANISATION STRUCTURE



STREAMLINING THE ORGANISATION

SINCE INCEPTION, SICO HAS CONTINUOUSLY EVOLVED ITS ORGANISATIONAL STRUCTURE IN LINE WITH MARKET DYNAMICS, CLIENTS' NEEDS AND SHAREHOLDERS' EXPECTATIONS. KEY DEVELOPMENTS IN 2014 INCLUDE THE SMOOTH TRANSITION OF LEADERSHIP TO A NEW CHIEF EXECUTIVE OFFICER; AND THE INTEGRATION OF CONTROL AND SUPPORT UNITS UNDER A NEWLY-APPOINTED CHIEF OPERATING OFFICER, EMBRACING COMPLIANCE, RISK MANAGEMENT, CLIENT RELATIONS, OPERATIONS AND INFORMATION TECHNOLOGY. BOTH NEW APPOINTMENTS CAME FROM INTERNAL PROMOTIONS, WHICH HIGHLIGHT THE SUCCESS OF THE BANK'S SUCCESSION PLANNING POLICY, AND ENSURE CONTINUITY AND A SMOOTH TRANSITION OF RESPONSIBILITIES.

CHIEF EXECUTIVE'S REPORT

Najla M. Al Shirawi
Chief Executive Officer

The Bank's excellent financial performance for 2014 reflects the strong contribution from the entire SICO team – comprising business lines, and control and support functions – which saw everyone working harmoniously together throughout the year to achieve results that exceeded expectations.

FINANCIAL HIGHLIGHTS

The Bank's strong financial performance in 2014 included net profit increasing by 11.3 per cent to BD 5.4 million, and operating income growing by 17 per cent to BD 12.4 million. These results could have been even better, were it not for the heightened market volatility in the fourth quarter due to the sharp decline in oil prices, which affected SICO's fourth quarter profitability. An increased contribution from SICO's core business activities underlined these strong results. Revenue from Brokerage grew by 128 per cent, Asset Management by 11.6 per cent, and Corporate Finance by 5.4 per cent. Net investment income and net interest income remained largely unchanged from last year at BD 3.9 million and BD 1.4 million, respectively. Total assets under management grew by 6.9 per cent to BD 339 million (US$ 899 million), while total assets under custody with SICO Funds Services Company (SFS) increased by 30 per cent to BD 1.64 billion (US$ 4.34 billion).

BUSINESS ACHIEVEMENTS

SICO's brokerage business recorded increased flows from clients across all product lines, resulting from increased institutional sales through a dedicated team with a growing regional focus; and the provision of value-added advisory services. During the year, the Bank was mandated as market maker by Zain following its IPO in October. SICO also continued to improve spreads and boost liquidity on selective stocks listed on the Bahrain Bourse, and on a number of GCC fixed income names. In a particularly active year, SICO won a number of new fixed income mandates, covering both primary and secondary markets across the GCC, and also Turkey. With a growing range of products and services, the Bank has developed into a full-fledged regional fixed income player.

The growth in total assets under management reflects another strong performance by the Bank's asset management business, and clients' confidence in SICO's prudent investment strategy. A new hybrid discretionary portfolio management service – offering both equities and fixed income under the same portfolio – was launched during the year to meet the needs of clients with a conservative risk profile. The Bank's corporate finance business enjoyed one of its busiest years after an extended quiet period, winning several new mandates and establishing a very healthy pipeline of business. These advisory and equity raising mandates involved assisting clients to fulfil their needs in light of current market conditions and valuations.

In 2014, the Bank demonstrated its commitment to protecting shareholders' interests by minimising risk and diversifying investments. The proprietary book was de-risked by exiting from certain hedge fund and private equity investments; and gradually building up the available-for-sale (AFS) book in value stocks with solid fundamentals. SICO's robust treasury function posted another profitable performance in 2014. Interbank business was further enhanced through strengthening existing counterparty relationships and establishing new lines. The Bank maintained its cautious approach of maintaining deposits with high-quality financial institutions on short-term placements.

During 2014, SICO continued to enhance its provision of in-depth research and analysis, focused on liquid, publicly-listed companies in GCC markets. The independent, value-added service provided to clients includes advice about the best regional investment opportunities by markets, sectors and stocks; and is underscored by regular meetings with the management teams of regional companies. The Bank keeps in regular contact with clients through regularly-published reports; and a new research portal that offers convenient, flexible and interactive access to one of the most comprehensive research databases in the MENA region.

With a continued focus on quality and client service, the Group's subsidiary – SICO Funds Services Company (SFS) – posted another successful performance in 2014, winning a number of new regional mandates. In order to improve synergies with the Bank's brokerage function in the Kingdom of Bahrain, SICO UAE revised its strategy during 2014, with a greater focus on institutional clients. The team was expanded with the recruitment of additional professionals with institutional backgrounds, while support systems were further enhanced.

SUPPORT DEVELOPMENTS

SICO enhanced its human resources framework during 2014 with a number of new initiatives. These include a comprehensive review of HR policies and procedures; the introduction of a revised performance management system; and completion of a senior management remuneration system, which features a variable pay structure linking objectives, risks and rewards. SICO maintained its substantial investment in recruitment and human capital development, with total headcount of the Group increasing to 96 employees from 89 at the end of 2013.

The Bank also strengthened its information technology infrastructure. In addition, vendors were shortlisted for a new human resources management system; and a request-for-proposal was issued for a new order management system that will provide online trading for brokerage clients.

EVOLVING THE ORGANISATION

Since inception, SICO has continuously evolved its organisational structure in line with market dynamics, clients' needs, and shareholders' expectations. Key developments in 2014 include the appointment of a new Chief Executive Officer, and the integration of control and support units under a newly-appointed Chief Operating Officer. I am greatly honoured to have been selected as the new CEO, and am highly appreciative of the trust placed in me by the Board of Directors. What makes me particularly fortunate is the backing of a very capable, loyal and highly-experienced management team. I see myself and my team further growing and developing SICO's unique capabilities and leadership in the growing GCC economies, while continuing to enhance our Bank's value to all stakeholders. Both these appointments arise from internal promotions, highlighting the success of the Bank's succession planning policy, and ensuring continuity and a smooth transition of responsibilities.

"I see myself and my team further growing and developing SICO's unique capabilities and leadership in the growing GCC economies"

CLIENT-ORIENTED APPROACH

Delivering the highest levels of client service and satisfaction is a key priority for SICO. We value highly the ongoing trust and confidence placed in us by our loyal clients, who play a critical role in the continued success of the Bank. During 2014, we continued to enhance the provision of customised products and services to meet their requirements, and maintained our policy of staying in touch with our client base. Our proactive approach to client communications involves regular meetings and corporate road shows across the GCC region.

PLANNING FOR THE FUTURE

Building on our solid achievements in 2014, our future focus will be on continuing to do what we do best, but doing it even better and smarter. This entails adopting a more determined, disciplined and performance-oriented approach. We will continue to develop new products and services, and online delivery channels; and focus on increasing our fee-generation business. In line with our consistent GCC-focused strategy, we are looking to extend our activities across the region, not just in terms of physical presence as in the UAE, but also through mutually-beneficial partnerships in different markets. To achieve these objectives, we have set our various teams clear and ambitious business targets, which are linked closely to remuneration.

"We will continue to develop new products and services, and online delivery channels; and focus on increasing our fee-generation business"

MARKET OUTLOOK

It proved to be another 'roller-coaster' year in 2014 for the GCC. Buoyant market conditions continued for the first nine months until a not totally-unexpected correction in September; but after a brief period of consolidation, the dramatic drop in oil prices caused the markets to plummet even further. Due to the lack of any near-term catalyst until corporate earnings are announced in early 2015, we expect markets to remain subdued. In the longer run, however, the outlook remains positive since cheaper markets will offer value buying opportunities for investors. Looking ahead, we expect volatility levels to be elevated; and that the kind of returns for the past three years will not be repeated for some asset classes, especially equities. Nevertheless, there are still attractive issues in fixed income, which helped markets this year; and key GCC fixed names should remain resilient to the drop in oil prices. Having built up substantial financial reserves in recent years, regional governments will be able to ride out the downturn in the short-term; while the long-term outlook for GCC countries remains positive.

We remain optimistic about new business opportunities for SICO in the region, and in particular, our base in the Kingdom of Bahrain. Key developments such as the pronounced acceleration in the Kingdom's GDP growth this year, and IMF forecasts for continued growth in 2015; government investments in major infrastructure projects; new initiatives introduced by the Bahrain Bourse; and a notable improvement in business activities; will have a positive impact on SICO's business. Encouragingly, we have built a strong pipeline of mandates and transactions in the areas of asset management, brokerage, corporate finance, and custody and administration, which are expected to materialise in 2015.

ACKNOWLEDGEMENTS

In April 2014, Anthony Mallis retired from the Bank after more than 13 years as Chief Executive Officer. On a personal note, I would like to thank him for his leadership, mentorship, support and friendship over the years; and for leaving the Bank in such good shape, which has made my succession so much easier. We also said farewell to Samer Taleb and Samir Sami, who have been with SICO since 2006 and 2009, respectively. I thank them for their valuable contribution during this time, and wish them every success in their new endeavours. In turn, I welcome Anantha Narayanan who takes over as Chief Operating Officer, Joseph Thomas as Head of Internal Audit, and Wissam Haddad as Head of Corporate Finance; together with other new members of our business, control and support teams, some of whom joined from SICO's Executive Training Programme and Summer Internships. I also congratulate those members of staff who were promoted during the year.

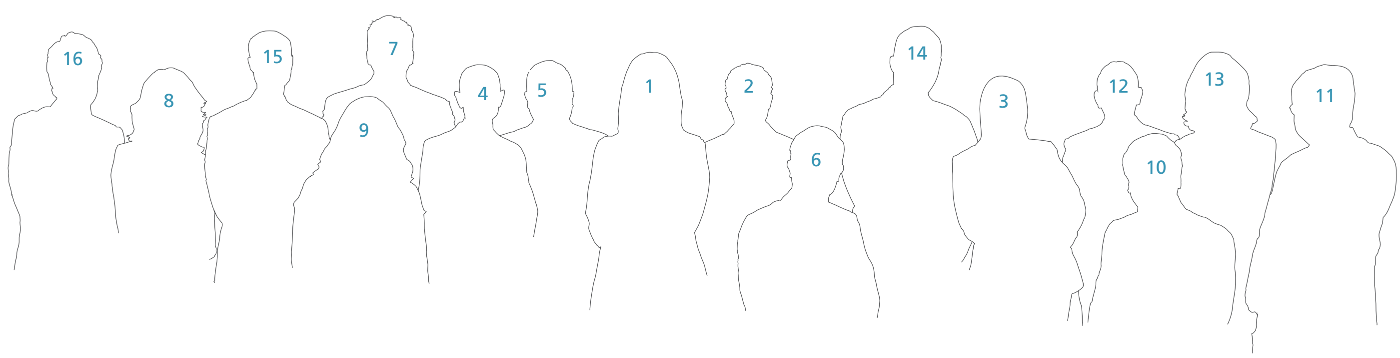
"The long-term outlook for GCC countries remains positive"

I take this opportunity to express my appreciation for the invaluable support and encouragement I have received from our Board of Directors, shareholders and clients; and also from the Central Bank of Bahrain, Bahrain Bourse and Economic Development Board.

Finally, I would like to thank the management and staff of the Bank who constitute 'a winning team'. Their commitment, professionalism and innovation, plus their willingness to embrace change and adapt to a challenging environment, have been instrumental to SICO's continued success in 2014.

Najla M. Al Shirawi
Chief Executive Officer

MANAGEMENT TEAM



1. Najla M. Al Shirawi
   Chief Executive Officer

2. Anantha Narayanan
   Chief Operating officer

3. Hanan Y. Sater
   Financial Controller

4. Fadhel Makhlooq
   Head of Brokerage

5. Shakeel Sarwar
   Head of Asset Management

6. Abdulrahman Saif
   Head of Investments & Treasury

7. Wissam Haddad
   Head of Corporate Finance

8. Amal Al Nasser
   Head of Operations

9. Nadia Albinkhalil
   Head of HR & Administration

10. Nishit Lakhotia
    Head of Research

11. Joseph Thomas
    Head of Internal Audit

12. Ismail Sabbagh
    Head of Information Technology

13. Nadeen Oweis
    Head of Corporate Communications

14. Amr Galal
    Head of Client Relations

SUBSIDIARIES

15. Mark Said
    General Manager
    SICO Funds Services Company

16. Bassam Khoury
    General Manager
    SICO UAE

REVIEW OF OPERATIONS

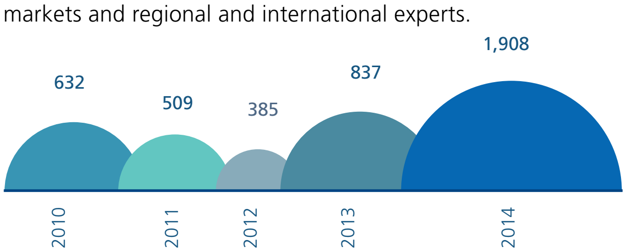
BUSINESS LINES

BROKERAGE

With regional markets remaining buoyant for most of the year, SICO's brokerage business posted a strong performance in 2014. Income grew by 128 per cent due to increased flows from clients across all product lines. These comprise direct brokerage services offered out of Bahrain and Abu Dhabi; nominee accounts across the GCC, plus Egypt and Jordan; and agency services covering GCC markets. Business growth resulted from an increase in institutional sales through a dedicated team with a growing regional focus; more business from existing clients; and an expanded client base. Capitalising on continued market volatility, SICO expanded its provision of value-added advisory services to clients, including in-depth research into GCC equities, which witnessed significant growth during the year.

Through its focus on serving active institutional investors with large trading books, SICO maintained its status as the leading broker on the Bahrain Bourse for the 16th consecutive year. The Bank continues to be the preferred broker for large trades, and executed most of the major deals on the Bourse during the year wherein SICO handled over 5,400 transactions involving more than 700 million shares with a total value of BD 213 million, constituting a market share of 39.5 per cent. The Agency Brokerage Desk, established in 2010 and still one of the very few in the GCC, witnessed a very busy year in 2014, with a sharp increase in volumes. SICO expanded its regional network of correspondent brokers, and signed up new accounts. The Desk enables clients to execute trades on all MENA stock exchanges. Having established a significant share of overall GCC market trades, SICO is now firmly placed among the leading brokers in the region.

Reflecting these achievements, SICO was named 'Best Brokerage House - Bahrain' at the 2014 AFE Equities Summit. This highly-regarded annual conference, which is hosted by the Arab Federation of Exchanges (AFE) in partnership with Thomson Reuters, brings together leaders of Arab financial markets and regional and international experts.



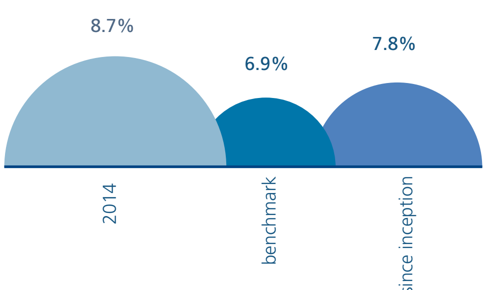
Brokerage 5 years Revenue

MARKET MAKING

Since pioneering the market making concept on the Bahrain Stock Exchange in 1997, SICO has maintained its status as the sole official market maker on the Bahrain Bourse. SICO continued to improve spreads and boost liquidity on selective stocks listed on the Bahrain Bourse. During the year, the Bank was mandated as market maker by Zain, following completion of its IPO in October.

FIXED INCOME

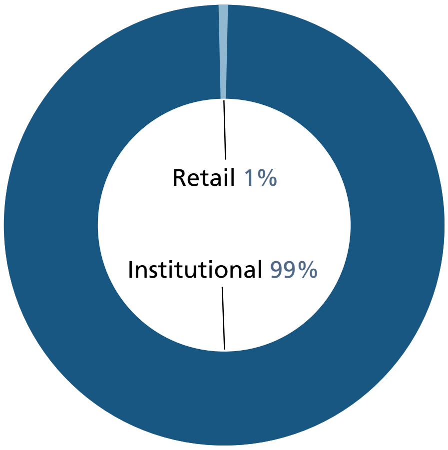
A new dedicated Fixed Income department was established during 2014. Responsible for all fixed income activities previously undertaken by SICO's Fixed Income Desk, it provides clients with a range of advisory, discretionary management, trading and repo services – both conventional and Sharia-compliant – to partner with clients in pursuing opportunities and delivering market-leading results. With a growing range of products and services, SICO has developed into a full-fledged regional fixed income player, with distinctive capabilities in MENA and Turkish fixed income; as well as providing a gateway to European, Asian and US markets. The department's growing collaborative network enables the most efficient and cost-effective transactions, together with an edge in the 'over-the-counter' fixed income market. In a particularly active year, SICO won a number of new mandates, and almost doubled fixed income assets under management. The Bank's growing strength in this area stems from a skilled and experienced team backed by a comprehensive in-house credit research capability. Its cost-effective platform delivers a one-stop-shop service that provides end-to-end solutions for an increasing number of sukuk and fixed income investors.



SICO Fixed Income Fund Return

ASSET MANAGEMENT

SICO's asset management business posted another strong performance in 2014. As a result of additional new mandates from regional institutions, total discretionary assets under management grew by 6.9 per cent to US$ 899 million.



AUM BREAKDOWN

This achievement positions the Bank as one of the largest boutique investment managers in the region outside Saudi Arabia focused on managing GCC equities and fixed income. Regional and international institutions account for over 99 per cent of total assets under management. These comprise pension funds, financial institutions, sovereign wealth funds and endowments funds.

With a proven track record spanning more than 14 years, SICO has earned a solid reputation for the quality, innovation and performance of its asset management business. Focused exclusively on the GCC and MENA regions, the Bank possesses an in-depth understanding of the regional equity investment environment; and a unique insight into the activities of regional stock markets, key growth sectors and major listed companies. SICO's success stems from its disciplined investment strategy and conservative approach; one of the most stable and highly-professional asset management teams in the region; and the quality of its comprehensive research capability. These differentiating factors have supported the development of SICO into a leading and highly-respected institutionally-focused GCC public markets asset manager, providing investors with stable long-term returns that have consistently outperformed benchmarks and peers.

The Bank's funds outperformed their respective benchmarks and peers during 2014. Full details are provided in the SICO Funds Update later in this annual report. In a significant development, the Bank's flagship Khaleej Equity Fund completed the first 10 years of operation since being launched at the end of March 2004. The Fund, which seeks long-term capital appreciation by investing principally in equity securities listed on GCC stock markets, is one of the oldest, best-performing and highest-rated funds of its kind in the MENA region. The SICO Fixed Income Fund, which was launched in April 2013 as the first of its kind to be managed by a Bahrain-based fund manager, successfully completed its first full year of operations in 2014.The Fund actively invests in government and corporate fixed income, sukuk, money market and other fixed income instruments for hedging purposes. The primary objective is to generate income and seek capital appreciation over the medium- and long-term.

During 2014, the Discretionary Portfolio Management Accounts offered by SICO continued to attract increased interest. The Bank won a number of new mandates from regional clients, including sovereign wealth funds and pension funds, for GCC equities. A new hybrid discretionary portfolio service – offering both equities and fixed income under the same portfolio – was launched during the year to meet the needs of more conservative clients. This new portfolio is designed to provide consistent recurring revenue and less volatility in returns.

INVESTMENTS AND TREASURY

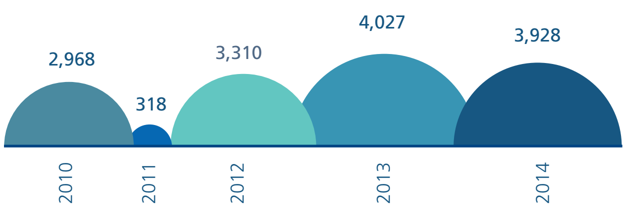
INVESTMENTS

Proactive management and tactical asset allocation, combined with an opportunistic and risk-averse approach, enabled SICO to respond successfully to market volatility during the year. The Bank demonstrated its commitment to protecting shareholders' interests by minimising risk and diversifying investments. The proprietary book was de-risked by exiting from certain hedge fund and private equity investments; increasing the cash position; and gradually building up the available-for-sale (AFS) book in value stocks with solid fundamentals. Exposure to fixed income (FI) was maintained, and the composition of the FI book was changed to include more floaters; as well as reducing the portfolio's overall duration. Asset allocation exposure was balanced between the GCC and international markets such as the USA, Europe and Asia; with emphasis on economies exhibiting growth, or where central banks were seen to be taking concerted actions on quantitative easing to improve liquidity. At the year-end, 35 per cent of the portfolio was invested in GCC and global equities, while fixed income through direct and indirect investment accounted for 34 per cent of the portfolio.

TREASURY

SICO's robust treasury function, which is responsible for managing the Bank's liquidity as well as providing value-added services to clients, posted another profitable performance in 2014. SICO's interbank business was further enhanced through strengthening existing counterparty relationships and establishing new lines. Due to the Bank's cautious approach of maintaining deposits with high-quality financial institutions on short-term placements, net interest income for 2014 was largely unchanged at BD 1.36 million. SICO maintained a sound and liquid balance sheet, with a capital adequacy ratio of 63.64 per cent, which is considerably higher than the requirements of the Central Bank of Bahrain.

Treasury services for clients include money market and foreign exchange (FX); together with collaterised lending through repurchase agreements (repos) to provide liquidity. In terms of short-term funding, SICO offers very competitive rates for repos and reverse repos, and handles all sizes of transactions, not just large ones, to meet clients' specific needs. FX services cover the diverse currency requirements of clients, with SICO handling all transactions across the GCC to make it easier for them to trade; and providing timely execution of all transactions, regardless of settlements and market cut-offs. The Bank's research capability underlines the team's knowledge of the regional markets, and facilitates the provision of customised solutions.



Net Investment Income (5 years)

CORPORATE FINANCE

A leading provider of corporate finance services in the GCC since 1997, the Bank has successfully concluded a large number of high-profile regional offerings. SICO is one of the few regional investment banks covering the entire spectrum of corporate finance-related products and services. These include advising on and managing public and private issuances of equity and debt capital, mergers and acquisitions, privatisations, restructuring and fairness opinions.

Taking advantage of improved market conditions and corporate sentiment in 2014, SICO's corporate finance business enjoyed one of its busiest years, winning several new mandates and establishing a very healthy pipeline of business. These mandates involved assisting clients to manage their needs in light of current market conditions and valuations. The focus during the year was on providing Bahrain-based clients such as diversified conglomerates (including family businesses), with advice on restructuring, swapping or consolidating assets; together with advising quasi-government entities on part-privatisation opportunities.

During the year, SICO took steps to broaden its product portfolio in order to generate recurring income through retainer and success fees from origination deals rather than just one-off advisory fees. This involves introducing new products and services in the private equity domain, where the Bank can tap its extensive experience and expertise. SICO has identified interesting opportunities in both the private and public sector, including real estate, hospitality, telecoms, banking, insurance, and industrial.

CLIENT RELATIONS

The Client Relations Unit (CRU) is the first point of contact for existing and potential clients. The CRU deals promptly and responsively with queries and complaints in all non-trading issues; and also acts as a conduit for passing on suggestions and ideas from clients to the business divisions. The Unit's scope of activities includes opening new accounts, negotiating agreements with clients and counterparties, and handling requests for research reports. During 2014, the CRU continued to update its 'Know Your Customer' (KYC) records, and enhance its complaints procedures in line with directives and reporting requirements of the Central Bank of Bahrain. The majority of clients' enquiries handled by the Unit during the year involved providing clients with information about SICO's products and services as well as clients' own accounts. While the number of complaints remained extremely low at 3 per year when compared with service oriented market norms of 3 per month, reflecting the Bank's commitment to continuously improve its customer service and satisfaction standards.

RESEARCH

During 2014, SICO continued to enhance its provision of in-depth proprietary sell-side research and analysis. Research activities focus on publicly-listed companies in GCC markets, with senior analysts covering all major sectors and 55 highly liquid stocks in the region. The independent, value-added service provided to clients includes advice about the best regional investment opportunities by markets, sectors and stocks; which is underscored by regular meetings with the management teams of regional companies.

The Bank keeps in regular contact through regularly-published reports, and a new research portal that offers convenient, flexible and interactive access to one of the most comprehensive research databases in the MENA region. In 2014, the number of reports increased to 767; while the coverage universe was expanded by 12 per cent with the addition of new companies in the banking, telecoms, petrochemical and consumer sectors. In addition, SICO facilitate company conference calls with investors and analysts.

The results of a client survey conducted during the year revealed that over 98 per cent of respondents found SICO's research output to be helpful in meeting their investment objectives; while 80 per cent of users of the new research portal rated its usefulness at above average or higher. The portal provides in-depth information on major GCC-listed companies, offering stock recommendations, financial forecasts, company reports and peer comparisons. Users can track up-to-date analysis of latest news and developments and their impact on the GCC stock markets; including intra-day charts, major volume plays, top gainers and losers, and current valuations. The portal enables downloading of key financial estimates and valuation multiples in an Excel spreadsheet format.

SICO continued to invest in its highly-regarded research capability, which acts as a strategic business enabler and key competitive differentiator. During 2014, the team of well-qualified and experienced analysts was expanded to eight professionals, representing around 10 per cent of the Bank's Bahrain-based staff.

SUPPORT FUNCTIONS

HUMAN RESOURCES

SICO strengthened its human capital (HR) framework during 2014 with a number of new initiatives. A comprehensive review of HR policies and procedures was finalised and approved by the Board Nominations, Remuneration and Corporate Governance Committee. It is currently awaiting verification by the Ministry of Labour prior to being presented to the Board of Directors for final approval. Additionally, the revised performance management system (PMS) was finalised and implemented. This incorporates updated job descriptions and key performance indicators for individuals and departments. A fully-automated version of PMS will form part of the new human resource management system that is planned to be implemented in 2015.

Another key HR development involved the completion of a senior management remuneration system, which became operational during the year. This features a variable pay structure linking objectives, risks and rewards. The system forms an important element of the Bank's required compliance with the Sound Remuneration Policy issued by the Central Bank of Bahrain, for which a comprehensive proposal was submitted during the year. Also during the year, a revised succession planning policy was completed and approved by the Board. The strength of SICO's succession planning was illustrated in 2014 with the appointment of a new Chief Executive Officer and Chief Operating Officer from within the Bank.

SICO maintained its substantial investment in recruitment and human capital development during 2014. The total headcount of the Group increased to 96 employees at year-end from 91 (including 2 executive trainees) at the end of the previous year, comprising 71 staff for SICO HQ, 10 for SFS and 15 for SICO UAE. Comprehensive training opportunities continued to be provided, including technical training at the Bahrain Institute of Banking & Finance; selected external development courses; mandated regulatory-related training; and sponsoring staff to achieve professional qualifications such as CFA and CPA. The Bank is the second-highest CFA employer in Bahrain, with a total of 8 charter holders. The SICO Executive Training Programme continued to make excellent progress, with two trainees being hired by business and support divisions in 2014, and additional high-calibre university graduates joining the programme during the year.

INFORMATION TECHNOLOGY

Throughout 2014, SICO continued to invest considerable time and resources in further strengthening its information and communications technology infrastructure, which acts as a key strategic driver and business enabler. Following the successful implementation of the first phase of the new Temenos T24 core banking system (CBS) in 2013, priority was placed on stabilising and enhancing system functionality, and continuing to develop customised solutions for the business and clients using internal and external resources.

Key developments during the year include the short-listing of potential vendors for a new human resources management system (HRMS) for introduction in 2015. This comprehensive and fully-automated system will cover key applications such as personnel management and payroll; training and career development; and a performance management system in line with requirements of the Central Bank of Bahrain (CBB). In addition, a request-for-proposal was issued for a new order management system (OMS) for the brokerage business that will provide an online trading facility for clients, through robust automated front office trading functionality integrated with back office operations.

During the year, SICO's disaster recovery site was tested as part of the business continuity planning process and CBB regulations. A dry run and live test, involving people, data and systems, were conducted successfully, with full restoration of normal operations within a few hours being verified by an internal audit. In addition, penetration testing of the Bank's information security systems was carried out; and plans were finalised for an external vulnerability assessment test in 2015.

OPERATIONS

During 2014, the Bank's operations function continued to streamline and enhance back office systems and procedures. Responsible for processing all transactions by the Bank's business lines, the department's activities include opening accounts and booking cash for clients; managing daily reconciliations and the settlement cycle; and issuing reports to Client Relations and business units. With the successful implementation of the first phase of the new core banking system, all processes and procedures are fully automated and integrated with SWIFT, with a resulting improvement in efficiency and accuracy, and timely reporting.

CONTROL FUNCTIONS

FINANCIAL CONTROL

The Bank's financial control function comprises two main units, covering accounting and reporting (ARU), and internal control (ICU). The ARU, in conformity with the Bahrain Commercial Companies and CBB regulations and in accordance with International Financial Reporting Standards (IFRS) acts as the de facto channel between back office operations, compliance and business units. The unit is also responsible for all external reporting, including mandatory reports to the CBB. The implementation of the first phase of the new core banking system has significantly speeded up reporting to regulators and the Bank's management. Phase two of the CBS project will enable more sophisticated financial analysis, and the preparation of additional categories of reports. It will also further automate and enhance prudential information reporting (PIR) to the CBB.

Acting as a key competitive differentiator, Internal Control (IC) is a dedicated unit responsible for ensuring that the Bank's daily operations run smoothly in a risk-free and compliant manner; that all policies and procedures are followed correctly; and for identifying any operational weaknesses and closing conformity gaps. The Unit is also closely involved in contingency planning, undertaking a coordination role between compliance, information technology and business units, to ensure the successful role of the disaster recovery site in the event of a disaster. In addition, IC is involved in the process for selecting external consultants to conduct the planned review of the Bank's policies and procedures in 2015.

INTERNAL AUDIT

SICO has a well-established independent Internal Audit function. During the year, the department met quarterly with the Audit Committee, and presented the results of internal audits performed in line with the Board-approved risk-based internal audit plan. The department also carried out a number of spot checks and reviews on an ad hoc basis covering various areas based on Management's request, the results of which were presented to Senior Management and the Audit Committee.

Internal Audit also assisted Management with an independent review of certain aspects of the implementation and testing of the T24 core banking system. All key operational, business and management processes and divisions, including the subsidiary SICO UAE, were audited in line with the audit plan. According to an established process, the department coordinated and followed up with Management to obtain its commitment to undertake appropriate remedial action on all unresolved open audit findings. Internal Audit also worked with the Compliance and Risk functions on various issues to strengthen and enhance SICO's corporate governance and risk management frameworks.

COMPLIANCE & ANTI-MONEY LAUNDERING

As a licensed conventional wholesale bank and listed company, SICO has in place comprehensive policies and procedures to ensure full compliance with all relevant rules and regulations of the Central Bank of Bahrain (CBB) and the Bahrain Bourse. In keeping with Basel and CBB guidelines, the Bank has an independent Compliance department, which acts as the central coordinator for all matters related to regulatory reporting and other requirements. Anti-money laundering measures are also an important responsibility of the department, with a designated Money Laundering Reporting Officer (MLRO) and Deputy MLRO. More detailed information concerning SICO's corporate governance framework and key developments in 2014 is covered by the Corporate Governance Review in this annual report.

RISK MANAGEMENT

Risk management is essential to the Bank's success. It entails a systematic process for identifying, assessing and mitigating the principal business risks facing SICO by establishing appropriate controls to manage these risks; and ensuring that all appropriate monitoring and reporting processes are in place. The Bank has an independent Risk Management department which provides leadership, direction and coordination in applying risk management across the organisation. The department is responsible for establishing the risk management framework and appropriate risk structures to assist the Bank in the realisation of its business objectives and continued development. More detailed information concerning SICO's risk management framework and key developments in 2014 is covered by the Risk Management Review in this annual report.

SUBSIDIARIES

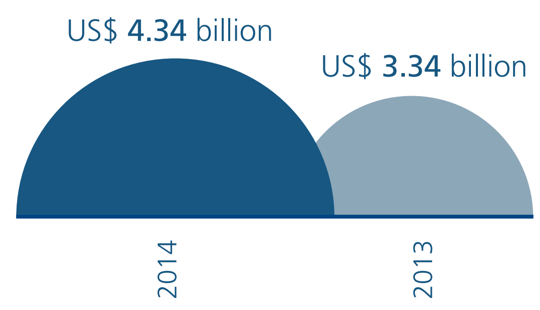
SICO FUNDS SERVICES COMPANY (SFS)

Licensed by the Central Bank of Bahrain, SICO Funds Services Company (SFS) is a leading regional provider of sophisticated and integrated custody and fund administration solutions, with a proven track record of over 10 years in the custody business. A wholly-owned subsidiary of Securities & Investment Company (SICO), SFS was incorporated in 2004 by spinning off SICO's custody unit to create an independent, specialised custody and fund administration house.

The utilisation of advanced technology tools, processes and delivery platforms enables SFS to offer a unique and flexible service, which is designed to streamline the day-to-day management of investment funds and portfolios, thereby allowing clients to focus on their core business activities. The Company's team of dedicated and experienced professionals, operating through a select network of local sub-custodians and preferred financial institutions, provides clients with a seamless, professional service that corresponds to their varying requirements.

While benefiting from the solid foundation and mature market presence of SICO, the operations and services of SFS are totally independent and fully segregated from its parent company. The Company's relationship with SICO as a broker and asset manager is conducted strictly on an arm's length basis. The core solutions provided by SFS cover all aspects of custody and fund administration, including registrar functions and customised reporting services, supported by an independent, value-added research capability.

With a continued focus on quality and client service, SFS posted another successful performance in 2014. New regional mandates, together with stock market appreciation, resulted in total assets under custody with SFS increasing by 30 per cent to US$ 4.34 billion at the year-end from US$ 3.34 billion at the end of 2013. With a key fiduciary responsibility for safeguarding clients' assets, the Company's main activities comprise settlement of securities transactions; safekeeping of custody assets and securities servicing (corporate actions); and comprehensive administration services such as valuations and pricing. The implementation of the first phase of the new core banking system has automated and significantly speeded up client reporting.



Total Assets under Custody

SECURITIES & INVESTMENT COMPANY UNITED ARAB EMIRATES (SICO UAE)

SICO UAE marks the first strategic investment by SICO in establishing a physical presence in the GCC outside Bahrain, and underscores the Bank's commitment to its regional and international clients. Located in Abu Dhabi, the Company is licensed by the Emirates Securities & Commodities Authority (ESCA) to provide brokerage services in the United Arab Emirates, where it executes trades on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) for institutional and high net worth clients.

The establishment of SICO UAE took less than one year to complete. In September 2011, SICO received approval from ESCA to fully acquire an existing licensed brokerage house and change its name to SICO UAE. In February 2012, backed by an injection of new capital, the Company moved to new premises at Al Wahda Commercial Tower. The operation in the new location was supported by a substantial investment in human capital and information technology. ESCA restored the brokerage licence in June 2012, following regulatory approval of key personnel, and a rigorous inspection of the Company's new premises and operating infrastructure. Officially resuming brokerage operations in July 2012, SICO UAE extended its range of client services the following year with the introduction of online trading for individual clients and margin trading facilities.

The Company witnessed an active second full year of operations in 2014, during which it continued to invest in growing the business. In order to improve synergies with the Bank's brokerage function in the Kingdom of Bahrain, SICO UAE revised its strategy with a greater focus on institutional clients. To support this new business focus, the team was expanded with the recruitment of additional professionals with institutional backgrounds. At the same time, control and support units were strengthened, and online trading was extended to institutional clients.

Despite a very competitive environment marked by contracting margins and heavily investing in expanding their trading plarforms to cater for institutional business, SICO UAE was successful in increasing its client base and rising in the ranking of UAE-based brokers during 2014. Operating losses were reduced by 50 per cent, and the Company expects to achieve profitability in 2015.

CORPORATE SOCIAL RESPONSIBILITY

AT SICO, WE STRONGLY BELIEVE THAT BUSINESSES SHOULD NOT ONLY CREATE VALUE THROUGH THEIR ECONOMIC ACTIVITY, BUT ALSO PLAY AN ACTIVE ROLE IN THE SOCIETIES IN WHICH THEY OPERATE.

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

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

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

In 2014, SICO continued to provide financial and practical support for a wide number of charitable institutions engaged in healthcare, education and social welfare. New initiatives organised or sponsored by the Bank during the year include:

- Alia for Early Intervention School for Children
- Al Mabarrah Al Khalifia Foundation
- Al Noor Charity Welfare
- Bahrain Child Care Home
- Bahrain Down Syndrome Society
- Bahrain Women's Association
- Children and Mothers Welfare Society
- Muharraq Social Welfare Centre
- New Dawn Society
- Think Inc. Foundation
- Think Pink Bahrain Charity Golf Tournament
- Rotary Club of Manama
- UCO Parents Care Centre for Elderly Patients
- SICO staff hosted 50 children suffering from cancer to a special day out

HELPING YOUNG BAHRAINIS DEVELOP LEADERSHIP SKILLS AND ENHANCE THEIR CAREER PROSPECTS

- SICO staff acted as volunteers for the Injaz Bahrain Schools Training Programme. Injaz partners with businesses and educators to provide students in intermediate and secondary schools with a business-oriented outlook; and the knowledge, skills, tools and hands-on experience to participate in the real world.
- The Bank sponsored the AIESEC Bahrain 'Women's Empowerment Event'. AISEC Bahrain seeks to promote the leadership skills of Bahraini students, and provide a positive impact on the Kingdom's youth. which aims to support female entrepreneurs by providing them with the opportunity to showcase their work and talents. The event comprised a weekend of activities including a roundtable discussion by successful entrepreneurs who shared their experiences, and an outdoor market.
- TEDx 'Re-' initiative by students from Ahlia University based on the idea of recreating, reinventing, redesigning, reinterpreting and even rewriting current ideas, to spark conversation and connection at a local level.
- SICO signed MoU with CFA Society Bahrain to provide six-month internships for winning students of the Mutamahin (Apprentice) Graduate Development Programme.
- Two graduates from SICO's Executive Training Programme were hired by business and support divisions, and additional high-calibre university graduates joined the programme.
- SICO hosted Bahraini students at overseas universities in their 'practical experience' year through a Summer Training Programme, and provided Internships for students from the University of Bahrain.

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

SICO either sponsored or participated in a number of financial industry conferences and high-level events during 2014, including the following:

- Bahrain Economic Development Board's Business Delegation to Russia
- Banks in Bahrain Reception at World Bank / IMF meeting in Washington DC
- ARINDON's Annual Capital Markets & Investor Relations Conference
- CFA Bahrain Annual Forecast Dinner & Charter Award Ceremony
- 10th Annual World Islamic Funds & Financial Markets Conference
- 2nd Annual Thomson Reuters MENA Asset Management Conference
- Official research partner for OBG's 'The Report: Bahrain 2015'

STRENGTHENING THE SUPPORT STRUCTURE

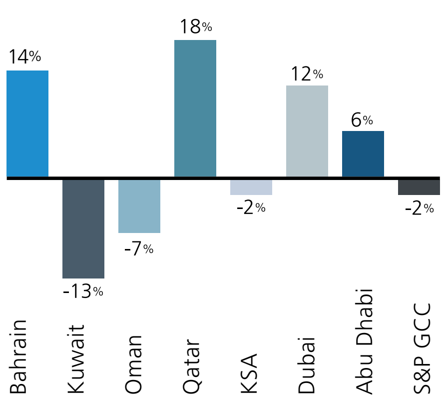
A WORLD-CLASS OPERATING INFRASTRUCTURE IS A CRITICAL SUCCESS FACTOR OF SICO'S VISION TO BE A LEADING REGIONAL WHOLESALE BANK, OPERATING AT HIGHEST LEVELS OF EFFICIENCY, EFFECTIVENESS AND CUSTOMER SERVICE. ACCORDINGLY, IN 2014 THE BANK RE-GROUPED ALL CONTROL AND SUPPORT FUNCTIONS UNDER A NEWLY-APPOINTED CHIEF OPERATING OFFICER; INVESTED FURTHER IN TECHNOLOGY, AND STRENGTHENED OUR HUMAN RESOURCES SYSTEMS . SICO ALSO ENHANCED ITS CORPORATE GOVERNANCE AND RISK MANAGEMENT POLICIES IN LINE WITH GLOBAL BEST PRACTICE AND COMPLIANCE WITH THE LATEST REGULATORY REQUIREMENTS.

SICO RESEARCH UPDATE

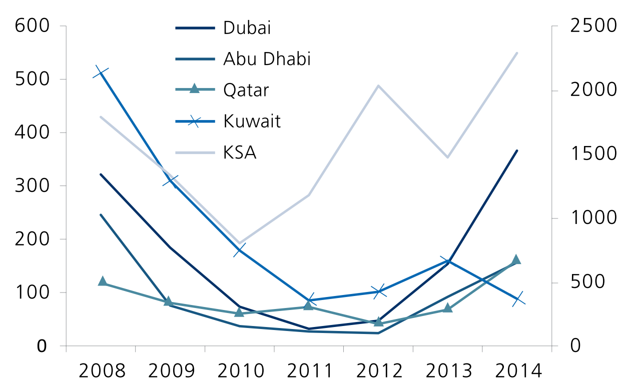
GCC MARKET SNAPSHOT 2014

GCC markets continued their positive momentum in 2014 up until the end of the third quarter. However, with oil prices declining by 45 per cent on a quarter-by-quarter basis, there was a sell-off across the markets in the fourth quarter, particularly in Saudi Arabia and Dubai. On a year-to-date basis, Qatar was the best performer in 2014, followed by Bahrain and Dubai. Negative returns were posted by the Kuwait, Oman and Saudi Arabia indices, along with the S&P GCC Index. Average turnover increased significantly year-on-year for all markets except Kuwait. Risk perception, as measured by CDS spreads, started trending upwards in the fourth quarter, due broadly to the oil price decline.

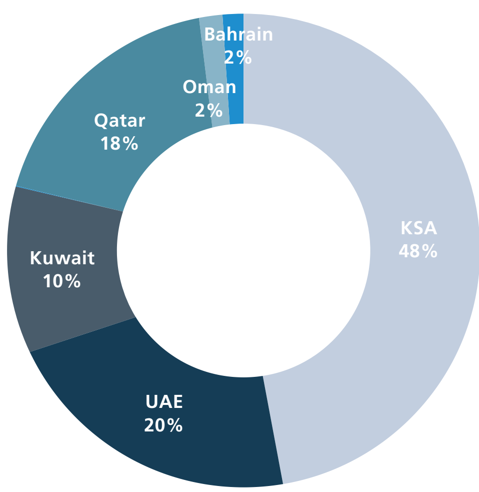
INDEX RETURNS 2014



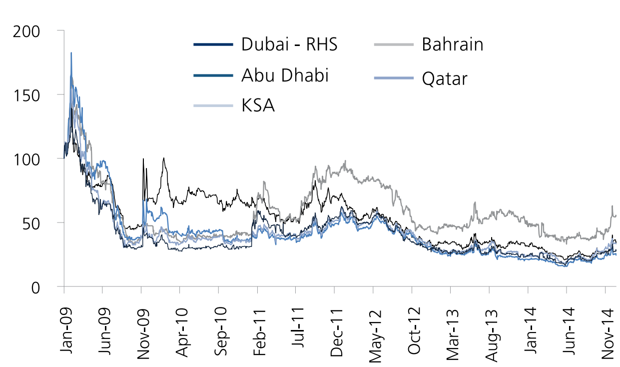
AVERAGE TURNOVER (USD MN)



GCC INDICES BREAKDOWN BY MARKET CAP



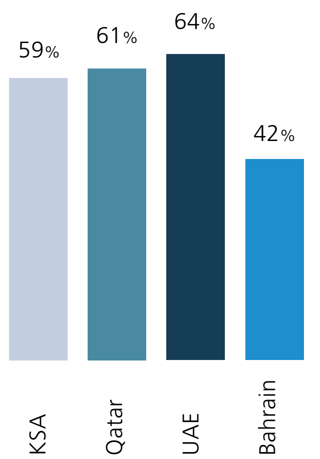
CDS SPREADS 2009 - 2014



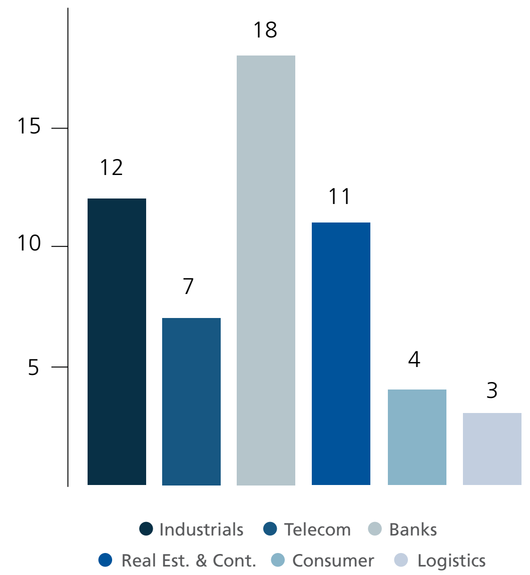
SICO COVERAGE UNIVERSE

SICO Research covers 55 listed companies across the GCC, with strong coverage in key markets such as Saudi Arabia, Qatar and the UAE.

SICO RESEARCH COVERAGE - KEY GCC COUNTRIES



COMPANIES UNDER COVERAGE



Note: Coverage as a percentage of market cap of index-based companies. UAE includes DFM and ADSM indices.

SICO FUNDS UPDATE

KHALEEJ EQUITY FUND

LAUNCH DATE	March 2004
PRINCIPAL INVESTMENT FOCUS	Equity securities listed on stock markets of GCC countries
BENCHMARK	S&P GCC Index
PEER GROUP	GCC
RETURN JAN - DEC 2014	4.7% versus benchmark -2.5%
ANNUALISED RETURN	*Last five years* 8.9% versus benchmark 5.4%

SICO KINGDOM EQUITY FUND

LAUNCH DATE	February 2011
PRINCIPAL INVESTMENT FOCUS	Equity securities listed in Kingdom of Saudi Arabia
BENCHMARK	Tadawul Index
PEER GROUP	Equity Saudi
RETURN JAN - DEC 2014	8.9% versus benchmark -2.4%
ANNUALISED RETURN	*Last three years* 16.3% versus benchmark 9.1%

SICO GULF EQUITY FUND

LAUNCH DATE	March 2006
PRINCIPAL INVESTMENT FOCUS	Equity securities listed on stock markets of GCC countries , excluding Saudi Arabia
BENCHMARK	S&P GCC Ex-Saudi Index
PEER GROUP	GCC
RETURN JAN - DEC 2014	4.2% versus benchmark 3.2%
ANNUALISED RETURN	*Last five years* 8.4% versus benchmark 6.2%

SICO SELECTED SECURITIES FUND

LAUNCH DATE	May 1998
PRINCIPAL INVESTMENT FOCUS	Equity and debt securities listed, or expected to be listed, on the Bahrain Bourse
BENCHMARK	Bahrain Bourse All Share Index
PEER GROUP	Equity Bahrain
RETURN JAN - DEC 2014	13.3% versus benchmark 14.2%
ANNUALISED RETURN	*Last five years* 5.4% versus benchmark -0.4%

SICO FIXED INCOME FUND

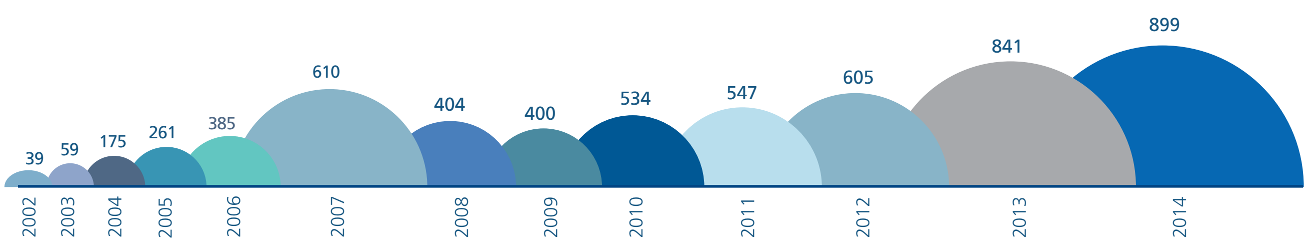
LAUNCH DATE	April 2013
PRINCIPAL INVESTMENT FOCUS	Government and corporate fixed income, sukuk, repo, money market instruments, and other fixed income-related instruments
BENCHMARK	Barclays Emerging Markets GCC Bond Index
PEER GROUP	Fixed Income GCC
RETURN JAN - DEC 2014	8.7% versus benchmark 6.9%
ANNUALISED RETURN	4.4% versus benchmark 3.6%

NEW MILESTONE FOR KHALEEJ EQUITY FUND

SICO's flagship Khaleej Equity Fund has completed its first 10 years of operation since being launched at the end of March 2004, making it one the oldest funds of its kind in the region. The Fund, which seeks long-term capital appreciation by investing principally in equity securities listed on GCC stock markets, is one of the oldest, best-performing and highest-rated funds of its kind in the MENA region.

The Khaleej Equity Fund has been recognised by two Lipper Fund Awards: 'Best GCC Equity Fund Over 5 Years' in 2011 and 'Best GCC Equity Fund Over 3 Years' in 2008.

Other awards include the 'Outstanding Fund Performance and Innovation Award' from the MENA Fund Manager Performance Awards in 2013.



AUM Growth - US$ Million

CORPORATE GOVERNANCE REVIEW

COMMITMENT

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

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

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

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

BOARD COMPOSITION AND ELECTION

The Board's composition is guided by the Bank's Memorandum of Association. As at 31 December 2014, the Board consisted of nine Directors, four of whom are Independent Non-executive directors, and five are Executive directors including the Chairman and Vice-Chairman. The Bank recognises the need for the Board's composition to reflect a range of skills and expertise. Profiles of Board Members are listed on pages 35-37 of this review.

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

INDEPENDENCE OF DIRECTORS

In line with the requirements of the CBB's HC Module, the Bank has put in place Board-approved criteria to determine 'Test of Independence' using formal requirements as specified in the CBB rule book and other relevant requirements as assessed by the Board of SICO. The purpose of the Test is to determine whether the Director is: 'Independent of management, and any business or other relationships, which could materially interfere with the Director's ability to exercise objective, unfettered or independent judgement, or the Director's ability to act in the best interests of SICO'. Based on an assessment carried out in 2014, the Board of Directors resolved that the four Non-executive Directors of SICO met the relevant requirements of the 'Test of Independence', and accordingly, they were classified as 'Independent' Directors and Committee Members of SICO's Board of Directors.

BOARD AND COMMITTEE EVALUATION

The Board performs a self-evaluation on an annual basis. The Board annually reviews its Charter and its own effectiveness; and initiates suitable steps for any amendments. The Board also reviews self-evaluations of the individual Board members, Chairman and the Board Committees, and considers appropriately any recommendations arising out of such evaluation.

REMUNERATION OF DIRECTORS POLICY

The Board of Directors remuneration is governed by provisions of the Commercial Companies Law 2001 and the CBB. The Directors' remuneration is approved by the shareholders at the annual general meeting. In addition, the members are paid sitting fees for the various sub committees of the Board. The Board remuneration is reviewed by the Nomination, Remuneration & Corporate Governance Committee as per the remuneration policy. Directors' remuneration is accounted as an expense as per international accounting standards and CBB regulations.

BOARD MEETINGS AND ATTENDANCE

According to the Bahrain Commercial Companies Law and the CBB rules, Board meetings will be conducted at least four times a year (on a quarterly basis). All Board members must attend at least 75 per cent of all Board meetings within a calendar year. At least five Directors must attend each Board meeting, including the Chairman or the Vice-Chairman. During 2014, six Board meetings were held in Bahrain and the members' attendance is noted in the table below:

Directors' Attendance: January to December 2014

Board Meetings (Total held 6)	12 Nov 2014	26 Jul 2014	14 May 2014	24 Mar 2014	17 Feb 2014	12 Jan 2014	Board Members
	●	●	●	●	●	●	Shaikh Abdulla bin Khalifa Al-Khalifa Chairman of the Board
	●	●	✱	●	●	●	Mr. Hussain Al Hussaini Vice Chairman
	X	●	X	●	●	●	Mr. Anwar Abdulla Ghuloom
	●	●	●	●	●	●	Mr. Mahmoud Al Zewam Al-Amari
	●	●	●	●	●	●	Mr. Fahad Murad
	●	X	✱	●	●	●	Ms. Sawsan Abulhassan
◉			●	●	●	●	Mr. Meshary Al-Judaimi
○	●						Mr. Waleed Al Braikan
	●	●	●	●	●	●	Mr. Mohammed Abdulla Isa
	●	●	●	●	●	●	Mr. Yusuf Khalaf

● 12 Jan 2014 ● 17 Feb 2014 ● 24 Mar 2014 ● 14 May 2014 ● 26 Jul 2014 ● 12 Nov 2014 ✱ denotes attendance through tele conference

◉ denotes Director effective till July 2014 ○ denotes Director joined w.e.f. August 2014 X denotes absense in meeting

Investment Committee Meetings Total held 4	Board Committee Members
● ● ● ●	Shaikh Abdulla bin Khalifa Al-Khalifa Chairman of the Investment Committee
● ● ● ●	Mr. Hussain Al Hussaini
● ● ● ●	Ms. Sawsan Abulhassan

● 9 Jan 2014 ● 24 Apr 2014 ● 30 Jun 2014 ● 21 Oct 2014

Audit Committee Meetings Total held 4	Board Committee Members
● ● ● ●	Mr. Mahmoud Al Zewam Al-Amari
◉ ●	Mr. Meshary Al-Judaimi
○ ●	Mr. Waleed Al Braikan
● ● ● ●	Mr. Yusuf Khalaf Chairman of the Audit Committee

● 9 Feb 2014 ● 13 May 2014 ● 26 Jul 2014 ● 11 Nov 2014

◉ denotes Director effective till July 2014

○ denotes Director joined w.e.f. August 2014

Nominations, Remuneration and Corporate Governance Committee Meetings Total held 5	Board Committee Members
● ⓧ ● ● ●	Mr. Anwar Abdulla Ghuloom
● ● ● ● ●	Mr. Fahad Murad Chairman of the NRCGC committee
● ● ● ● ●	Mr. Mohammed Abdulla Isa

● 11 Jan 2014 ● 13 Feb 2014 ● 19 Feb 2014 ● 25 Jun 2014 ● 15 Oct 2014

ⓧ denotes absense in meeting

BOARD COMMITTEES

Investment Committee

Objective

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

Audit Committee

Objective

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

Nominations, Remuneration and Corporate Governance Committee

Objective

- Identify and screen suitable and qualified candidates as members of the Board of Directors, or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the Bank considered appropriate by the Board, and as and when such positions become vacant; with the exception of the appointment of the Internal Auditor, which shall be the responsibility of the Audit Committee
- Submit its recommendations, including candidates for Board membership, to the whole Board of Directors, which in turn should include them in the agenda for the next Annual Shareholder Meeting
- Review and recommend the remuneration policy of SICO in line with CBB sound remuneration principles
- Review the bank's remuneration policies for the approved persons and material risk-takers, which must be approved by the shareholders and be consistent with the corporate values and strategy of the bank
- Approve the remuneration policy and amounts for approved person and material risk-taker, as well as the total variable remuneration to be distributed taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits
- Approve, monitor and review the remuneration system to ensure the system operates as intended
- Recommend Board members' remuneration based on their attendance and performance and in compliance with Article 188 of the Company Law
- Review the Bank's existing Corporate Governance policies and framework
- Advise the Board on the Bank's public reporting of information on Corporate Governance practices and issues
- Provide a formal forum for communication between the Board and management on Corporate Governance issues

DIRECTORS' PROFILES

Shaikh Abdulla bin Khalifa Al-Khalifa

Chairman

Director since 2011 (Non-independent and Executive)
Chairman of SICO Investment Committee
Chief Executive Officer – Osool Asset Management B.S.C. (c)
Chairman: Muharraq Mall Company
Board Director: BBK, BFC Holdings Limited, Amlak and Amanat Holding PJSC
Professional experience: 15 years
Educational qualifications: BSc in Business Administration, George Washington University, Washington DC, USA

Mr. Hussain Al Hussaini

Vice Chairman

Director since 1997 (Non-independent and Executive)
Represents National Bank of Bahrain - Bahrain
Member of SICO Investment Committee
General Manager: Treasury, Overseas Branches & Operation Group, National Bank of Bahrain
Board Director: Esterad
Professional experience: 33 years
Educational qualifications: PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing & Management Change, DePaul University; BA in Economics, Concordia University, Montreal, Canada

Mr. Anwar Abdulla Ghuloom

Director since 2002 (Non-independent and Executive)

Represents Social Insurance Organisation - Bahrain
Member of SICO Nominations, Remuneration and Corporate Governance Committee
Board Director: Seef Properties
Professional experience: 33 years
Educational qualifications: ACPA, CIPA; BSc in Accounting

Ms. Sawsan Abulhassan

Director since 2008 (Non-independent and Executive)

Represents Ahli United Bank - Bahrain
Vice Chairperson of SICO Investment Committee
Deputy Group CEO: Private Banking & Wealth Management, Ahli United Bank
Board Director: Ahli United Bank UK; The Family Bank - Kingdom of Bahrain
Professional experience: 23 years
Educational qualifications: MBA in Finance, University of Bahrain; BSC in Management, University of Bahrain

Mr. Mohammed Abdulla Isa

Director since 2009 (Non-independent and Executive)

Represents BBK - Bahrain
Vice Chairman of SICO Nominations, Remuneration and Corporate Governance Committee
Chief Financial Officer: BBK
Professional experience: 23 years
Educational qualifications: Certified Public Accountant, American Institute of Certified Public Accountants- Delaware State Board of Accountancy

Mr. Mahmoud Al Zewam Al- Amari

Director since 2004 (Independent and Non-executive)

Represents Arab Banking Corporation - Bahrain
Member of SICO Audit Committee
First VP & Head: Portfolio Department, Arab Banking Corporation
Professional experience: 30 years
Educational qualifications: AIBD; MA in Macro Economics

Mr. Fahad Murad

Director since 2011 (Independent and Non-executive)

Represents Arab Investment Resources Company - Bahrain
Chairman of SICO Nominations, Remuneration and Corporate Governance Committee
Managing Director - Head of Placement for Bahrain and Oman: Investcorp
Professional experience: 30 years
Educational qualifications: BBA and MBA in Finance from the University of Houston, Texas, USA

Mr. Waleed K. Al Braikan

Director since 2014 (Independent and Non-executive)

Represents Gulf Investment Corporation - Kuwait
Vice Chairman of the Audit Committee
Director: GCC Equity Markets, Gulf Investment Corporation
Board Director: Ithmar Capital, UAE
Professional experience: 29 years
Educational qualification: BA in Finance from Kuwait University

Mr. Yusuf Saleh Khalaf

Director since 2012 (Independent and Non-executive)

Represents Minority Shareholders
Chairman of SICO Audit Committee
Founder & Managing Director: Vision Line Consulting

Independent Board Director: BBK, Eskan Bank
Professional experience: 36 years
Professional qualifications: Associate Chartered Certified Accountant, ACCA, UK

MANAGEMENT

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

MEMBERSHIP OF MANAGEMENT COMMITTEES

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

■ Committee members
● Non-voting Member

MANAGEMENT COMMITTEES

MANAGEMENT COMMITTEE

Objective

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

ASSET MANAGEMENT COMMITTEE

Objective

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

ASSETS, LIABILITIES AND INVESTMENTS COMMITTEE (ALIC)

Objective

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

MANAGEMENT PROFILES

Najla M. Al Shirawi – Chief Executive Officer

Joined SICO in 1997

Najla has more than 18 years' investment banking experience. Her appointment as Chief Executive Officer in March 2014 was preceded by her promotion to Deputy CEO in June 2013. Prior to this, she held various positions in the Bank, including Chief Operating Officer for seven years, Head of Asset Management, and Head of Investments & Treasury. Najla also worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust, where she was responsible for establishing private banking operations for the Group in the Gulf region. Her career also embraces a Lectureship in Engineering at the University of Bahrain. Najla is Chairperson of the Board of Directors of SICO Services Company (SFS) and SICO UAE; and an Independant

Board Member of Eskan Bank, Bahrain. She holds an MBA and a Bachelor's degree in Civil Engineering, and attended the Management Acceleration Programme at INSEAD, France.

Anantha Narayanan – Chief Operating Officer
Joined SICO in 2008

Anantha has more than 24 years' experience in the areas of audit and risk in the banking industry. He was Head of Internal Audit at SICO for six years before appointment to his present position in 2014. Prior to joining SICO, he worked for Credit Agricole Corporate & Investment Bank; BBK; Commercial Bank of Oman/Bank Muscat; and PricewaterhouseCoopers. Anantha is a Chartered Accountant and Management Accountant (India); a Certified Information Systems Auditor and Financial Risk Manager (USA); an Associate Member of the Institute of Financial Studies (UK). He holds a BSc Honours degree from the University of Manchester, (UK).

Hanan Y. Sater – Financial Controller
Joined SICO in 1997

Hanan has more than 35 years' experience in accounting and financial control. Prior to joining SICO, she worked for Manufacturers Hanover Trust Bank, Chemical Bank, and Chase Manhattan Bank. She is a Certified Accountant from the UK-based Association of Chartered Certified Accountants (ACCA), and is also a Certified Anti-money Laundering Specialist by the US-based Association of Certified Anti-Money Laundering Specialists (ACAMS). A graduate of the University of Bahrain, Hanan has undertaken training in general management, internal control and risk management with reputed institutions such as the BIBF and INSEAD.

Fadhel Makhlooq – Head of Brokerage
Joined SICO in 2004

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

Shakeel Sarwar – Head of Asset Management
Joined SICO in 2004

Shakeel has over 20 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with the asset management division of Riyad Bank, and was part of the team that managed over US$ 3 billion in Saudi equities. Previous experience includes working with ABN Amro Asia Securities in the UK and Pakistan. Shakeel holds an MBA in Banking and Finance from IBA, Karachi, Pakistan.

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

Abdulrahman has over 15 years' experience in investments and treasury. Prior to joining SICO, he was with the Asset Management team at Taib Bank. He has also worked for Gulf International Bank and Arab Banking Corporation. A Certified Investment Representative, Abdulrahman holds an MSc in Finance from DePaul University, a BSc in Accounting from the University of Bahrain, and a Treasury & Capital Markets Diploma from the Bahrain Institute of Banking & Finance. He has also undertaken specialised training at INSEAD, France.

Wissam Haddad – Head of Corporate Finance
Joined SICO in 2014

Wissam has 13 years' experience in conventional and Sharia-compliant private equity and investment banking in the GCC, along with a particular focus on corporate and structured finance, private equity and advisory. Prior to joining SICO, he was a Director with Gate Capital in Dubai, where he completed a number of investment banking transactions in the UAE and Saudi Arabia. He also held senior positions in Dubai with Unicorn Capital; NCB Sana Capital – the private equity arm of National Commercial Bank of Dubai; and Eastgate Capital Group – the private equity arm of National Commercial Bank (Saudi Arabia). He also worked with Gulf Finance House and the investment banking unit of Shamil Bank of Bahrain; as well as the management consulting arm of BDO Jawad Habib. Wissam holds a Bachelor of Commerce degree from the John Molson School of Business, Concordia University, Canada.

Amal Al Nasser – Head of Operations
Joined SICO in 1997

Amal has more than 26 years' banking experience. She was Head of Operations at SICO for 10 years before being appointed General Manager of SFS, a wholly-owned subsidiary of SICO, on its establishment in 2006. Amal resumed her role as Head of Operations at SICO in 2010. Before joining SICO, she spent 10 years with ALUBAF Arab International Bank in Bahrain, working in the areas of credit, investment and commercial banking operations. Amal holds a BA degree in Economics from Poona University, India.

Nadia Albinkhalil – Head of HR & Administration
Joined SICO in 1995

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

Nishit Lakhotia – Head of Research
Joined SICO in 2009

Nishit has over 10 years' diversified investment experience in the fields of risk management, hedge funds, private equity and sell-side research. Joining SICO Research in January 2009 as a senior analyst, he was responsible for actively tracking the telecommunications, aviation, construction and cement sectors in the GCC. Nishit was promoted to Head of Research in 2013. Prior to SICO, he worked for an Iceland-based private equity firm with a focus on the Indian infrastructure sector. Nishit is a Chartered Financial Analyst, a Chartered Alternative Investment Analyst, and a Financial Risk Manager from the Global Association of Risk Professionals. He holds an MBA (specialising in Finance) from the Narsee Monjee Institute of Management Studies, Mumbai, India.

Joseph Thomas – Head of Internal Audit
Joined SICO in 2015

Joseph has over 12 years' experience in internal audits, assurance engagements and other financial advisory services. Prior to joining SICO, he was Head of Internal Audit at Global Banking Corporation. Before this, he worked with the Risk Consulting division of KPMG Bahrain, where he led risk-based internal audits for conventional and Sharia-compliant investment banks, firms and other entities. He began his career with Bharat Overseas Bank in India, followed by an internal audit role at the South Indian Bank. He later led assurance engagements as Audit Manager for a Dubai-based auditing firm, and also held the position of Partner in their Bahrain office. Joseph is a Chartered Accountant, a Certified Internal Auditor, and a Member of the Institute of Internal Auditors (USA); and holds a Bachelor of Commerce degree.

Ismail Sabbagh – Head of Information Technology
Joined SICO in 2007

Ismail has over 18 years' experience in the fields of business consulting and information technology. Prior to joining SICO, he worked with BDO Consulting as Business Consulting Manager; Microsoft Consulting services as Technical Consultant for ERP and CRM, and Project Manager; and New Horizons as a Business Consultant and IT Trainer. A Certified Project Management Professional (PMP) and Microsoft Certified Professional; Ismail holds a BSc in Computer Science from the Lebanese American University, Beirut, is a Microsoft Certified Professional, and is PMP certified.

Nadeen Oweis – Head of Corporate Communications
Joined SICO in 2008

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

Amr Galal – Head of Client Relations
Joined SICO in 2004

Amr has over 19 years' experience in banking and information technology. He joined SICO as a Systems and Network Administrator, and was appointed to his present position in 2006. Prior to SICO, he spent eight years working for IT and computer companies in Egypt and Bahrain. Amr holds a BSc degree in Commerce and Business Administration from the University of Helwan, Cairo, Egypt.

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

Mark has over 29 years' experience covering the US and the Middle East, in financial administration, operations management, custody and accounting, and financial control. Prior to joining SICO, he was with SAIB BNP Paribas Asset Management in Saudi Arabia. Before this, Mark worked in the US for Columbia Management; MFS Investment Management; and State Street Bank. He holds an MSc degree in Finance and a BSc in Business Administration, both from Boston University, USA.

Bassam A. Khoury - General Manager
SICO UAE
Joined SICO in 2013

Bassam has over 29 years' international experience in brokerage, investments and financial consultancy. He was Head of Brokerage at SICO from 2008 to 2010, before leaving to join QInvest, Qatar as Head of Regional Brokerage. Prior to rejoining SICO in 2013 as General Manager of SICO UAE, Bassam was Chief Executive Officer of Bahrain-based ABC Securities. Previously, he worked with Banque Saudi Fransi in Saudi Arabia; BMB Investment Bank and Lehman Brothers in Bahrain; a private family office in Paris; and M Sternburg & Company in the USA. Bassam holds a BSc degree in Business Administration & Economics from King's College, New York, USA.

GOVERNANCE FRAMEWORK

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

CODE OF BUSINESS CONDUCT

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

COMPLIANCE AND ANTI-MONEY LAUNDERING

As a licensed conventional wholesale bank and listed company, SICO has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse. The Bank has an independent Compliance unit in keeping with Basel and CBB guidelines. The Compliance unit acts as the central coordinator for all matters relating to regulatory reporting and other requirements.

In 2014, the Kingdom of Bahrain's Government signed Intergovernmental Agreement Model 1 with the United States of America. SICO has been registered as Registered Deemed-Compliant Financial Institution (including a Reporting Financial Institution under a Model 1 IGA) with the Internal Revenue Service, and obtained a Global Intermediary Identification Number for the Bank and its subsidiaries.

Anti-money laundering measures are also an important area of the Compliance unit, with a designated Money Laundering Reporting Officer (MLRO) and Deputy MLRO. The Bank has documented anti-money laundering and combating the financing of terrorism procedures, in conformity to the regulatory requirements in the Kingdom of Bahrain. SICO has implemented a risk-based automated transaction monitoring system, which further enhances the Bank's anti-money laundering measures in line with the regulations of the CBB.

CORPORATE COMMUNICATIONS

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

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

- The remuneration paid to Board members and senior management personnel are disclosed in Note 25 of the Financial Statements.
- The information on the fees paid to external auditors for audit and other services will be available to CBB and shareholders upon request, provided such disclosure does not impact the interest of Bank.

COMPLIANCE WITH CBB'S HIGH LEVEL CONTROLS MODULE

Every conventional bank licensee is expected to comply with rules and guidance mentioned in High Level Control Module issued by CBB under Rulebook Volume 1. Any non-compliance with the HC Module needs to be explained by disclosure in the annual report to shareholders and the CBB.

SICO IS IN COMPLIANCE WITH HC MODULE EXCEPT FOR THE FOLLOWING:

1. As per HC 1.4.6 & 1.4.8, the Chairman of the Board of Directors should be an independent and non executive director. SICO's Chairman, Shaikh Abdulla bin Khalifa Al Khalifa is considered as non independent & executive director as he is representative of the major shareholder of SICO. SICO obtained exemption from CBB for complying with the abovementioned requirement considering the SICO's closed shareholding pattern.

   The Bank is of the view that this does not compromise with upholding the highest standard of corporate governance as the business transactions are entered at 'arms length basis'. The Bank manages conflict of interest arising out of interested parties as per SICO code of conduct and the interested Directors do not participate in business proposals related to them.

2. As per HC 1.8.2, 4.2.2 & 5.3.2, the Nomination, Remuneration & Corporate Governance Committee should include only independent directors or alternatively only non-executive directors of whom a majority are independent directors and the Chairman is to be an independent director. The Chairman of NRCG is an independent Director, however the other two committee members are executive directors. The composition of NRCG committee is planned to be reconstituted after annual general meeting to meet the regulatory requirement.

SICO REMUNERATION POLICY & RELATED DISCLOSURES

The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and senior management, and the key factors that are taken into account in setting the policy.

During the year, the Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components are subject to the approval of the shareholders in the upcoming Annual General Meeting. Once approved, the policy will be effective for the 2014 annual performance incentives and will be fully implemented for future periods.

The key features of the proposed remuneration framework are summarised below.

REMUNERATION STRATEGY

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (NRCG).

The Bank's remuneration policy in particular considers the role of each employee, and has set guidance on whether an employee is a Material Risk Taker and/or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if he/she is the Head of a significant business line, or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term, but also importantly on how it is achieved as the NRCG believes the latter contributes to the long-term sustainability of the business.

NRCG ROLE AND FOCUS

The NRCG has oversight of all reward policies for the Bank's employees. The NRCG is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRCG ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRCG with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for Approved Persons and Material Risk-Takers, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks, and that the remuneration system takes into consideration employees who earn the same short-run profit, but take different amounts of risk on behalf of the Bank.

- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent. The NRCG comprises of the following members:

NRCG Member Name	Number of meetings attended in 2014
Mr. Anwar Abdulla Ghuloom	4
Mr. Fahad Murad Chairman of the NRCG committee	5
Mr. Mohammed Abdulla Isa	5

The aggregate remuneration paid to NRCGC members during the year in the form of sitting fees amounted to BHD 7,000 [2013: BHD 6,000].

EXTERNAL CONSULTANTS

Consultants were appointed during the year to advise the Bank on amendments to its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in re-designing an appropriate Share-based Incentive Scheme for the Bank in line with the CBB requirements. The NRCG also appointed consultants during the year to perform a pay benchmarking exercise to assist it in reviewing the total compensation offered by the Bank

SCOPE OF APPLICATION OF THE REMUNERATION POLICY

The principles of this remuneration policy apply on a Group-wide basis. However, application of deferral requirements and issue of non-cash instruments for each subsidiary of the Bank will be determined by applicable local regulations and market norms.

BOARD REMUNERATION

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

VARIABLE REMUNERATION FOR STAFF

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRCG aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity, risk diversification, strategy implementation and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRCG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCG demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRCG.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

REMUNERATION OF CONTROL FUNCTIONS

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives, and is not to be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environment, apart from value-adding tasks which are specific to each unit.

VARIABLE COMPENSATION FOR BUSINESS UNITS

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits, but take different amounts of risk on behalf of the bank, are treated differently by the remuneration system.

RISK ASSESSMENT FRAMEWORK

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRCG considers whether the variable remuneration policy is in line with the SICO's risk profile, and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues' timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the strategic measures. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken;

(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRCG keeps itself abreast of the Bank's performance against the risk management framework. The NRCG will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration
- At an individual level, poor performance by the Bank will mean individual KPIs are not met, and hence employee performance ratings will be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered

The NRCG, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework

The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted, or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer-term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's awards can only be taken by the Bank's NRCG. The NRCG takes into account the advice of the CEO, and Risk, Finance and HR Departments as appropriate.

The Bank's malus and clawback provisions allow the Bank's Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation or where his/ her actions have amounted to misconduct, incompetence or negligence
- The employee's business unit suffers a material downturn in its financial performance or a material restatement of the financial statements of the Bank
- The employee's business unit suffers a material risk management failure
- An employee deliberately misleading the market and/or shareholders in relation to the financial performance of the Bank
- A significant deterioration in the financial health of the Bank
- If the Bank and/or relevant line of business is incurring losses in any year during the vesting period, any unvested portions will be subject to malus.

COMPONENTS OF VARIABLE REMUNERATION

Variable remuneration has following main components

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.	
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years	
Deferred share linked awards	The portion of compensation that is awarded and paid in the form of share linked instruments. The conditions for granting and vesting of shares vary in accordance with the Banks ESOP policy. These awards are granted in following categories:	
	Salary based awards	Provides for up to 5% of annual salary in the form of share awards which are settled at the end of employment.
	Bonus based awards	Granted to employees as a percentage of annual variable compensation in the form of deferred share awards which rateably vests based on completion of predefined service conditions.

All deferred awards are subject to malus provisions. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's ESOP Scheme. Any dividend on these shares is released to the employee as and when it is declared.

DEFERRED COMPENSATION

All employees above a defined grade shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, her deputies and other 5 most highly -paid business line employees	Deferral period	Retention	Malus	Clawback
Upfront cash	40%-80%	immediate	-	-	Yes
Deferred share awards	20%-60%	Minimum 3 years and up to end of employment	Minimum 6 months and up to end of employment	Yes	Yes

The NRCG, based on its assessment of role profile and risk taken by an employee, could increase the coverage of employees that will be subject to deferral arrangements.

DETAILS OF REMUNERATION PAID

A) Board of Directors

BD 000's	**2014**	2013
Sitting Fees	**37**	36
Remuneration	**130**	120
Others	**10**	14

B) Employee Remuneration

2014 BD 000's	Number of Staff	Total Fixed Remuneration	Variable Remuneration: Performance Bonuses (in Cash)	Variable Remuneration: Performance Bonuses (in Shares)	Variable Remuneration: Total Variable Remuneration	Total Remuneration
Approved persons in business lines	**9**	**965,154**	**227,830**	**52,370**	**280,200**	**1,245,354**
Approved persons in control functions	**7**	**347,507**	**74,285**	**14,840**	**89,125**	**436,632**
Other material risk takers	**15**	**506,321**	**120,160**	**23,990**	**144,150**	**650,471**
Other employees in Bahrain	**55**	**1,147,330**	**175,923**	**29,137**	**205,060**	**1,352,390**
Other employees outside Bahrain	**21**	**317,138**	**10,181**	**-**	**10,181**	**327,319**
TOTAL	**107**	**3,283,450**	**608,379**	**120,337**	**728,716**	**4,012,166**

2013 BD 000's	Number of Staff	Total Fixed Remuneration	Variable Remuneration: Performance Bonuses (in Cash)	Variable Remuneration: Performance Bonuses (in Shares)	Variable Remuneration: Total Variable Remuneration	Total Remuneration
Approved persons in business lines	5	599,479	77,380	39,345	116,725	716,204
Approved persons in control functions	8	422,155	67,740	16,935	84,675	506,830
Other material risk takers	18	585,177	87,370	21,293	108,663	693,840
Other employees in Bahrain	52	995,210	107,404	19,579	126,983	1,122,193
Other employees outside Bahrain	13	253,592	6,570	-	6,570	260,162
TOTAL	96	2,855,614	346,464	97,152	443,615	3,299,229

Notes :

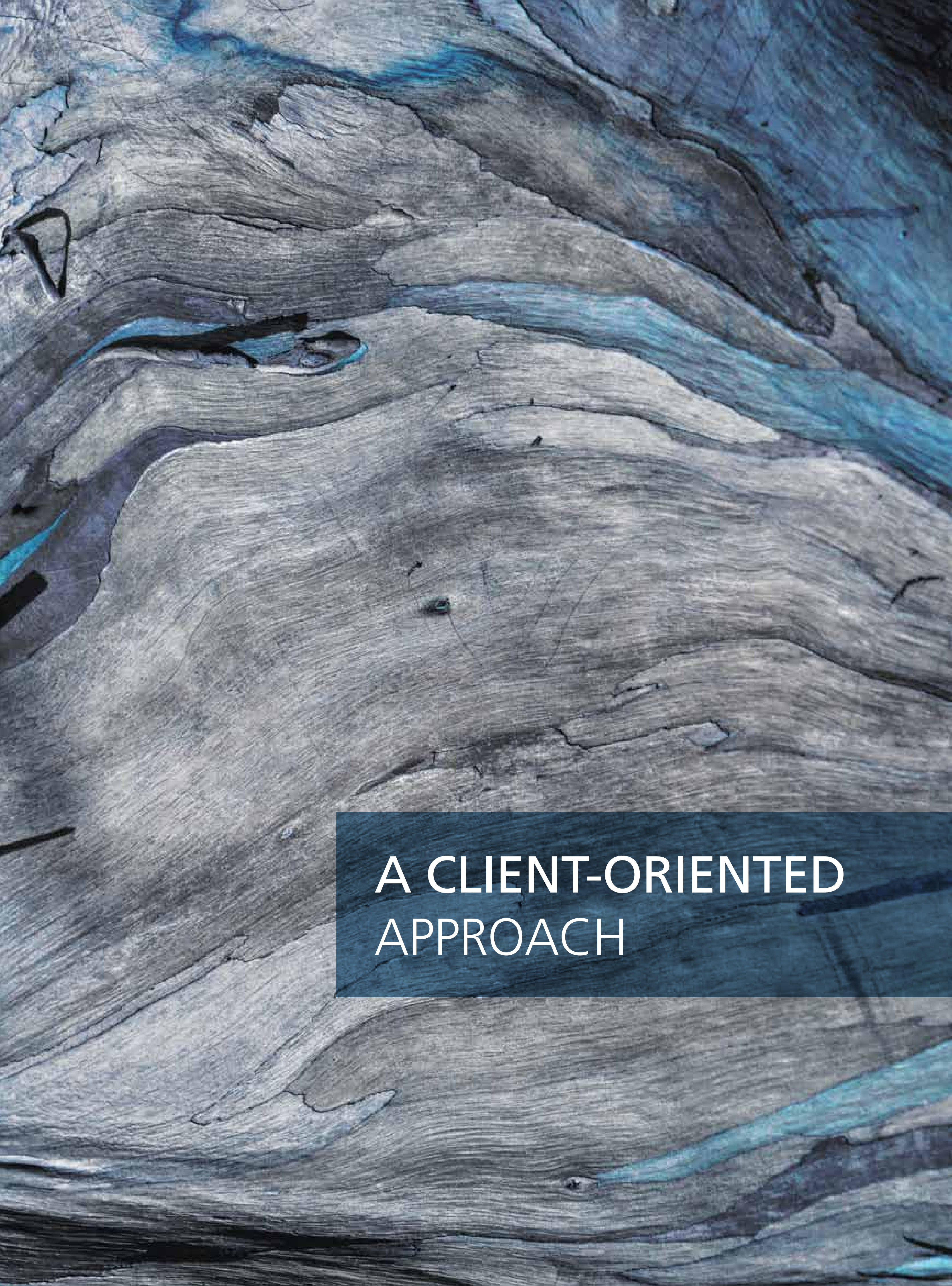
1. The amounts reported above represent actual awards for 2014 and 2013 rather than accruals and changes in value of prior period awards. Accordingly, the numbers and amounts reported above may not necessarily agree with numbers/ amounts reported in the financial statements.
2. The total number of employees reported above include information on 5 employees (2013: 5) who have resigned/ retired during the year.

C) Deferred Awards

BD 000's	Shares Number	Shares (BHD)
2014		
Opening balance	**13,033,753**	**1,876,860**
Awarded during the period	**3,060,467**	**446,828**
Paid out / released during the period	**656,873**	**84,939**
Changes in value of unvested opening awards		**15,103**
Closing balance	**15,437,347**	**2,253,853**
2013		
Opening balance	15,987,741	2,142,357
Awarded during the period	1,472,965	212,107
Paid out / released during the period	4,426,953	611,829
Changes in value of unvested opening awards		134,225
Closing balance	13,033,753	1,876,860

Notes :

1. The above table summarizes the movement in all categories of share awards (i.e. fixed and variable remuneration) issued by the Bank to its employees.
2. The amounts and number of shares reported above include the gross value of awards and are not based on the proportion based charge recognized in the financial statements over the vesting period of the awards.



A CLIENT-ORIENTED APPROACH

DELIVERING THE HIGHEST LEVELS OF CLIENT SERVICE AND SATISFACTION IS ONE OF THE BANK'S KEY ENDURING PRIORITIES. SICO VALUES HIGHLY THE ONGOING TRUST AND CONFIDENCE OF ITS LOYAL CLIENTS, WHO PLAY A CRITICAL ROLE IN THE CONTINUED SUCCESS OF THE BANK. DURING 2014, SICO CONTINUED TO ENHANCE THE PROVISION OF CUSTOMISED PRODUCTS AND SERVICES TO MEET CLIENTS' REQUIREMENTS; AND MAINTAINED A PROACTIVE APPROACH TO CLIENT COMMUNICATIONS. THIS INVOLVES REGULAR MEETINGS, REGIONAL ROAD SHOWS; AND THE PROVISION OF IN-DEPTH RESEARCH REPORTS.

RISK MANAGEMENT REVIEW

Risk management is the systematic process of identifying, assessing and mitigating the principal business risks that SICO faces. Risk management is essential to the Bank's success, and risks can be mitigated by establishing appropriate controls to manage these risks; and ensuring that all appropriate monitoring and reporting processes are in place.

RISK MANAGEMENT FRAMEWORK

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

RISK CONTROL STRUCTURE

SICO has put in place a well-disciplined control functions organisational structure to support the business strategy and risk management of the Bank.

SICO's Board and Senior Management are responsible for understanding the nature and level of risks faced by the Bank; and for ensuring that the risk management process chosen is appropriate, considering the risk profile of SICO. Senior Management is responsible for ensuring that there is a process to relate the business risk to an adequate level of capital, setting the tolerance for various risks, and putting in place the framework and process for measuring and monitoring compliance.

SUMMARY OF BOARD AND COMMITTEES' RESPONSIBILITIES

- Board of Directors (BOD)

  The BOD is primarily responsible for approving the business's risk strategy/appetite, sound policies, guidelines and procedures to manage risks arising out of SICO's business activities. These policies are consistent with the Bank's broader business strategies, capital strength, management expertise, and ability to control risk.

- Board Investment Committee (BIC)

  The BIC is the second point where decision making of SICO's investment activities is considered. This committee approves investments within its discretionary powers as delegated by the Board; and in some cases the BIC recommends proposals to the Board for its approval.

- Audit Committee

  In addition to its overview of the Internal Audit Unit, the Audit Committee provides sound support to the Compliance Framework, which includes internal, regulatory and operational risk.

- Nominations, Remuneration and Corporate Governance Committee (NRCG)

  The NRCG contributes to the control framework by nominating qualified Board members and the CEO. It also approves the remunerations which factor in the risk taken by the business, and also looks into corporate governance-related issues.

- Management Committee

  The Management Committee that comprises from the Bank's senior management members. It reviews the overall performance of the Bank, discusses and assesses implications of new initiatives, and contributes to the ongoing strategy of the Bank.

- Assets, Liabilities and Investment Committee (ALIC)

  ALIC is a management committee that sets the investment philosophy and guidelines, and monitors the performance of the proprietary investments and treasury activities.

- Assets Management Committee (AMC)

  AMC is a management committee that oversees the fiduciary responsibilities carried out by Asset Management in managing clients' discretionary portfolios, as well as funds operated and managed by SICO.

SUMMARY OF CONTROL UNIT RESPONSIBILITIES

- Risk Management Department (RMD)

  RMD is responsible for establishing a sound risk management framework and appropriate risk structures to assist the Bank in the realisation of its business objectives and continued development. It also provides oversight of risk management and risk controls across the organisation by coordinating and communicating with each business unit to manage the risks that arises for its business line; and ensure that the principles and requirements of managing risk are consistently adopted throughout the Bank.

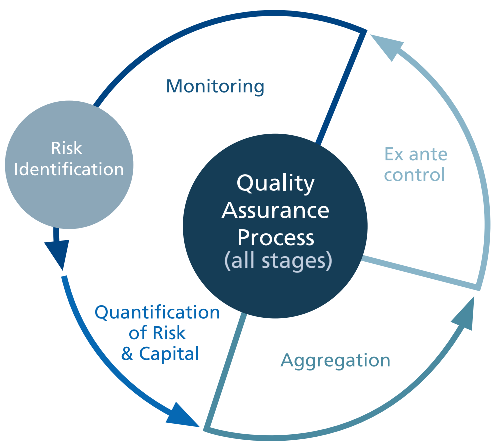
- Compliance Unit

  The Compliance unit within SICO is responsible for internal compliance, regulatory compliance, operational risk, and KYC & AML functions. It mainly ensures compliance with internal and external rules and regulations, and is responsible for implementing the compliance framework across the entire Bank.

- Internal Audit

  Internal Audit provides an additional line of defense within the Bank's risk management and control framework. Internal Audit is primarily responsible for providing independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Bank is appropriate and effectively applied by the business units, control functions and senior management.

Stages of the Risk Process:



- Risk identification: Identification of the various risks that impact the various business activities of SICO.
- Quantification of risks and capital coverage: This step is to quantify the risks identified in the risk identification process. It creates the objective basis for decision-making, and enables senior management to make decisions regarding SICO's risk-bearing capacity within the framework.
- Aggregation: Once risks have been identified and quantified, individual risks are aggregated to determine SICO's risk exposure and impact.
- Ex ante control: SICO has established various tolerance limits based on the overall risk strategy of the Bank. These limits will be revised periodically, taking into account the changing market and economic conditions. SICO has established a comprehensive limit framework to monitor its exposure to all significant applicable risks.
- Risk monitoring and ex post control: The risk monitoring process ensures that SICO's risk profile remains in line with its risk preferences. In this context, there is a standardised procedure for dealing with increasing levels of limit utilisation and limit overruns.

RISK APPETITE

The Bank's risk management framework and strategy defines the risk appetite based on the type of risk that SICO is exposed to through its business activities which are in line with business strategy and objectives.

The broad risk types that the Bank is exposed to are:

- Market Risk
- Credit Risk
- Concentration Risk
- Liquidity Risk
- Operational Risk
- Compliance Risk
- Fiduciary Risk

MARKET RISK

Market risk (can also be considered as Systemic risk) is the risk of loss in the value of any financial instrument due to an adverse fluctuation in equity prices, interest rates and foreign exchange rates, whether arising out of factors affecting a specific instrument or the market in general.

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

Market risk also encompasses the following risks which SICO is exposed to, and are being effectively managed as a part of the Market Risk Management strategy:

EQUITY PRICE RISK

A significant portion of SICO's proprietary trading and available-for-sale portfolios comprise equity instruments, and are therefore affected by equity price risk. Uncertain conditions in the equity markets are carefully considered by rebalancing asset allocations to minimise risk exposures. This risk is also mitigated by managing the portfolio within duly approved investment guidelines and other investment limits. These are closely monitored by RMD, and regularly reviewed by ALIC.

SICO's risk management approach continues to be forward-looking, proactive, and highly effective in rebalancing its investment portfolio in line with the Bank's investment strategy, to ensure capital preservation, quality and liquidity.

INTEREST RATE RISK

Interest rate risk is the risk where changes in market interest rates might adversely affect the Bank's financial condition. Investments in debt instruments, placements, deposits and borrowings give rise to interest rate risk. Treasury carefully monitors and manages these exposures in order to mitigate this risk. A reasonable spread is maintained between money market placements and deposit interest rates. Treasury assets and liabilities are maintained in closely-matching maturity buckets in highly-liquid short-term money market vehicles to avoid any material mismatch. Medium-term debt instruments are largely intended to be held to maturity. SICO does not trade speculatively in derivatives. The Bank applies stress testing to monitor interest rate shock on its banking book on a periodic basis.

CURRENCY RISK

A substantial portion of SICO's business is transacted in Bahraini Dinar, GCC currencies and United States Dollar. The Bank's exposure to foreign currencies is minimal and hence the foreign exchange risk is low. Foreign exchange rate risk is managed by applying appropriate limits that are set in accordance with the Bank's strategic plans and risk tolerance, determined by ALIC and approved by the Board of Directors. Treasury manages these positions on an ongoing basis, hedging such exposures as appropriate, while RMD along with ALIC regularly reviews such positions.

MARKET RISK

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

CREDIT RISK

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its contractual obligations and causes SICO to incur a financial loss. Investments in debt instruments, managed funds, and placements with counterparty banks, give rise to credit risk. Counterparty credit risk arises vis-à-vis customers and counterparty brokers. The Bank is exposed to credit risk through many of its activities such as the Asset Management, Investment and Treasury departments, where deals are routed through counterparty brokers and give rise to counterparty credit risk.

Credit Risk Management works in coordination with the business in identifying and aggregating exposures. Credit risk is mitigated by a focused target market approach towards institutional and experienced, sophisticated high net worth investors. The Bank's main credit risk related activities are:

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

Credit Risk also encompasses the following risks which SICO is exposed to and are being effectively managed as a part of the credit risk management strategy:

COUNTERPARTY RISK

SICO deals with different counterparties for its money market placements, brokerage and REPO. To measure counterparty risk, the Bank employs several methodologies for estimating the likelihood of obligor or counterparty default, of which SICO uses an internal rating model to assign ratings to each of its counterparties by applying qualitative and quantitative factors.

SETTLEMENT RISK

SICO is exposed to settlement risk through its brokerage services on unfunded deals where exposure remains until settlement. The Bank applies several assessments against its clients during the screening and on subsequent basis to minimise settlement risk.

DEFAULT RISK

As part of SICO's Margin Trading facilities and Reverse REPO, it is exposed to the risk of default wherein individuals and corporates may be unable to make the required payments on their obligations. The Bank accepts only liquid securities as collateral, and also applies haircuts on the collateral value, which acts as a margin of safety in case it is to offset the collateral against the outstanding obligations.

For the measurement of the above credit risk components, SICO employs several methodologies for mitigating the credit risk. The Bank also uses ratings issued by rating External Credit Assessment Institutions (ECAI) which are also called rating agencies such as Standard & Poor's, Moody's and Fitch, to derive the risk weightings under the CBB's Basel II capital adequacy framework, and as part of its internal rating model. These ratings are used mainly for banks and FIs, but also where applicable, for other exposures such as debt instruments. Where ratings vary between rating agencies, the most conservative measure is adopted.

Credit risk is monitored and controlled by policies and practices that are put in place by RMD, and that have been approved by the Management and the Board where required. The policy framework establishes approval authorities, concentration limits, risk-rating methodologies, and guidelines for management of exposures. For lending exposures such as Margin Trading and Reverse REPO, financial securities that are obtained as collateral are of liquid in nature and appropriate haircuts are also applied on them. The lending exposures are closely monitored along with their collaterals, which are marked to market on a daily basis including triggers such as margin calls. The Bank also adheres strictly to the large exposure norms as prescribed by the Central Bank of Bahrain under the credit risk management module.

CONCENTRATION RISK

Concentration risk arises when the Bank's investments/ placements exposure is concentrated with one or more related counterparties, or assets class, or sector, or geography. Weakness in the counterparty or assets, sector, or country may place SICO under considerable risk and potential loss.

SICO complies strictly with the single counterparty exposure norms prescribed by the CBB. As at 31 December 2014, there were no exposures in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

The geographic and sector distribution of SICO's investments are disclosed in the financial statements, and the credit exposure geographic and sector distribution are disclosed under the Pillar 3 section. The other exposures of the Bank consist mainly of cash and bank balances, and receivables from clients. These are concentrated predominantly in the GCC.

SICO continues its effort to maintain an acceptable level of concentration in each of these categories by adhering to the limits set as per the Investment guidelines, and in return tries to capitalise on growth opportunities in various strategies in the international market and as diversification to the concentration risk in the region.

LIQUIDITY RISK

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

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

OPERATIONAL RISK

This is the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses.

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

Operational risk also encompasses other risks and areas such as:

- Reputational Risk
- Legal Risk

SICO has in place sound internal control measures, consisting of an operating policies and procedures framework, compliance initiatives, and adequate and skilled personnel, which are the key to successful operational risk management. The Bank has a very conservative control philosophy, and adopts a number of mechanisms to manage this risk. These include a well-defined organisational structure, approved policies and procedures guidelines, segregation of duties, approval authorities, periodical reconciliations, and various limits. Internal Audit and Compliance functions support this activity.

The Bank has a process for monitoring operational risk, by conducting Risks and Controls Self-Assessments, identifying key risks, nominating Operational Risk Coordinators (ORCs) in each department to identify, monitor and report, prevent or control operational risks, and report any risk incidents to RMD on a timely basis. RMD will conduct an analysis of such incidents and follow up any corrective action required.

BUSINESS CONTINUITY

SICO has in place business continuity plans (BCP) to ensure the Bank's business operations and functions are carried out in case of disturbances or unexpected events effecting the business operations. The BCP provide each business line with the necessary guidelines and procedures in case of an emergency or disaster. The Bank has established a business continuity centre within the Kingdom of Bahrain, which maintain full operational status and are capable of carrying out the majority of the Bank's operational activities. The effectiveness of business continuity centres has been stress tested by conducting actual business for one day from the BCP site. Continuous updates of the BCP are performed annually, to ensure that it is kept up to date.

COMPLIANCE RISK

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

FIDUCIARY RISKS

The Risk Management Department carries out risk assessment on the various fiduciary activities by working alongside with the Bank's relevant lines of business and committees, to ensure that SICO fulfills its fiduciary duties against the asset management, fund administration and custody clients, wherein it adopts the appropriate standards relative to the fiduciary relationship with a client. Below are the various activities carried out by SICO and the Bank's subsidiary, SICO Funds Services Company (SFS), which can give rise to the following fiduciary risks:

Asset Management: Assets under management have a range of controls to support the quality of the investment process, supervised by the Asset Management Committee (AMC). There are operating policies and procedures, Investment Guidelines coupled with dedicated buy-side research, and other guidelines to support this activity. There are also strict operational controls to protect clients' assets, a staff code of conduct, and 'Chinese Walls' to avoid any conflicts of interest.

RMD and Compliance units regularly monitor the activities of the Asset Management division, and report their findings and observations to the AMC, and in the periodic compliance reports sent to clients.

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

Corporate Finance: This activity is subject to legal and reputation risk. Such risks are mitigated by obtaining the necessary legal and regulatory approvals. Advisory and underwriting matters are monitored and controlled by senior management.

BASEL II PILLAR 3 DISCLOSURES

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EXECUTIVE SUMMARY

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

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

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

All figures presented in this report are as at 31 December 2014 unless otherwise stated.

1. INTRODUCTION

1.1 CBB Rulebook

The Central Bank of Bahrain's (CBB) Basel II guidelines prescribe the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. During January 2008, the CBB introduced these guidelines, and all banks in Bahrain were requested to comply with them.

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

1.2 BASEL II Framework

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

- Pillar 1 - Describes the minimum capital requirements by applying risk-based methodology in the calculation of the risk-weighted assets (RWAs) and capital requirement for the major asset classes to derive the capital adequacy ratio (CAR).
- Pillar 2 - Describes the supervisory review processes, which include the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3 - Describes market discipline, which includes disclosure of risk management process and capital adequacy requirements and guidelines.

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

1.2.1 Pillar 1

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

Below are the approaches used for deriving the CAR:

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

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

1. INTRODUCTION CONTD

1.2.2 Pillar 2

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

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

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

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

1.2.3 Pillar 3

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

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

1.3 Scope of Application

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

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

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

2. CAPITAL STRUCTURE, RISK WEIGHTED ASSETS AND CAPITAL ADEQUACY

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

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

The Bank's Tier 2 Capital comprises interim profits, collective impairment provisions and 45 percent of unrealised gains arising from fair valuing equity securities classified as available-for-sale.

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

The Bank has no subsidiaries and/or investments in insurance companies exceeding 20% of the Bank's capital or the invested company's capital that is required to be deducted from capital.

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The Bank has no restrictions on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

2.1 Capital Structure

Tier 1 Capital	
Issued and fully paid ordinary shares	**42,849**
Statutory Reserve	**5,450**
General Reserve	**2,642**
Share Premium	**692**
Retained Earnings brought forward	**9,946**
Gross unrealised loss arising from fair valuing equity securities	**(438)**
Securitisation exposures subject to deduction	**-**
Tier 1 Capital (A)	**61,141**
Tier & Capital	
Current Interim Profits	**0**
45% of gross unrealised gains arising from fair valuing equity securities	**484**
Securitisation exposures subject to deduction	**-**
Tier 2 Capital (B)	**484**
Total Available Capital (C) = (A) + (B)	**61,625**
Credit risk weighted exposures	**61,031**
Market risk weighted exposures	**24,184**
Operational risk weighted exposures	**11,610**
Total Risk weighted exposures (D)	**96,825**
Tier 1 Capital Adequacy Ratio (A) / (D)	**63.15%**
Total Capital Adequacy Ratio (C) / (D)	**63.65%**

2.2 Changes to Share Capital Structure

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

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

Subsidiaries	31 December 2014	
	Total Capital Adequacy Ratio	Tier 1 Capital Ratio
SICO Consolidated (Group)	63.65%	63.15%
SICO UAE*	8.41%	4.35%

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

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3. RISK EXPOSURES

3.1 Credit Risk

3.1.1 Gross credit exposures

As at 31 December 2014	Gross Credit Exposure			Credit Risk Weighted Assets	Capital Requirement @ 12%
	On-balance Sheet (Funded)	Off-balance Sheet (Unfunded)	TOTAL		
Cash items	4,221	-	**4,221**	-	-
Claims on Sovereigns	12,206	-	**12,206**	-	-
Claims on Bahraini PSE	500	-	**500**	-	-
Claims on Banks	73,023	-	**73,023**	22,307	2,677
Claims on Corporates	1,077	-	**1,077**	1,299	156
Investments in Securities	21,090		**21,090**	25,346	3,042
Holdings in Real Estate	203	-	**203**	560	67
Other Assets	3,513	765	**4,278**	3,785	454
TOTAL	**115,833**	**765**	**116,598**	**53,297**	**6,396**

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

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

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

3.1.2 Large exposure limits

As at 31 December 2014, there were no exposures in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

3.1.3 Maturity profile of the credit portfolio

As at	Less than 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
Cash and Bank Balances	61,426				-	61,426
Trading Debt Securities			903	5,992	3,394	10,289
AFS Debt Securities			-	5,593	3,112	8,705
Other Assets	5,622	217		546	-	6,385
Total gross credit exposures	67,048	217	903	12,132	6,506	86,806
Commitments and contingencies	1,415		115	0	0	1,530

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

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3.1.4 Sectoral distribution

As at 31 December 2014	Financial	Real Estate	Services / Telecom	Industrials	Sovereign	Mutual Funds	Other	Total
Cash & bank balances	61,427							**61,427**
Investment at FVTPL	6,759	3,619	2,232	772	1,684	1,186	1,089	**17,340**
AFS investments	12,654	587	3,086	-	179	11,864	441	**28,811**
Other assets							6,388	**6,388**
ON-BALANCE SHEET	**80,840**	**4,205**	**5,318**	**772**	**1,863**	**13,050**	**7,918**	**113,966**
Off-balance sheet	-	-	-	-	-	-	1,530	**1,530**

Note: The above table excludes Prepayments and Furniture & Fixtures.

3.1.5 Geographical distribution

As at 31 December 2014	GCC	MENA (ex-GCC)	North America	Europe	Other	Total
Cash & bank balances	58,472	33	-	2,922		61,427
Investment at FVTPL	15,815	-	-	1,526	0	17,341
AFS investments	13,881	-	4,089	6,172	4,669	28,811
Other assets					6,388	6,388
Total Assets	88,167	33	4,089	10,621	11,057	113,967
Total Off-balance sheet	1,415	115	-	-	-	1,530

Note: The above table excludes Prepayments and Furniture & Fixtures

3.1.6 Impairment on available-for-sale investment securities
During the year, the Bank has taken a specific impairment provision of BHD 366 on one of its AFS investments.

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3.2 Market Risk

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

As at 31 December 2014	Market Risk Weighted Assets			Capital Requirement @ 12%
	During the 12 months period ended 31 December 2014		As at 31 December 2014	
	Minimum	Maximum		
Interest Rate Position Risk	647	898	771	93
Equities Position Risk	939	1,483	1,002	120
Foreign Exchange Risk	21	144	21	2
Total min capital required for market risk			**1,793**	**215**
Multiplier			12.5	12.5
TOTAL			**22,415**	**2,690**

3.3 Operational Risk

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

Average gross income for the past 3 years

(Excluding extraordinary and exceptional income)

As at 31 December 2014	2011	2012	2013
Gross income	3,339	6,252	8,985
Average gross income (A)			6,192
Alpha (B)			15%
(C) = (A) * (B)			929
Risk weighted exposures (D) = (C) * 12.5)			**11,610**
Capital requirement @ 12% of (D)			**1,393**

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4. INTEREST RATE RISK

4.1 Interest Rate Risk in the Banking Book

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

As at 31 December 2014	100 bps increase	50 bps increase	100 bps decrease	50 bps decrease
	-171,351	**-87,083**	**-**	**-**

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

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

4.2 Interest Rate Risk Sensitive Assets and Liabilities

As at 31 December 2014	Effective Interest Rate% p.a.	Within 1 year	Over 1 year	Non-interest Sensitive	Total
Cash and Bank balances	-	-	-	20,263	20,263
Call deposits*	-	1,267	-	-	1,267
Placements with banks	1.04%	39,897	-	-	39,897
Investments at fair value through profit or loss	7.03%	903	9,386	7,050	17,340
Available-for-sale securities	4.91%	307	8,398	20,106	28,811
Furniture and equipment		-	-	1,500	
Fees receivable	-	-	-	1,192	1,192
Other assets	-	-	-	6,998	6,998
Total Assets		**42,374**	**17,785**	**57,109**	**117,268**
Bank overdrafts	-	-	-	-	-
Short-term borrowings	0.84%	16,220	-	-	16,220
Payables to customers	-	-	-	32,878	32,878
Deposits from customers	-	-	-	3,301	3,301
Other liabilities	-	-	-	2,172	
Payables to unit holders		16,220	-	38,351	54,571
Total Liabilities				62,697	62,697
Total Equity	-	-	-	-	-
Total Liability and Equity	**-**	**16,220**	**-**	**101,048**	**117,268**
Interest rate sensitivity gap		26,154	7,785	43,939	
Cumulative Interest rate sensitivity gap		**26,154**	**43,939**	**(0)**	

BAHRAINI DINARS '000

5. EQUITY POSITIONS IN THE BANKING BOOK

As at 31 December 2014	Gross Exposure	Capital Requirement @ 12%
Quoted Equities	20,507	2461
Unquoted Equities	6,650	798
TOTAL	**27,157**	**3,259**

Realised gain during the year	2,122
Dividend income during the year	1,055
Unrealised net gain/loss recognised in equity	764
Gross unrealised losses deducted from Tier 1 capital	(438)
45% of unrealised gains recognised under Tier 2 capital	484

6. RELATED PARTY TRANSACTIONS

The following are the related party transactions during the period. All these transactions are in the ordinary course of business and on normal commercial terms.

Transactions with funds owned by the subsidiary companies, namely SICO Funds Company BSC (c), SICO Funds Company II BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC (c), SICO Funds Company V BSC (c), SICO Funds Company VI BSC (c), SICO Funds Company VII BSC (c) and SICO Ventures Company SPC.

Fee and commission income	884
Fee receivable	255
Investments in own funds	2,420
Funds under management	47,422
Transactions with shareholders	
Fee and commission income	1,393
Funds under management	74,002

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

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

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Securities and Investment Company BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Board of Directors' 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 Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro l Partner Registration No. 100 l 12 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014 | BAHRAINI DINARS '000

	Note	2014	2013
ASSETS			
Cash and cash equivalents	7	**61,427**	32,799
Investments at fair value through profit or loss	8	**17,340**	19,815
Available-for-sale investments	9	**28,811**	32,743
Fees receivable	10	**1,192**	1,980
Other assets	11	**6,998**	5,046
Furniture, equipment and intangibles	12	**1,500**	1,812
Total assets		**117,268**	94,195
Liabilities and Equity			
Liabilities			
Short-term bank borrowings	13	**16,220**	7,094
Customer accounts	14	**32,878**	19,620
Other liabilities	15	**3,301**	3,244
Payable to other unit holders in consolidated funds	6	**2,172**	2,373
Total liabilities		**54,571**	32,331
Liabilities and Equity			
Equity			
Share capital	16	**42,849**	42,849
Statutory reserve	17	**6,142**	5,567
General reserve	18	**2,642**	2,100
Available-for-sale investments fair value reserve		**1,118**	2,456
Retained earnings		**9,946**	8,892
Total equity - *page 71*		**62,697**	61,864
Total liabilities and equity		**117,268**	94,195

The Board of Directors approved the consolidated financial statements consisting of pages 68 to 109 on 12 February 2015, and signed on its behalf by:

Shaikh Abdulla Bin Khalifa Al Khalifa	Hussain Al Hussaini	Najla M. Al Shirawi
Chairman	Vice Chairman	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 2014 | BAHRAINI DINARS '000

	Note	2014	2013
Net investment income	19	**3,928**	4,027
Net fee and commission income	20	**4,415**	3,989
Brokerage and other income	21	**2,627**	1,249
Interest income	22	**1,436**	1,395
Total income		**12,406**	10,660
Staff and related expenses	23	**(4,539)**	(3,688)
Interest expense	22	**(74)**	(80)
Other operating expenses	24	**(1,818)**	(1,646)
Impairment on available-for-sale investments		**(366)**	(155)
Share of profit of other unit holders in consolidated funds	6	**(175)**	(207)
Profit for the year		**5,434**	4,884
Basic and diluted earnings per share (fils)	30	**12.68**	11.41

Shaikh 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 2014 | BAHRAINI DINARS '000

	2014	2013
Profit for the year	**5,434**	4,884
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
Fair value reserve (available-for-sale investments):		
- Net change in fair value	**764**	3,304
- Net amount transferred to statement of profit or loss on sale / impairment	**(1,734)**	(1,268)
- Profit on part disposal of consolidated fund	**(368)**	(491)
Total other comprehensive income for the year	**(1,338)**	1,545
Total comprehensive income for the year	**4,096**	6,429

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 2014 | BAHRAINI DINARS '000

2014	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2014	**42,849**	**5,567**	**2,100**	**2,456**	**8,892**	**61,864**
- Transfer to general reserve	**-**	**-**	**542**	**-**	**(542)**	**-**
- Transfer to statutory reserve	**-**	**575**	**-**	**-**	**(575)**	**-**
Comprehensive income for the year:						
Profit for the year	**-**	**-**	**-**	**-**	**5,434**	**5,434**
Other comprehensive income:						
Revaluation reserve (available-for-sale investments):						
Net change in fair value	**-**	**-**	**-**	**764**	**-**	**764**
Net amount transferred to statement of profit or loss on sale / impairment	**-**	**-**	**-**	**(1,734)**	**-**	**(1,734)**
Profit on part disposal of consolidated fund	**-**	**-**	**-**	**(368)**	**368**	**-**
Unrealised gain on consolidated funds transferred to retained earnings	**-**	**-**	**-**	**-**	**(417)**	**(417)**
Total other comprehensive income	**-**	**-**	**-**	**(1,338)**	**-**	**(1,338)**
Total comprehensive income for the year	**-**	**-**	**-**	**(1,338)**	**5,385**	**4,047**
Transactions with owners recognised directly in equity:						
- Dividends declared for 2013	**-**	**-**	**-**	**-**	**(3,214)**	**(3,214)**
Balance at 31 December 2014	**42,849**	**6,142**	**2,642**	**1,118**	**9,946**	**62,697**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY contd.

FOR THE YEAR ENDED 31 DECEMBER 2014 I BAHRAINI DINARS '000

2013	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2013	42,726	4,984	1,786	911	6,882	57,289
- Transfer to general reserve	-	-	314	-	(314)	-
- Transfer to statutory reserve	-	542	-	-	(542)	-
- Issue of shares to employees' scheme	123	41	-	-	-	164
Comprehensive income for the year:						
Profit for the year	-	-	-	-	4,884	4,884
Other comprehensive income:						
Revaluation reserve (available-for-sale investments):						
Net change in fair value	-	-	-	3,304	-	3,304
Net amount transferred to statement of profit or loss on sale / impairment	-	-	-	(1,268)	-	(1,268)
Profit on part disposal of consolidated fund	-	-	-	(491)	676	185
Unrealised gain on consolidated funds transferred to retained earnings	-	-	-	-	(558)	(558)
Total other comprehensive income	-	-	-	1,545	-	1,545
Total comprehensive income for the year	-	-	-	1,545	5,002	6,547
Transactions with owners recognised directly in equity:						
- Dividends declared for 2012	-	-	-	-	(2,136)	(2,136)
Balance at 31 December 2013	42,849	5,567	2,100	2,456	8,892	61,864

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014 I BAHRAINI DINARS '000

	Note	2014	2013
Operating activities			
Net interest received		**1,356**	1,250
Sale of investments at fair value through profit or loss		**187,880**	149,442
Purchase of investments at fair value through profit or loss		**(184,487)**	(151,082)
Sale of available-for-sale investments		**35,063**	18,597
Purchase of available-for-sale investments		**(30,713)**	(26,693)
Net increase in customer accounts		**13,258**	6,204
Dividends received		**1,054**	703
Brokerage and other fees received		**5,878**	4,513
Payments for staff and related expenses		**(4,098)**	(3,268)
Payments for other operating expenses		**(2,011)**	(1,574)
Net cash from / (used in) operating activities		**23,180**	(1,908)
Investing activities			
Net capital expenditure on furniture and equipment		**(39)**	(92)
Net cash used in investing activities		**(39)**	(92)
Financing activities			
Net proceeds from short-term bank borrowings		**9,126**	2,195
Net (payments) / proceeds from (redemption) / issue of units		**(425)**	2,196
Dividends paid		**(3,214)**	(2,136)
Net cash from financing activities		**5,487**	2,255
Net increase in cash and cash equivalents during the year		**28,628**	255
Cash and cash equivalents at the beginning of the year		**32,799**	32,544
Cash and cash equivalents at the end of the year	7	**61,427**	32,799

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

NOTES TO THE 31 DECEMBER 2014 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 licence 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 privatisation programmes, mergers and acquisitions.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

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

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

(d) New standards, amendments and interpretations effective from 1 January 2014

The following standards, amendments and interpretations, which became effective as of 1 January 2014, are relevant to the Group

Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities"

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Group concluded that it does not meet the definition of an "investment entity" and hence the above amendments are not applicable to the Group.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospectively.

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

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments had no significant impact on the disclosures in the Group's consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments have been applied retrospectively.

The adoption of this amendment 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 2015, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

IFRS 9 - Financial Instruments

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

2. BASIS OF PREPARATION (CONTINUED)

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

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is not expecting a significant impact on the consolidated financial statements from the adoption of this standard.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

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

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

The annual improvements to IFRSs to 2010-2012 and 2011 - 2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

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

(f) Early adoption of standards

The Group did not early adopt new or amended standards in 2014.

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

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

(b) Foreign currencies

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

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

(c) Critical accounting estimates and judgements in applying accounting policies
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements

Classification of investments

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

Determination of control over investees – Investment funds

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

Estimations

Impairment of available-for-sale equity investments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment securities

(i) Classification

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

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

(iv) Fair value measurement

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

When available, the Group measures fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of the relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

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

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

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

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

(v) Impairment

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

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

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

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

(e) De-recognition of financial liabilities

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

(f) Cash and cash equivalents

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

(g) Amortised cost measurement

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

(h) Impairment of financial assets carried at amortised cost

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

(i) Furniture, equipment and core banking software

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

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

Core banking software	10 years
Furniture and equipment	3 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Bank borrowings

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

(k) Repurchase agreements

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

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

(l) Customer accounts

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

(m) Employee benefits

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

(iii) Employee share incentive scheme
The Bank operates a discretionary share based plan, which is designed to provide competitive long-term incentives and is a cash-settled share based payment scheme. The total amount is expensed over the vesting period of five years and is determined by reference to the fair value of the shares at the grant date and re-measured at every year end over the vesting period.

(n) Dividends

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

(o) Provisions

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

(p) Fiduciary activities

The Group administers and manages assets held in funds and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

(q) Settlement date accounting

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

(r) Offsetting

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

(s) Earnings per share

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

(t) Interest income and expense

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

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

(u) Fee and commission

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

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

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

(v) Net investment income

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

(w) Dividend income

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

(x) Brokerage and other income

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

(y) Operating Segments

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

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

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

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

Risk management framework

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

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

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit Function which undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

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

Management of credit risk

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

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

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

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

Exposure to credit risk

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

	2014	2013
Cash and cash equivalents	**61,427**	32,799
Debt securities at fair value through profit or loss	**10,289**	9,162
Available-for-sale debt securities	**8,705**	7,331
Fee receivable	**1,192**	1,980
Other receivables	**5,196**	3,238
	86,809	54,510

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

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

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

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 2014 was BD 8,244 (2013: BD 11,569), relating to "cash and cash equivalents, investments at fair value through profit or loss and available for sale investments".

Geographical Exposure Distribution

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

2014	GCC countries	North America	Europe	Total
Assets				
Cash and cash equivalents	**58,505**	**-**	**2,922**	**61,427**
Investments at fair value through profit or loss	**15,814**	**-**	**1,526**	**17,340**
Available-for-sale investments	**13,880**	**6,338**	**8,593**	**28,811**
Fees receivable	**1,192**	**-**	**-**	**1,192**
Other assets	**8,407**	**46**	**45**	**8,498**
Total assets	**97,798**	**6,384**	**13,086**	**117,268**
Liabilities				
Short-term bank borrowings	**6,810**	**-**	**9,410**	**16,220**
Customer accounts	**31,652**	**568**	**658**	**32,878**
Other liabilities	**3,301**	**-**	**-**	**3,301**
Payable to unit holders	**2,172**	**-**	**-**	**2,172**
Total liabilities	**43,935**	**568**	**10,068**	**54,571**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

2013	GCC countries	North America	Europe	Total
Assets				
Cash and cash equivalents	32,002	-	797	32,799
Investments at fair value through profit or loss	18,332	-	1,483	19,815
Available-for-sale investments	16,392	7,033	9,318	32,743
Fees receivable	1,980	-	-	1,980
Other assets	6,810	9	39	6,858
Total assets	75,516	7,042	11,637	94,195
Liabilities				
Short-term bank borrowings	7,094	-	-	7,094
Customer accounts	19,401	10	209	19,620
Other liabilities	3,244	-	-	3,244
Payable to unit holders	2,373	-	-	2,373
Total liabilities	31,112	10	209	32,331

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

2014	Financial services	Others	Total
Total assets	**85,408**	**31,860**	**117,268**
Total liabilities	**35,787**	**18,784**	**54,571**

2013	Financial services	Others	Total
Total assets	63,407	30,788	94,195
Total liabilities	11,584	20,747	32,331

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Settlement risk

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

(c) Liquidity risk

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

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

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

The Bank faces three types of liquidity risks as follows:

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

Management of liquidity risk

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

The residual contractual maturity of financial liabilities is as follows:

2014	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short-term bank borrowings	**16,220**	**16,232**	**16,232**	**-**	**-**
Customer accounts	**32,878**	**32,878**	**32,878**	**-**	**-**
Other liabilities	**3,301**	**3,301**	**3,301**	**-**	**-**
Payable to unit holders in consolidated funds	**2,172**	**2,172**	**2,172**	**-**	**-**
	54,571	**54,583**	**54,583**	**-**	**-**

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk

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

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

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

(i) Equity Price Risk

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

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

Formal valuation policies that specify appropriate and sound portfolio valuation methodologies have been established for investments in listed companies and indirect fund investments. Marking the equity portfolio to market on a daily basis ensures that the Unrealised gains and losses are accounted for on a daily basis. Externally managed funds and portfolios are valued at Net Asset Value provided by the external investment managers on a monthly basis.

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

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

	Investments at fair value through profit or loss		Available-for-sale investments	
	2014	2013	**2014**	2013
Increase of 1%	**173**	198	**288**	327
Decrease of 1%	**(173)**	(198)	**(288)**	(327)

(ii) Interest rate risk

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

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

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

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

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

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

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

Interest rate re-pricing profile

2014	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	**-**	**-**	**-**	**20,263**	**20,263**
Call deposits*	**-**	**1,267**	**-**	**-**	**1,267**
Placements with banks	**1.04%**	**39,897**	**-**	**-**	**39,897**
Investments at fair value through profit or loss	**7.03%**	**903**	**9,387**	**7,050**	**17,340**
Available-for-sale investments	**4.91%**	**307**	**8,398**	**20,106**	**28,811**
Fees receivable		**-**	**-**	**1,192**	**1,192**
Other assets		**-**	**-**	**6,998**	**6,998**
Furniture, equipment and intangibles		**-**	**-**	**1,500**	**1,500**
Total assets		**42,374**	**17,785**	**57,109**	**117,268**
Short-term bank borrowings	**0.84%**	**16,220**	**-**	**-**	**16,220**
Customer accounts		**-**	**-**	**32,878**	**32,878**
Other liabilities		**-**	**-**	**3,301**	**3,301**
Payable to unit holders in consolidated funds		**-**	**-**	**2,172**	**2,172**
Total liabilities		**16,220**	**-**	**38,351**	**54,571**
Equity		**-**	**-**	**62,697**	**62,697**
Total liabilities and equity		**26,154**	**-**	**101,048**	**117,268**
Interest rate sensitivity gap		**26,154**	**17,785**	**43,939**	**-**
Cumulative interest rate sensitivity gap		**26,154**	**43,939**	**-**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate re-pricing profile

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

* At 31 December 2014 the effective interest rate on Bahraini Dinar call deposits is 0.422% (2013: NIL) and on USD call deposits is 0.15% (2013: NIL).

(iii) Exchange risk

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

(e) Operational risk

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

The Bank has a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organisational structure, policies and procedures guidelines, and segregation of duties, approval authorities, reconciliations, and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provides support in this control activity. Regular custodial position reconciliations and bank reconciliations provide key strengths to mitigate operational risks. There is also a professional indemnity insurance cover in place.

Another endeavour of the Bank's operational risk management is to usher in straight through processing (STP) to enable seamless processing and reduce operational errors and optimise productivity. There is a well laid out plan to introduce middle office functionalities to ensure better compliance management. The Bank 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 programme also forms a key component of risk management. Board and Management attach high importance to these matters of strategic importance. There are well laid out policies and procedures to achieve compliance with regulatory matters.

(f) Capital Management

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital Management

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

Based on year end balances

	2014	2013
Risk weighted exposure		
Credit risk	**61,033**	56,668
Market risk	**24,188**	29,922
Operational risk	**11,610**	10,167
Total risk weighted assets	**96,831**	96,757
Tier 1 Capital	**61,141**	59,365
Tier 2 Capital	**484**	919
Total regulatory capital	**61,625**	60,284
Capital adequacy ratio	**63.64%**	62.31%

Based on full year average balances

	2014	2013
Risk weighted exposure		
Credit risk	**58,076**	53,607
Market risk	**25,139**	28,106
Operational risk	**11,610**	10,167
Total risk weighted assets	**94,825**	91,880
Tier 1 Capital	**57,303**	55,579
Tier 2 Capital	**4,263**	2,057
Total regulatory capital	**61,566**	57,636
Capital adequacy ratio	**64.93%**	62.73%

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

Capital allocation

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

During the year, CBB issued the final regulations to give effect to the Basel III framework which is effective from 1 January 2015. Basel III introduces capital components like core equity tier I (CET1), and additional tier I (AT1), it also requires maintenance of certain capital buffers. Computation of CET1 is subject to certain regulatory deductions, these deductions would be effective in a phased manner through the transitional arrangements under the revised regulations over the period from 2015 to 2018. The revised regulations prescribe higher risk weight for certain type of exposures and for the significant investments in financial institutions, significant investments in commercial entities and large exposures that exceed materiality thresholds. The Group's current capital position is sufficient to meet the new regulatory capital requirements.

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5. GROUP SUBSIDIARIES

Set out below are the Group's principal subsidiaries at 31 December 2014. 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 II BSC (c)	100%	2005	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company V BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
7. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
8. SICO Funds Company VII BSC (c)	100%	2010	Bahrain	Umbrella company for SICO mutual funds
9. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO
10. Securities and Investment Company (UAE) LLC	100%	2011	UAE	Brokerage services
11. SICO Kingdom Equity Fund	63%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
12. SICO Fixed Income Fund	72%	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

	2014	2013
Other unit holders' share	**37%**	30%
Cash and cash equivalents	**28**	93
Investment at fair value through profit or loss	**3,370**	2,655
Other assets	**2**	38
Other liabilities	**22**	15
Net assets	**3,378**	2,771
Carrying amount of payable to other unit holders	**1,256**	821
Investment income	**341**	805
Profit	**268**	745
Total comprehensive income	**268**	745
Profit allocated to other unit holders	**100**	221
Cash flows from operating activities	**(404)**	92
Cash flows from financing activities	**340**	(18)
Net increase / (decrease) in cash and cash equivalents	**(64)**	74

SICO Fixed Income Fund

	2014	2013
Other unit holders' share	**28%**	41%
Cash and cash equivalents	**750**	217
Investment at fair value through profit or loss	**3,204**	3,531
Other assets	**58**	58
Short-term bank borrowings	**693**	-
Other liabilities	**10**	10
Net assets	**3,309**	3,796
Carrying amount of payable to other unit holders	**916**	1,552
Investment income	**107**	(158)
Interest income	**206**	(162)
Profit / (loss)	**273**	(35)
Total comprehensive income	**273**	(35)
Profit / (loss) allocated to other unit holders	**75**	(14)
Cash flows from operating activities	**574**	(3,614)
Cash flows from financing activities	**(760)**	3,831
Net increase / (decrease) in cash and cash equivalents	**(186)**	217

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7. CASH AND CASH EQUIVALENTS

	2014	2013
Cash and bank balances	**20,263**	9,584
Call deposits	**1,267**	1,347
Short-term placements with banks	**39,897**	21,868
	61,427	32,799

Cash and cash equivalents include bank balances amounting to BD 4,395 (2013: BD 3,228) held on behalf of discretionary customer accounts.

8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013
Equity securities – quoted (listed)	**5,865**	9,473
Funds – quoted	**1,186**	1,180
Debt securities		
- Quoted	**10,289**	9,162
- Unquoted	**-**	-
	10,289	**9,162**
	17,340	19,815

Investments at fair value through profit or loss as at 31 December 2014 include securities amounting to BD 3,124 (31 December 2013: 2,819), sold under agreement to repurchase (note 13).

9. AVAILABLE-FOR-SALE INVESTMENTS

	2014	2013
Equity securities		
- Quoted (listed)	**5,842**	7,904
- Unquoted	**2,197**	2,269
	8,039	10,173
Funds		
- Quoted	**7,614**	7,008
- Unquoted	**4,453**	8,231
	12,067	15,239
Debt securities		
- Quoted	**8,398**	7,033
- Unquoted	**307**	298
	8,705	7,331
	28,811	32,743

The above amount is net of impairment provision of BD 805 (31 December 2013: 439).

Available-for-sale investments as at 31 December 2014 include securities amounting to NIL (31 December 2013: 1,598), sold under agreement to repurchase.

10. FEES RECEIVABLE

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

	2014	2013
Management and administration fees	**695**	484
Performance fee	**478**	1,452
Custody fee	**39**	44
	1,192	1,980

11. OTHER ASSETS

	2014	2013
Receivables from clients and brokers	**4,221**	2,469
Guarantee deposit with the Bahrain Stock Exchange	**500**	500
Employee share incentive scheme	**1,559**	1,559
Prepaid expenses	**243**	248
Interest receivable	**262**	256
Other receivables	**213**	14
	6,998	5,046

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12. FURNITURE, EQUIPMENT AND INTANGIBLES

Cost	Software	Furniture and Equipment	**2014 Total**	2013 Total
At 1 January	2,013	963	**2,976**	1,117
Additions	3	35	**38**	1,878
Disposals	-	(13)	**(13)**	(19)
At 31 December	2,016	985	**3,001**	2,976
Depreciation				
At 1 January	461	703	**1,164**	882
Charge for the year	208	142	**350**	301
Disposals	-	(13)	**(13)**	(19)
At 31 December	669	832	**1,501**	1,164
Net book value at 31 December 2014	1,347	153	**1,500**	
Net book value at 31 December 2013	1,552	260		1,812
Cost of fully depreciated assets in use			**845**	786

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

13. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings include borrowings under repurchase agreements of BD 16,220 (2013: BD 3,209). The fair value of the investments at fair value through profit or loss and available-for-sale investments pledged as collateral amounts to BD 3,124 (2013: BD 4,417) (refer note 8 and 9). Additionally repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 17,052 (2013: NIL) are pledged as collateral.

14. CUSTOMER ACCOUNTS

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

15. OTHER LIABILITIES

	2014	2013
Brokerage fee payable to counterparty	**27**	3
Accrued expenses	**249**	186
Provision for employee indemnities	**382**	490
Employee share incentive scheme liability	**1,233**	1,655
Other payables	**1,410**	910
	3,301	3,244

16. SHARE CAPITAL

	2014	2013
Authorised share capital		
1,000,000,000 (2013: 1000,000,000) shares of 100 fils each	**100,000**	100,000

	2014	2013
Issued and fully paid		
At 1 January 2014: 428,487,741 ordinary shares of 100 fils each (2013: 427,258,940 ordinary shares of 100 fils each)	**42,849**	42,726
Issue of shares to employee share incentive scheme trustees during the year	**-**	123
As at 31 December 2014: 428,487,741 ordinary shares of 100 fils each (2013: 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. During the year 2013, the Bank issued 1,228,801 shares of 100 fils each at the 31 December 2012 NAV of 134 fils per share. Accordingly the share capital increased by BD 123 to the extent of the nominal value of the shares of 100 fils each. The share premium of BD 41 relating to the issue of these shares at a premium 34 fils per share has been credited to the statutory reserve.

Appropriations

	2014	2013
Proposed dividend 9% (2013: 7.5%)	**3,856**	3,214
General reserve	**575**	542

The shareholders are:	Nationality	2014		2013	
		Capital	**% holding**	Capital	% holding
Pension Fund Commission	Bahrain	**9,322.5**	**21.76**	9,322.5	21.76
General Org. for Social Insurance	Bahrain	**6,600.0**	**15.40**	6,600.0	15.40
National Bank of Bahrain BSC	Bahrain	**5,362.5**	**12.51**	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	**5,115.0**	**11.94**	5,115.0	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	**4,125.0**	**9.63**	4,125.0	9.63
Arab Investment Resources Co EC	Bahrain	**3,300.0**	**7.70**	3,300.0	7.70
Arab Banking Corporation BSC	Bahrain	**3,300.0**	**7.70**	3,300.0	7.70
Gulf Investment Corporation GSC	Kuwaiti	**3,300.0**	**7.70**	3,300.0	7.70
Al Salam Bank – Bahrain BSC	Bahrain	**825.0**	**1.93**	825.0	1.93
Volaw Trust & Corp Service Ltd.	Jersey	**1,599.0**	**3.73**	1,599.0	3.73
		42,849	**100.0**	42,849	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.146 (2013: BD 0.144).

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17. STATUTORY RESERVE

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 575 (2013: BD 542).

The share premium of BD NIL (2013: BD 41) arising from the issue of shares under employee share incentive scheme has been adjusted to statutory reserve.

18. GENERAL RESERVE

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

19. NET INVESTMENT INCOME

	2014	2013
Net gain on investments carried at fair value through profit or loss	**752**	1,901
Gain on sale of available-for-sale investments	**2,122**	1,423
Dividend income on investments carried at fair value through profit or loss	**473**	310
Dividend income on available-for-sale investments	**581**	393
	3,928	4,027

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

	2014	2013
Realised gain on sale	**1,165**	1,171
Unrealised fair value (loss) / gain	**(413)**	730
	752	1,901

The realised 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 Unrealised 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 AND COMMISSION INCOME/ EXPENSE

	2014	2013
Fee and commission income from trust or other fiduciary activities		
- Management fee	**2,721**	2,241
- Performance fee	**1,343**	1,458
- Custody fee	**413**	386
	4,477	4,085
Fee and commission expense		
- Custody fee	**(62)**	(37)
- Collection fee	**-**	(59)
Net fee and commission income	**4,415**	3,989

21. BROKERAGE AND OTHER INCOME

	2014	2013
Brokerage income	**1,908**	837
Investment banking income	**175**	166
Foreign exchange gain	**515**	224
Other income	**29**	22
	2,627	1,249

22. INTEREST INCOME/ EXPENSE

	2014	2013
Interest income from:		
Placements and call deposits	**315**	348
Investments in debt instruments	**983**	962
Margin lending	**138**	85
	1,436	1,395
Interest expense on:		
Bank borrowings	**74**	80
	1,362	1,315

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23. STAFF AND RELATED EXPENSES

	2014	2013
Salaries and allowances	**4,250**	3,460
Social security costs	**151**	130
Other costs	**138**	98
	4,539	3,688

As at 31 December 2014, the Group employed 56 (2013: 55) Bahrainis and 40 (2013: 36) expatriates.

The Group's contributions for the year to the General Organization for Social Insurance in respect of its employees amounted to BD 151 (2013: BD 130).

24. OTHER OPERATING EXPENSES

	2014	2013
Rent	**210**	114
Communication expenses	**289**	241
Marketing expenses	**167**	137
Professional fees	**184**	125
Other operating expenses	**617**	728
Depreciation	**351**	301
	1,818	1,646

25. RELATED PARTY TRANSACTIONS

Transactions with funds owned by the Subsidiary Companies

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

	2014	2013
Fee and commission income	**884**	657
Fee receivable	**255**	202
Investments:		
Available-for-sale investments		
- Khaleej Equity Fund	**1,044**	987
- SICO Selected Securities Fund	**190**	175
Investments at fair value through profit or loss		
SICO Money Market Fund	**1,186**	1,179

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 NIL (2013: 3,885). 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.

	2014	2013
Fee and commission income	**1,393**	1,597
Fee receivable	**339**	1,266
Funds under management	**74,002**	50,541
Borrowings as at 31 December	**-**	3,885
Borrowings obtained during the year	**-**	3,885
Borrowings repaid during the year	**3,885**	3,847

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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 the members of the board of directors, chief executive officer, chief operating officer, and head of departments.

Compensation to key management personnel is as follows:

	2014	2013
Short term benefits	**912**	991
Post employment benefits	**46**	51
Equity compensation benefits	**205**	113
	1,163	1,155

Other operating expenses include BD 147 (2013: BD 170) towards attendance fees, remuneration and other related expenses for members of the Board and Investment Committee.

26. EMPLOYEE SHARE OWNERSHIP PLAN

The Group has established an Employee Share Incentive scheme ("the Scheme") which is operated through a Trustee. The Trustee has been set up by the transfer of shares of the Bank allotted to the employees under the Scheme.

Under the Scheme, employees are entitled to receive shares as part of their bonus in ratios determined by the Board of Directors. The value of the shares is to be determined based on the fair value of the Group's net assets as at the reporting date. This Scheme is treated as a cash-settled share based payment transaction due to the restrictions imposed under the Scheme whereby the employees have to sell back the shares to the Group on resignation/retirement based on the vesting conditions mentioned in the Scheme.

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme advance account classified under other assets. The employee share incentive scheme share advance account as at 31 December 2014 amounted to BD 1,559 (2013: 1,559).

The Group has recognised an employee liability of BD 1,233 (2013: 1,655) on the shares granted till date. This liability has been determined on the fair value of the Group's net assets as at 31 December 2014 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:

	2014		2013	
	No. of shares issued	**Value**	No. of shares issued	Value
As at 1 January	**15,987,741**	**1,559**	14,758,940	1,395
Shares issued during the year *	**-**	**-**	1,228,801	164
	15,987,741	**1,559**	15,987,741	1,559

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

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

27. INVOLVEMENT IN UNCONSOLIDATED STRUCTURED ENTITIES

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	• To generate fees from managing assets on behalf of third party investors • These vehicles are financed through the issue of units to investors	• Investment in units issued by the fund • Management fee • Performance fee
Employee share incentive scheme trust	• To hold the shares in trust under Employee share incentive scheme	• None

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

	2014	2013
Investments in funds		
SICO Selected Securities Fund	**190**	175
Khaleej Equity Fund	**1,044**	987
SICO Money Market Fund	**1,186**	1,179
	2,420	2,341

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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 115 (2013: 730) and margin lending drawdown commitments of BD 1,414 (2013: 730).

	2014	2013
Funds under management (net asset value)		
SICO Selected Securities Fund	**3,112**	2,916
Khaleej Equity Fund	**25,555**	28,270
SICO Gulf Equity Fund	**10,883**	10,926
SICO Arab Financial Fund	**-**	-
SICO Money Market Fund	**1,186**	4,398
SICO Kingdom Equity Fund	**3,378**	2,770
SICO Fixed Income Fund	**3,308**	3,796
Discretionary Portfolio Management Account	**291,466**	263,837

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

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

	2014	2013
Assets under custody	**1,636,473**	1,258,081

The Group provides custodianship and nominee services in respect of securities and cash.

At 31 December 2014, assets amounting to BD 1,636,473 (2013: BD 1,258,081) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 310,357 (2013: BD 289,812) were registered in the name of the Bank.

Legal claims
During the year, 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 of BD 1 million 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 a clause that exonerates the Bank from any legal action related to any incident prior to the purchase date of 15 September 2011 and places the liability on the old shareholders.

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

29. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

	2014	2013
QAR	**10,225**	14,716
US Dollar	**48,516**	31,708
JOD	**35**	-
KWD	**1,057**	222
SAR	**5,965**	14,563
GBP	**36**	832
AED	**9,598**	6,167
OMR	**(202)**	222

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

30. BASIC EARNINGS PER SHARE

	2014	2013
Profit for the year	**5,434**	4,884
Weighted average number of equity shares (in 000's)	**428,487**	428,205
Earnings per share (in fils)	**12.68**	11.41

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

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31. MATURITY PROFILE OF ASSETS AND LIABILITIES

31 December 2014	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and cash equivalents	**61,427**	**-**	**-**	**61,427**
Investments at fair value through profit or loss	**7,954**	**5,992**	**3,394**	**17,340**
Available-for-sale investments	**307**	**5,286**	**23,218**	**28,811**
Furniture, equipment and intangibles	**-**	**158**	**1,342**	**1,500**
Fees receivable	**1,192**	**-**	**-**	**1,192**
Other assets	**6,998**	**-**	**-**	**6,998**
Total assets	**77,878**	**11,436**	**27,954**	**117,268**
Liabilities				
Short-term bank borrowings	**16,220**	**-**	**-**	**16,220**
Customer accounts	**32,878**	**-**	**-**	**32,878**
Other liabilities	**3,301**	**-**	**-**	**3,301**
Payable to other unit holders	**2,172**	**-**	**-**	**2,172**
Total liabilities	**54,571**	**-**	**-**	**54,571**
Liquidity gap	**23,307**	**11,436**	**27,954**	**62,697**
Cumulative liquidity gap	**23,307**	**34,743**	**62,697**	**62,697**

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

32. ACCOUNTING CLASSIFICATION AND FAIR VALUES

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

31 December 2014	Fair value through profit or loss	Available for sale	Loans and receivables	Liabilities at fair value	Others at amortised cost	Total carrying value
Cash and cash equivalents	-	-	61,427	-	-	61,427
Investments at fair value through profit or loss	17,340	-	-	-	-	17,340
Available-for-sale investments	-	28,811	-	-	-	28,811
Fees receivable	-	-	1,192	-	-	1,192
Other assets	-	-	5,196	-	-	5,196
	17,340	28,811	67,815	-	-	113,966
Short-term bank borrowings	-	-	-	-	16,220	16,220
Customer accounts	-	-	-	-	32,878	32,878
Other liabilities	-	-	-	-	3,301	3,301
Payable to unit holders in consolidated funds	-	-	-	2,172	-	2,172
	-	-	-	2,172	52,399	54,571

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

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

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(ii) Fair value hierarchy

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Assets				
Available-for-sale investments				
- Funds	**7,615**	**4,249**	**203**	**12,067**
- Equities	**5,842**	**-**	**312**	**6,154**
- Debt securities	**8,398**	**307**	**-**	**8,705**
Fair value through profit or loss:				
- Funds	**1,186**	**-**	**-**	**1,186**
- Equity	**5,865**	**-**	**-**	**5,865**
- Debt securities	**10,289**	**-**	**-**	**10,289**
Liabilities				
- Payable to unit holders in consolidated funds	**2,172**	**-**	**-**	**2,172**
Total	**37,023**	**4,556**	**515**	**42,094**

The Group recognises 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 2014
At 1 January 2014	**2,131**
Total loss :	
- in statement of profit or loss	**(225)**
- in other comprehensive income	**(58)**
Purchases	**-**
Settlements	**(1,333)**
Transfers into / (out) of level 3	**-**
At 31 December 2014	**515**
Total gain / (loss) for the year included in statement of profit or loss for assets / liabilities held as at 31 December 2014	**(366)**

32. ACCOUNTING CLASSIFICATION AND FAIR VALUES (CONTINUED)

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

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

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

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

(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, comprehensive income or equity of the Group.

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