SICO BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

Comprehensive investment services for the Bahrain and GCC securities market

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

SICO BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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In 2019, the world saw an escalation of policy uncertainty, growing recession concerns, low rates and increased negative-yielding debt. Despite this, the economy remained resilient and all equity asset classes and some fixed income, delivered double-digit returns. SICO too delivered on its mission to create value for shareholders, clients, employees, and the community. However, we did not stop there, we continued to innovate and grow, and focused on expanding our horizons across all areas of the business.

This mindset has been positively reflected in our performance this year. SICO achieved a significant increase in net profits from BD 3.7 million to BD 6 million, up 63%. All business units reported higher revenue, resulting in a total net operating income of BD 14.6 million in 2019, up by 36% from BD 10.7 million. Our basic earnings per share stands at 16.3 Bahraini fils vs. 10 fils the prior year.

To expand horizons, planning and execution is very important and the team excelled on both fronts. An example of this is shown by SICO's 16% growth of assets under management, bringing it to over $2 billion. This was an important milestone for us and although we are proud to have achieved it this year, we will continue to strive for more growth.

Acquiring a new asset management license in the Kingdom of Saudi Arabia was another historical event for SICO and a huge leap forward in terms of our regional expansion strategy, which began in the United Arab Emirates in 2012. This development enables SICO to broaden horizons further by diversifying allocation to regional markets and ultimately adding value to our portfolios while improving risk/return profiles. Having presence in the largest economy in GCC with a GDP of over $780 billion, we are strategically positioned to access a huge market, increase our client base and further our opportunity set.

In our home market of Bahrain, the economy proved resilient in 2019 as inflation remained low and the government continued its drive for economic diversification. According to the IMF, economic growth will remain steady at 2.5% for the non-oil sector with overall GDP growth of 2.1% in 2020. While we continue with our plans to expand regionally, we remain bullish on Bahrain given its strong fundamentals and attractive yields.

Expanding horizons is also the ability to push boundaries and go that extra mile which we proved in our instrumental role of one of Bahrain's largest M&A transactions: the acquisition of Bahrain Islamic Bank (BISB) by the National Bank of Bahrain (NBB). Our appointment as the issue execution adviser, receiving agent and allotment agent demonstrates our track record and expertise as a trusted partner to Bahrain's major financial institutions.

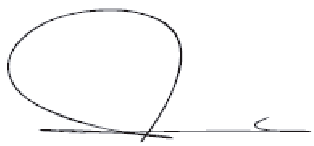
Our track record is very important to us and ensuring we outperform year-on-year is imperative. However, the asset management industry is rapidly transforming and to win, we must embrace the evolving role of technology. Therefore, we are enhancing our infrastructure and continuing to invest in systems to improve efficiency, enhance client experience and ultimately support our business going forward.

As we look to our future, it is difficult to predict the geopolitical environment or when the expansion will end, but what we can do is continue to be resilient and diligent. We can ensure portfolios are well positioned during this late-cycle and be prudent with our selection of risk assets. And we will continue to grow, innovate and Expand Horizons in 2020 and beyond.

Further, I would like to take this opportunity to thank our esteemed Board of Directors for their tremendous support and guidance that they continue to give SICO as we embark on this new and exciting phase of growth. The Board has proven time and again their ability to work in harmony with senior management in a manner that helps SICO to effectively achieve its goals. With our upcoming board elections in March 2020, we will be seeing several members, who have served their tenure, exit the SICO Board. We highly appreciate the time and effort that they have dedicated and we wish them the best on their future endeavors.

I would also like to give special thanks and recognition to our senior management for their vision, hard work and dedication. I am extremely proud of our leadership and of all that they have achieved this year.

On behalf of SICO's Board of Directors, we would like to extend our utmost gratitude to the Central Bank of Bahrain and the Bahrain Bourse for the confidence that they have placed in us as not just a financial services provider but as a true partner. And last but not least, each and every member of the SICO team wishes to express thanks and appreciation to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince for their steadfast leadership and progressive vision for the financial sector in Bahrain.



Abdulla bin Khalifa Al Khalifa
Chairman of the Board

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

SICO BSC (c)
PO Box 1331
Manama
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of SICO BSC (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

KPMG Fakhro, a Bahrain partnership registered with Ministry of Industry and Commerce (MOIC), Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the chairman's report set out on pages 1-2.

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

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

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

As required by the Commercial Companies Law and Volume 1 of the rulebook issued by the Central Bank of Bahrain (CBB), 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 chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), 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 Banks'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.

The engagement partner on the audit resulting in this independent auditors' report is Salman Manjlai.

KPMG

KPMG Fakhro
Partner registration number 213
2 March 2020

SICO BSC (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

Bahraini Dinars '000

	Note	2019	2018
Assets			
Cash and bank balances	7a	56,555	35,484
Treasury bills	7a	4,261	10,416
Securities bought under repurchase agreements	7b	51,106	41,927
Investments at fair value through profit or loss	8	20,076	23,644
Investments at fair value through other comprehensive income	9	9,128	6,214
Investments at amortized cost		9,971	9,990
Investment property	10	1,915	1,955
Fees receivable	11	3,523	1,252
Other assets	12	8,576	3,142
Furniture, equipment and intangibles	13	1,671	1,240
Total assets		**166,782**	135,264
Liabilities and equity			
Liabilities			
Short-term bank borrowings	14a	3,770	3,385
Securities sold under repurchase agreements	14b	55,548	42,573
Customer accounts	15	41,340	23,135
Other liabilities	16	6,138	3,805
Payable to other unit holders in consolidated funds	6	622	6,701
Total liabilities		**107,418**	79,599
Equity			
Share capital	17	42,849	42,849
Treasury shares	17	(5,322)	(5,913)
Shares under employee share incentive scheme		(2,263)	(1,599)
Statutory reserve	18	8,034	7,362
General reserve	19	3,217	3,217
Investments fair value reserve		891	133
Retained earnings		11,958	9,616
Total equity		**59,364**	55,665
Total liabilities and equity		**166,782**	135,264

The consolidated financial statements were approved by the board of directors on 2 March 2020 and signed on its behalf by:

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

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

SICO BSC (c)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

Bahraini Dinars '000

	Note	**2019**	2018
Net investment income	20	4,315	3,050
Net fee income	21	6,271	4,166
Brokerage and other income	22	2,392	2,332
Net interest income	23	1,405	1,008
Rental income from investment property		233	188
Total income		**14,616**	10,744
Staff cost	24	(5,651)	(4,267)
Other operating expenses	25	(2,820)	(2,383)
Share of profit of non-controlling unit holders in consolidated funds	6	(61)	(373)
Expected credit loss		(50)	(20)
Profit for the year		**6,034**	3,701
Basic and diluted earnings per share (fils)	31	**16.32**	10.01

Abdulla Bin Khalifa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019 Bahraini Dinars '000

	2019	2018
Profit for the year	**6,034**	**3,701**
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
- Net changes in fair value of FVOCI debt instruments	358	15
- Net amount transferred to profit or loss on sale of FVOCI debt instruments	20	5
- Net amount transferred to profit or loss on impairment	14	-
Items that will not be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVOCI equity instruments	402	57
Total other comprehensive income for the year	**794**	**77**
Total comprehensive income for the year	**6,828**	**3,778**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

Bahraini Dinars '000

2019	**Share capital**	**Treasury shares**	**Shares under employee share incentive scheme**	**Statutory reserve**	**General reserve**	**Investments fair value reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2019	**42,849**	**(5,913)**	**(1,599)**	**7,362**	**3,217**	**133**	**9,616**	**55,665**
Comprehensive income:								
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**6,034**	**6,034**
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	760	-	760
Net amount transferred to profit or loss on sale of FVOCI debt instruments	-	-	-	-	-	20	-	20
Net amount transferred to profit or loss on impairment	-	-	-	-	-	14	-	14
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	(36)	36	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**758**	**36**	**794**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**758**	**6,070**	**6,828**
- Transfer to charitable donation reserve	-	-	-	-	-	-	(40)	(40)
Transaction with owners recognized directly in equity:								
- Transfer to statutory reserve	-	-	-	603	-	-	(603)	-
- Dividends paid	-	-	-	-	-	-	(3,085)	(3,085)
- Treasury shares transferred to employee share incentive scheme	-	591	(664)	69	-	-	-	(4)
Balance at 31 December 2019	**42,849**	**(5,322)**	**(2,263)**	**8,034**	**3,217**	**891**	**11,958**	**59,364**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019 *(continued)*

Bahraini Dinars '000

2018	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2018	42,849	-	(1,599)	6,992	3,217	307	7,992	59,758
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	3,701	3,701
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	72	-	72
Net amount transferred to profit or loss on sale of FVOCI debt instruments	-	-	-	-	-	5	-	5
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	(251)	251	-
Total other comprehensive income	-	-	-	-	-	(174)	251	77
Total comprehensive income for the year	-	-	-	-	-	(174)	3,952	3,778
- Transfer to charitable donation reserve	-	-	-	-	-	-	(30)	(30)
Transaction with owners recognized directly in equity:								
- Transfer to statutory reserve	-	-	-	370	-	-	(370)	-
- Dividends Paid	-	-	-	-	-	-	(1,928)	(1,928)
- Treasury shares purchased	-	(5,913)	-	-	-	-	-	(5,913)
Balance at 31 December 2018	42,849	(5,913)	(1,599)	7,362	3,217	133	9,616	55,665

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019 Bahraini Dinars '000

	Note	2019	2018
Operating activities			
Net interest received		2,723	2,428
Net decrease / (increase) in placements with banks		-	4,974
Net sale of investments at fair value through profit or loss		6,138	6,450
Net (purchase) / sale of investments at fair value through other comprehensive income		(2,934)	(61)
Net sale of investments at amortized cost		19	18
Net decrease / (increase) in investment property		40	(1,955)
Net increase / (decrease) in customer accounts		18,205	(3,583)
Securities bought under repurchase agreements		(9,179)	(10,294)
Securities sold under repurchase agreements		12,975	10,185
Dividends received		425	1,050
Rental income received		233	188
Movement in brokerage accounts and other receivables		999	12,459
Movement in other liabilities		1,596	(496)
Payments for staff and related expenses		(4,918)	(4,139)
Payments for other operating expenses		(1,615)	(1,939)
Net cash generated from operating activities		**24,707**	15,282
Investing activities			
Net capital expenditure on furniture and equipment		(929)	(138)
Net cash used in investing activities		**(929)**	(138)
Financing activities			
Net increase / (decrease) in short-term bank borrowings		385	(2,270)
Treasury shares purchased		-	(5,913)
Dividend paid		(3,085)	(1,928)
(Redemption) / contribution by other unit holders in consolidated funds		(6,131)	236
Distribution to other unit holders in consolidated funds		(9)	3,441
Net cash used in financing activities		**(8,840)**	(6,434)
Net increase in cash and cash equivalents		**14,938**	8,710
Cash and cash equivalents at the beginning of the year		45,903	37,190
Cash and cash equivalents at the end of the year*	7	**60,841**	45,903

* Excludes ECL of BD 25 (2018: BD 3)

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

1. Reporting entity

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

The primary objectives of the Bank are:

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

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgments

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

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

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

(d) New standards, amendments and interpretations effective from 1 January 2019

The Bank has applied IFRS 16 with a transition date of 1 January 2019 which resulted in changes in accounting policies and adjustments to the amounts from those previously recognized in the financial statements as at 31 December 2018.

As permitted by the transitional provisions of IFRS 16, the Bank elected to use the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Set out below are the details of the specific IFRS 16 accounting policies applied in the current period and the IFRS 16 transition impact disclosures for the Bank.

2 Basis of preparation (continued)

(i) Changes in accounting policies

At the inception of the contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- The contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
  - The Bank has the right to operate the asset; or
  - The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

The new definition of a lease under IFRS 16 has been applied for contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

(ii) Measurement

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability;
- Any lease payment made at or before the commencement date, less any lease incentives received;
- Any initial direct cost incurred by the lessee; and
- Estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Bank's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option; and
- Penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

Notes to the 31 December 2019 consolidated financial statements Bahraini Dinars '000

2 Basis of preparation (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iv) Impact of adopting IFRS 16

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 to contracts that were previously identified as leases. The impact from the adoption of IFRS 16 as at 1 January 2019 has resulted in an increase in furniture, equipment and intangibles by BD 456 and an increase in and other liabilities by BD 456:

	Furniture, equipment and intangibles	Other liabilities
Closing balance under IAS 17 (31 December 2018)	1,240	3,805
Impact on re-measurements:		
Right-of-use asset	456	-
Lease liability	-	456
Opening balance under IFRS 16 on date of initial application of 1 January 2019	**1,696**	**3,349**

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

- the arrangement had conveyed a right to use the asset.

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The new standards and amendments to standards are not expected to have a significant impact on the Group's consolidated financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements except for changes arising from adoption of IFRS 16.

(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. NCI of consolidated funds are recognised as liabilities.

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Bank and its subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency). The

Consolidated financial statements are presented in Bahraini Dinars, representing the Group's functional and presentation currency. The other Group companies functional currencies are either denominated in currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the Group companies that have a functional currency different from the presentation currency do not result in exchange differences.

(ii) Transactions and balances

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

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

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

Judgments

Classification of investments

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

3 Significant accounting policies (continued)

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

(d) Investment securities

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

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

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

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

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

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

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

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

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

3 Significant accounting policies (continued)

For investments in the debt instruments that are not quoted in an active market, the Group uses information from the pricing services such as Bloomberg for use as inputs in their fair value measurement that maximize the use of relevant observable inputs. For investments in funds not quoted in an active market the Group uses net asset values as provided by the fund managers / administrator as their fair value.

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

(e) Impairment of financial assets

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss event will occur in the next 12 months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognised based on discounted cash flow methods based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset. For these assets, lifetime ECL is recognised based on discounted cash flow methods.

The estimation of credit exposure for risk management purposes is complex and requires the use of models. The exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios, and of default correlations between counterparties. The Group measures expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across the various geographies in which the Group has exposures.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the associated recovery cost.

(f) De-recognition of financial liabilities

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

3 Significant accounting policies (continued)

(g) Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, placements with banks and treasury bills 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. Placement with original maturity over three months are presented under placement with banks. Loss allowance for Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition are measured at 12-month ECLs.

(h) Amortized cost measurement

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

(i) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. The ‘recoverable amount’ of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in statement of profit or loss.

(j) Furniture, equipment and 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:

Software	10 years
Furniture and equipment	3-5 years

(k) Bank borrowings

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

(l) Repurchase agreements

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

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

(m) Customer accounts

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

(n) Investment Property

Investment property comprise buildings that are occupied substantially for use by third parties and are held by the group to earn rentals or for capital appreciation or both.

3 Significant accounting policies (continued)

Recognition and Measurement

An investment property is recognized initially at cost of acquisition including any transaction cost and is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of investment property less their estimated residual values using the straight-line method over their estimated useful lives of 25 years, and is recognized in profit or loss. Depreciation methods, residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Derecognition

An item of investment property is derecognized upon disposal or when no future economic benefits are expected from its use. Profits and losses on disposals of items of investment property are determined by comparing the proceeds from their disposals with their respective carrying amounts, and are recognized net within profit or loss.

(o) Employee benefits

(i) Bahraini employees

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

(ii) Expatriate employees

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

(iii) Employee share incentive scheme

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

(p) Provisions

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

(q) Fiduciary activities

The Group act as administrator and manager for 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.

(r) Settlement date accounting

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

3 Significant accounting policies (continued)

(s) Offsetting

Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and intends to settle either on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(t) 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.

(u) Interest income and expense

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

(v) Fee and commission

Fee and commission income comprises custody fee, investment management fee, performance fee and investment banking fees earned by the Group. Custody and investment management fees are recognized at a point in time as the related services are performed and the Group becomes entitled to the fee and the customer obtains control of the benefits from the services. Variable consideration in such fees are estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of fee recognized, will not occur when the associated uncertainty is resolved.

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

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

(w) Net investment income

Net investment income includes all realized and unrealized fair value changes on investment at fair value through profit or loss and realized portion on the debt investment at fair value through other comprehensive income and the related dividend. This also includes interest income from fixed income investments.

(x) Dividend income

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

(y) Brokerage and other income

Brokerage and other income consist of brokerage income, other income and foreign exchange income. This income is recognized at a point in time when the related services are performed and the customer obtains control of the benefits of the services rendered.

(z) Segment Reporting

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

4. Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

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

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

The Audit and Risk 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 and Risk 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 and Risk 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 Treasury and Proprietary investments, deals routed through counterparty brokers gives rise to counterparty credit risk.

Investments in debt securities

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

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

Management of credit risk

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

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

Notes to the 31 December 2019 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

The risks in proprietary investment 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:

	2019	2018
Bank balances	56,555	35,484
Treasury bills	4,261	10,416
Securities bought under repurchase agreements	51,106	41,927
FVTPL debt securities	9,564	6,647
FVOCI debt securities	4,169	3,076
Fee receivable	3,523	1,252
Other receivables	8,340	2,883
	137,518	101,684

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

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

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

Risk Exposure Concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits. Concentration of risks is managed by counterparty, by geographical region and by industry sector.

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2019 was BD 15,576 (2018: BD 21,436), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income".

Notes to the 31 December 2019 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

Geographical Exposure Distribution

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

2019	**Middle East & Asia countries**	**North America**	**Europe**	**Total**
Assets				
Cash and bank balances	46,349	957	9,249	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	48,185	-	2,921	51,106
Investments at fair value through profit or loss	15,768	1,085	3,223	20,076
Investments at fair value through other comprehensive income	9,128	-	-	9,128
Investments at amortized cost	9,971	-	-	9,971
Investments Property	-	1,915	-	1,915
Fees receivable	3,511	-	12	3,523
Furniture, equipment and intangibles	1,671	-	-	1,671
Other assets	8,563	1	12	8,576
Total assets	**147,407**	**3,958**	**15,417**	**166,782**
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	40,589	36	715	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	**106,667**	**36**	**715**	**107,418**

2018	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	28,287	152	7,045	35,484
Treasury bills	10,416	-	-	10,416
Securities bought under repurchase agreements	40,393	-	1,534	41,927
Investments at fair value through profit or loss	18,260	2,105	3,279	23,644
Investments at fair value through other comprehensive income	6,214	-	-	6,214
Investments at amortized cost	9,990	-	-	9,990
Investments Property	-	1,955	-	1,955
Fees receivable	1,242	1	9	1,252
Furniture, equipment and intangibles	1,240	-	-	1,240
Other assets	3,128	12	2	3,142
Total assets	119,170	4,225	11,869	135,264
Liabilities				
Short-term bank borrowings	3,385	-	-	3,385
Securities sold under repurchase agreements	33,466	-	9,107	42,573
Customer accounts	22,526	93	516	23,135
Other liabilities	3,791	-	14	3,805
Payable to other unit holders in consolidated funds	6,701	-	-	6,701
Total liabilities	69,869	93	9,637	79,599

Notes to the 31 December 2019 consolidated financial statements Bahraini Dinars ’000

4 Financial risk management (continued)

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

2019	**Financial services**	**Others**	**Total**
Total assets	105,338	61,444	**166,782**
Total liabilities	78,017	29,401	**107,418**

2018	Financial services	Others	Total
Total assets	74,621	60,643	135,264
Total liabilities	56,419	23,180	79,599

The gross carrying amount of financial instruments and the associated loss allowance is as follows:

Particulars	**Gross Exposure**	**Expected Credit Loss**	**Net Exposure**
Bank balances	56,580	25	56,555
Securities bought under repurchase agreements	51,118	12	51,106
Investment Securities	9,142	14	9,128
Other Assets (Margin Lending)	9,518	19	9,499
Total	**126,358**	**70**	**126,288**

Investments in debt securities classified as FVOCI are entirely in investment grade debt instruments i.e. credit grade A to BB and the ECL on the same has been adjusted through the OCI statement.

All investments at amortized costs are exposures to the domestic sovereign debt. No credit loss is expected to materialize on these investments.

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

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

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

Notes to the 31 December 2019 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

The group faces three types of liquidity risks as follows:

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

Management of liquidity risk

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

The residual contractual maturity of financial liabilities is as follows:

2019	**Less than 1 year**	**Gross outflow**	**Carrying value**
Short-term bank borrowings	3,778	3,778	3,770
Securities sold under repurchase agreements	55,701	55,701	55,548
Customer accounts	41,340	41,340	41,340
Other liabilities	6,138	6,138	6,138
Payable to other unit holders in consolidated funds	622	622	622
	107,579	**107,579**	**107,418**

2018	Less than 1 year	Gross outflow	Carrying value
Short-term bank borrowings	3,392	3,392	3,385
Securities sold under repurchase agreements	42,724	42,724	42,573
Customer accounts	23,135	23,135	23,135
Other liabilities	3,805	3,805	3,805
Payable to other unit holders in consolidated funds	6,701	6,701	6,701
	79,757	79,757	79,599

Liquidity risk is also managed through ensuring compliance with regulatory liquidity requirements. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are the ratios which the Bank computes as per CBB requirements. The ratios as of 31 December 2019 are as follows:

	As of 31 December 2019	**Regulatory Limit**
Liquidity Coverage Ratio	**131%**	**100%**
Net Stable Funding Ratio	**148%**	**100%**

The average LCR for the six months period ended 31 December 2019 was 137%.

(d) Market risk

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

The Bank, as part of its normal operations, is exposed to market risk with regard to its investments in FVTPL securities and fair value through other comprehensive income securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio Guidelines set by the

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Board Investment Committee board and the Group's management. Market risk management thus involves management of equity price risk, interest rate risk and foreign exchange risk.

(i) Equity Price Risk

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

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

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

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

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

	Investments at fair value through profit or loss		**Investments at fair value through other comprehensive income**	
	2019	2018	**2019**	2018
Increase of 1%	**201**	236	**91**	62
Decrease of 1%	**(201)**	(236)	**(91)**	(62)

(ii) *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The investments in debt instruments, placements, borrowings and call deposits are subject to interest rate risk. The Treasury Unit carefully monitors these exposures in order to mitigate this risk. The Bank minimizes its exposure to interest rate risk by careful monitoring of exposures. Placements and call deposits with banks are at fixed interest rates and mature within three months. The liabilities of the Bank include customer advances for purchase of investments on their behalf. The Bank maintains cash balances with various banks in different currencies to meet liquidity requirements for equity share deals settlement in these currencies. These arise due to the need for timely payment of settlement amounts by clients as well as proprietary trades. The Bank has exposures to debt instruments issued by GCC institutions in its proprietary investment portfolios. Some of these instruments are not listed but can be traded over the counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. Some debt instruments are unrated.

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

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

Interest rate re-pricing profile

2019	**Effective interest rate % p.a.**	**Within 1 year**	**Over 1 year**	**Non-interest sensitive**	**Total**
Bank balances	**-**	-	-	32,963	32,963
Call deposits*	**-**	2,112	-	-	2,112
Treasury bills	**-**	4,261	-	-	4,261
Short-term placements with banks	**1.65%**	21,480	-	-	21,480
Securities bought under repurchase agreements	**2.66%**	51,106	-	-	51,106
Investments at fair value through profit or loss	**5.82%**	1,620	7,943	10,513	20,076
Investments at fair value through other comprehensive income	**6.65%**	-	4,169	4,959	9,128
Investments at amortized cost**	**-**	-	9,971	-	9,971
Investment Property	**-**	-	-	1,915	1,915
Fees receivable	**-**	-	-	3,523	3,523
Other assets	**-**	-	-	8,576	8,576
Furniture, equipment and intangibles	**-**	-	-	1,671	1,671
Total assets		**80,579**	**22,083**	**64,120**	**166,782**
Short-term bank borrowings	**2.60%**	3,770	-	-	3,770
Securities sold under repurchase agreements	**2.40%**	55,548	-	-	55,548
Customer accounts	**-**	-	-	41,340	41,340
Other liabilities	**-**	-	-	6,138	6,138
Payable to other unit holders in consolidated funds	**-**	-	-	622	622
Total liabilities		**59,318**	-	**48,100**	**107,418**
Equity		**-**	**-**	**59,364**	**59,364**
Total liabilities and equity		**59,318**	**-**	**107,464**	**166,782**
Interest rate sensitivity gap		**21,261**	**22,083**	**(43,344)**	**-**
Cumulative interest rate sensitivity gap		**21,261**	**43,344**	**-**	**-**

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

Interest rate re-pricing profile

2018	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Bank balances	-	-	-	15,830	15,830
Call deposits*	-	707	-	-	707
Treasury bills	-	10,416	-	-	10,416
Short-term placements with banks	3.24%	18,947	-	-	18,947
Securities bought under repurchase agreements	3.36%	41,927	-	-	41,927
Investments at fair value through profit or loss	6.45%	685	5,962	16,997	23,644
Investments at fair value through other comprehensive income	6.02%	-	3,076	3,138	6,214
Investments at amortized cost**	-	-	9,990	-	9,990
Investment Property		-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	3,142	3,142
Furniture, equipment and intangibles	-	-	-	1,240	1,240
Total assets		72,682	19,028	43,554	135,264
Short-term bank borrowings	3.69%	3,385	-	-	3,385
Securities sold under repurchase agreements	3.20%	42,573	-	-	42,573
Customer accounts	-	-	-	23,135	23,135
Other liabilities	-	-	-	3,805	3,805
Payable to other unit holders in consolidated funds	-	-	-	6,701	6,701
Total liabilities		45,958	-	33,641	79,599
Equity		-	-	55,665	55,665
Total liabilities and equity		45,958	-	89,306	135,264
Interest rate sensitivity gap		26,724	19,028	(45,752)	-
Cumulative interest rate sensitivity gap		26,724	45,752	-	-

** At 31 December 2019 the effective interest rate on Bahraini Dinar call deposits is 1% (2018: 0.75%) and on USD call deposits is 0.75 % (2018: 0.45%).*
*** At 31 December 2019 the effective interest rate of investments at amortized cost is 6.65 % (2018: 6.72%).*

(iii) Foreign exchange risk

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

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

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

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

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

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

(f) Capital Management

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

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

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

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4 Financial risk management (continued)

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

Based on year end balances

	2019	2018
Risk weighted exposure		
Credit risk	56,530	44,684
Market risk	18,388	26,188
Operational risk	18,559	15,101
Total risk weighted assets	**93,477**	85,973
Common Equity (CET 1)	59,349	54,978
Additional Tier 1	70	20
Total regulatory capital	**59,419**	54,998
Capital adequacy ratio	**63.57%**	63.97%

The capital adequacy ratio as at 31 December 2019 has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

Capital allocation

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

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5. Group subsidiaries and consolidated funds

Set out below are the Group's principal subsidiaries at 31 December 2019. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund.

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

Subsidiary	Percentage ownership	Year of incorporation	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
7. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO
8. SICO Financial Brokerage LLC	100%	2011	UAE	Brokerage services
9. SICO Fixed Income Fund	85%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks
10. SICO US Real Estate Corp	100%	2017	Cayman Island	Investment in income generating properties in various geographies in the United States.

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6. Payable to other unit holders in consolidated funds

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

	2019	2018
SICO Fixed Income Fund		
- Carrying Amount	622	1,326
- Profit share	61	24
SICO Kingdom Equity Fund		
- Carrying Amount	-	5,202
- Profit share	-	361
SICO US Real Estate Corp		
- Carrying Amount	-	173
- Profit/(loss) share	-	(12)

Further to a subscription by a new unit holder in the SICO Kingdom Equity Fund, the same is no longer subject to consolidation (refer to note 28 for unconsolidated funds details). During 2019, the Bank increased its stake in the SICO US Real Estate Corp to 100% resulting in no liabilities towards the other unit holders

SICO Fixed Income Fund

	2019	2018
Other unit holders’ share	**15.5%**	35%
Cash and cash equivalents	593	588
Investment at fair value through profit or loss	4,101	3,736
Other assets	67	61
Short-term bank borrowings	(737)	(626)
Other liabilities	(13)	(11)
Net assets	**4,011**	3,748
Carrying amount of payable to other unit holders – %	**622**	1,326
Investment income	440	138
Interest income	5	(3)
Profit	391	69
Total comprehensive income	**391**	69
Profit allocated to other unit holders - %	**61**	24
Cash flows from operating activities	134	44
Cash flows (used in) financing activities	(129)	(260)
Net increase/(decrease) in cash and cash equivalents	**5**	(216)

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7. (a) Cash and bank balances

	2019	2018
Cash and bank balances	32,966	15,830
Call deposits	2,112	707
Short-term placements with banks	21,502	18,950
Less:		
Expected credit loss	(25)	(3)
Total	**56,555**	35,484
Treasury bills	4,261	10,416
Total cash and cash equivalents for cash flow purposes	**60,816**	45,900

Cash and bank balances include bank balances amounting to BD 10,738 (2018: BD 4,902) held on behalf of discretionary customer accounts.

7. (b) Reverse repurchase agreements have been entered with clients amounting to BD 51,106 (2018: BD 41,927) for which client owned securities of BD 63,025 (2018: BD 45,534) are pledged as collateral.

8. Investments at fair value through profit or loss

	2019	2018
Quoted equity securities – (listed)		
- Consolidated funds	-	7,295
- Parent	2,230	1,621
Funds		
- Quoted	5,898	4,415
- Unquoted	2,384	3,667
Quoted debt securities		
- Parent	5,463	2,910
- Consolidated funds	4,101	3,585
Unquoted debt securities		
- Consolidated funds	-	151
	20,076	23,644

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9. Investments at fair value through other comprehensive income

	2019	2018
Equity securities		
- Quoted	4,959	3,074
- Unquoted	-	64
	4,959	3,138
Debt securities		
- Quoted	4,169	1,940
- Unquoted	-	1,136
	4,169	3,076
	9,128	6,214

10. Investment property

Investment property represent five properties in USA acquired in 2018 through a fund structure. During the year, the fund structure dissolved and the properties were transferred to SICO US Real Estate Corp., a wholly owned subsidiary of the Bank.

The details of the investment in properties is as follows:

	Amount
Cost	
At 1 January 2019	1,985
Additions	-
At 31 December 2019	**1,985**
Accumulated depreciation	
At 1 January 2019	(30)
Depreciation for the year	(40)
At 31 December 2019	**(70)**
Carrying amount	**1,915**

The fair value of investment property as at 31 December 2019 was BD 2,362 determined by an independent valuer using appropriate valuation techniques.

11. Fees receivable

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

	2019	2018
Management fees	1,233	852
Performance fees	2,225	368
Custody fees	65	32
	3,523	1,252

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12. Other assets

	2019	2018
Receivables from clients	6,843	1,076
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	236	259
Interest receivable	634	570
Other receivables	363	737
	8,576	3,142

13. Furniture, equipment and intangibles

	Leased property right-of-use	**Software**	**Furniture and Equipment & Others**	**Capital work in progress**	**2019 Total**	2018 Total
Cost						
At 1 January	456	2,525	1,069	16	3,610	3,510
Additions	37	27	345	23	888	108
Disposals	-	-	(20)	-	(20)	(8)
At 31 December	**493**	**2,552**	**1,394**	**39**	**4,478**	3,610
Depreciation						
At 1 January	-	1,493	877	-	2,370	2,090
Charge for the year	149	208	100	-	457	288
Disposals	-	-	(20)	-	(20)	(8)
At 31 December	**149**	**1,701**	**957**	**-**	**2,807**	2,370
Net book value at 31 December 2019	**344**	**851**	**437**	**39**	**1,671**	-
Net book value at 31 December 2018	-	1,030	195	15	-	1,240
Cost of fully depreciated assets in use	**-**	**876**	**25**	**335**	**1,236**	1,202

Right-of-use of leased property relates to IFRS 16 which has been adopted from 1 January 2019.

14. Short-term bank borrowings and securities sold under repurchase agreements

a) The following represents the movement in short-term bank borrowings:

At 1 January 2019	3,385
Borrowings made during the year	1,885
Borrowings settled during the year	(1,500)
At 31 December 2019	**3,770**

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14. Short-term bank borrowings and Securities sold under repurchase agreements (continued)

b) The following represents the movement in securities sold under repurchase agreements during the year:

At 1 January 2019	42,573
Securities sold under repurchase agreements made during the year	25,717
Securities sold under repurchase agreements settled during the year	(12,742)
At 31 December 2019	**55,548**

The carrying value of the investments at amortized cost pledged as collateral amounts to BD 3,770 (2018: Nil). Additionally, repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 61,648 (2018: BD 45,549) are pledged as collateral.

15. Customer accounts

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

16. Other liabilities

	2019	2018
Accrued expenses	1,808	1,033
Provision for employee indemnities	801	653
Employee share incentive scheme liability	2,171	1,713
Other payables	1,358	406
	6,138	3,805

17. Share capital

	2019	2018
Authorized share capital		
1,000,000,000 (2018: 1,000,000,000) shares of 100 fils each	**100,000**	100,000

	2019	2018
Issued and fully paid		
428,487,741 ordinary shares of 100 fils each	**42,849**	42,849

As at 31 December 2019, the Bank holds 38,563,894 of treasury shares (2018: 42,848,771). During the year, the Bank transferred treasury shares of 4,284,877 (2018: Nil) to the employee share incentive scheme.

Proposed appropriations

The board of directors proposed the following appropriations subject to shareholders and regulatory approvals.

	2019	2018
Cash dividend 10% (2018: 8%)	**3,899**	3,085

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17. Share capital (continued)

The shareholders are:

	Nationality	**2019**		2018	
		Capital	% holding	Capital	% holding
Social Insurance Organization	Bahrain	15,922.5	37.16	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank BSC	Bahrain	3,667	8.56	3,667	8.56
BBK BSC	Bahrain	3,390	7.91	3,390	7.91
Investcorp Holdings BSC	Bahrain	2,366	5.52	2,366	5.52
Arab Banking Corporation BSC	Bahrain	2,366	5.52	2,366	5.52
Gulf Investment Corporation GSC	Kuwait	3,300	7.70	3,300	7.70
Employee Stock Ownership Plan (Volaw Trust)	Jersey	2,027	4.73	1,599	3.73
Al Salam Bank – Bahrain BSC	Bahrain	591	1.39	591	1.39
SICO BSC (c) (Treasury shares)	Bahrain	3,857	9.00	4,285	10
		42,849	100	42,849	100

18. Statutory reserve

In accordance with the Commercial Companies Law, 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 603 (2018: BD 370).

19. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2019, no appropriations to general reserve are recommended.

20. Net investment income

	2019	2018
Net gain on investments at fair value through profit or loss*	2,508	547
Loss on sale of Investments at fair value through other comprehensive income	(20)	(5)
Interest income from debt instruments	1,382	1,450
Dividend income	425	1,050
Other investment income	20	8
	4,315	3,050

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

	2019	2018
Realized gain on sale	1,280	690
Unrealized fair value gain / (loss)	1,228	(143)
	2,508	547

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20. Net investment income (continued)

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

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

21. Fee income / (expense)

	2019	2018
Fee income from trust or other fiduciary activities		
- Management fee	3,551	3,099
- Performance fee	2,241	383
- Custody fee	406	426
- Investment banking fee	-	110
- Advisory & Underwriting fee	114	184
	6,312	4,202
Fee expense		
- Custody fee	(41)	(36)
Net fee income	**6,271**	4,166

22. Brokerage and other income

	2019	2018
Brokerage income	1,394	1,246
Foreign exchange gain	709	793
Other income	289	293
	2,392	2,332

23. Net interest income

	2019	2018
Interest income from:		
Placements, call deposits and reverse repos	2,680	2,157
Margin lending	152	131
	2,832	2,288
Interest expense on:		
Bank borrowings and repos	(1,427)	(1,280)
Net interest income	**1,405**	1,008

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24. Staff cost

	2019	2018
Salaries, allowances and bonus	5,239	3,953
Social security costs	204	177
Other costs	208	137
	5,651	4,267

As at 31 December 2019, the Group employed 72 (2018: 66) Bahrainis and 38 (2018: 37) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 204 (2018: BD 177).

25. Other operating expenses

	2019	2018
Occupancy expenses	141	272
Communication expenses	81	67
Marketing expenses	189	160
Professional fees	208	182
Other operating expenses	1,703	1,384
Depreciation	498	318
	2,820	2,383

26. Related party transactions

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

	2019	2018
Fee and commission income	**1,035**	624
Fee receivable	**321**	244
Investments at fair value through profit or loss:		
-Khaleej equity fund	**1,195**	1,136
-SICO Kingdom equity fund	**2,539**	2,459
-Bahrain liquidity fund company	**1,150**	1,237

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

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26. Related party transactions (continued)

Transactions with shareholders

The Group obtained short-term borrowings from its bank shareholders for a total of BD 3,770 (2018: BD 1,885). 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.

	2019	2018
Fee and commission income	**988**	659
Fee receivable	**293**	236
Funds under management	**53,847**	65,356
Placements	**9,064**	3,019
Borrowings	**3,770**	1,885

Key Management Personnel

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

Compensation to key management personnel is as follows:

	2019	2018
Salaries and short term benefits	1,434	1,071
Post-employment benefits	62	53
Equity compensation benefits	255	113
	1,751	1,237

Attendance fees and remuneration to Board members and other related expenses amount to BD 251 (2018: BD 186)

27. Employee Share Ownership Plan

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

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

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

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27. Employee Share Ownership Plan (continued)

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

The Group has recognized an employee liability of BD 2,171 (2018: BD 1,713) on the shares granted until date. This liability has been determined on the value of the Group's net assets as at 31 December 2019 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

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

	2019 **No. of shares issued**	2018 No. of shares issued
As at 1 January	15,987,741	15,987,741
Shares added during the year	4,284,877	-
	20,272,618	15,987,741

28. 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.

	2019	2018
Investments in funds		
Khaleej equity fund	1,195	1,136
SICO Kingdom Equity fund	2,539	2,459
Bahrain liquidity fund	1,150	1,237
	4,884	4,832

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29. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in Khaleej Equity Fund a minimum of 10% of the net assets value at any time throughout its life. The Group has other investment commitments of Nil (2018: BD 106) and margin lending drawdown commitments of BD 3,279 (2018: BD 2,107).

Funds under management (net asset value)	2019	2018
Khaleej Equity Fund	17,615	15,270
SICO Gulf Equity Fund	2,378	307
Bahrain Liquidity Fund	39,513	42,469
SICO Kingdom Equity Fund	8,221	7,661
SICO Fixed Income Fund	4,011	3,749
Discretionary portfolio management accounts	736,994	629,631

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

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

	2019	2018
Assets under custody	**2,800,744**	2,334,070

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2019, assets amounting to BD 2,800,744 (2018: BD 2,334,070) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 490,695 (2018: BD 354,487) were registered in the name of the Bank.

Legal claims

In 2013, the Group’s subsidiary “Securities and Investment Company (UAE) LLC” (the “Subsidiary”) now renamed as SICO Financial Brokerage, was served notice of legal action brought against it jointly with a third party by one of the Subsidiary’s old customers.

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

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

On the 30th of April 2019, the first instance court issued its judgment and all demands against SICO and its employees have been rejected in the first instance judgement. The first defendant, who is un-related to SICO, is obliged to pay damages to the plaintiff and which has been appealed by the first defendant. At this stage of the action, the Group believes there is no need for a provision to be created in these consolidated financial statements.

Contingencies

The group has letters of guarantee in the amount of BD 5,646 (31 December 2018: BD 5,133) in favor of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

30. Net open foreign currency positions

	2019	2018
QAR	16	(85)
US Dollar	37,250	40,766
JOD	51	15
KWD	318	1,097
SAR	6,660	9,698
GBP	1	1
AED	8,560	6,321
OMR	557	(125)
EUR	4	-
EGP	(4)	3

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

31. Earnings per share

	2019	2018
Profit for the year	**6,034**	3,701
Weighted average number of equity shares (in 000's)	428,487	428,487
Less: Employee share incentive scheme shares	(20,272)	(15,988)
Less: Treasury shares	(38,564)	(42,848)
Weighted average number of shares as at 31 December	369,651	369,651
Earnings per share (in fils)	**16.32**	10.01

The Bank do not have any dilutive instruments.

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32. Maturity profile of assets and liabilities

The table below shows the maturity profile of the Group’s assets and liabilities on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively.

31 December 2019	**Less than 1 year**	**1 to 5 Years**	**Above 5 Years**	**Total**
Assets				
Cash and bank balances	56,555	-	-	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	51,106	-	-	51,106
Investments at fair value through profit or loss	3,851	5,200	11,025	20,076
Investments at fair value through other comprehensive income	-	-	9,128	9,128
Investments at amortized cost	-	-	9,971	9,971
Investment property	-	-	1,915	1,915
Fees receivable	3,523	-	-	3,523
Furniture, equipment and intangibles	280	1,029	362	1,671
Other assets	8,576	-	-	8,576
Total assets	**128,152**	**6,229**	**32,401**	**166,782**
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	41,340	-	-	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	**107,418**	**-**	**-**	**107,418**
Liquidity gap	**20,734**	**6,229**	**32,401**	**59,364**
Cumulative liquidity gap	**20,734**	**26,963**	**59,364**	**59,364**

31 December 2018	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	35,484	-	-	35,484
Treasury bills	10,416	-	-	10,416
Securities bought under repurchase agreements	41,927	-	-	41,927
Investments at fair value through profit or loss	9,600	3,698	10,346	23,644
Investments at fair value through other comprehensive income	-	-	6,214	6,214
Investments at amortized cost	-	-	9,990	9,990
Investment property	-	-	1,955	1,955
Fees receivable	1,252	-	-	1,252
Furniture, equipment and intangibles	3	296	941	1,240
Other assets	3,142	-	-	3,142
Total assets	101,824	3,994	29,446	135,264
Liabilities				
Short-term bank borrowings	3,385	-	-	3,385
Securities sold under repurchase agreements	42,573	-	-	42,573
Customer accounts	23,135	-	-	23,135
Other liabilities	3,805	-	-	3,805
Payable to other unit holders in consolidated funds	6,701	-	-	6,701
Total liabilities	79,599	-	-	79,599
Liquidity gap	22,225	3,994	29,446	55,665
Cumulative liquidity gap	22,225	26,219	55,665	55,665

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33. Accounting classification and fair values

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

31 December 2019	Fair value through profit or loss	Fair value through other comprehensive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	56,555	56,555
Treasury bills	-	-	-	4,261	4,261
Securities bought under repurchase agreements	-	-	-	51,106	51,106
Investments at fair value through profit or loss	20,076	-	-	-	20,076
Investments at fair value through other comprehensive income	-	9,128	-	-	9,128
Investments at amortized cost	-	-	-	9,971	9,971
Investment property	-	-	-	1,915	1,915
Fees receivable	-	-	-	3,523	3,523
Other assets	-	-	-	8,340	8,340
	20,076	**9,128**	**-**	**135,671**	**164,875**
Short-term bank borrowings	-	-	-	3,770	3,770
Securities sold under repurchase agreements	-	-	-	55,548	55,548
Customer accounts	-	-	-	41,340	41,340
Other liabilities	-	-	-	6,138	6,138
Payable to other unit holders in consolidated funds	-	-	622	-	622
	-	**-**	**622**	**106,796**	**107,418**

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33. Accounting classification and fair values (continued)

31 December 2018	Fair value through profit or loss	Fair value through other comprehensive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	35,484	35,484
Treasury bills	-	-	-	10,416	10,416
Securities bought under repurchase agreements	-	-	-	41,927	41,927
Investments at fair value through profit or loss	23,644	-	-	-	23,644
Investments at fair value through other comprehensive income	-	6,214	-	-	6,214
Investments at amortized cost	-	-	-	9,990	9,990
Investment property	-	-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	2,883	2,883
	23,644	6,214	-	103,907	133,765
Short-term bank borrowings	-	-	-	3,385	3,385
Securities sold under repurchase agreements	-	-	-	42,573	42,573
Customer accounts	-	-	-	23,135	23,135
Other liabilities	-	-	-	3,805	3,805
Payable to other unit holders in consolidated funds	-	-	6,701	-	6,701
	-	-	6,701	72,898	79,599

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

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33. Accounting classification and fair values (continued)

(ii) Fair value hierarchy

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

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

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

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

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

As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Fair value through other comprehensive income investments:				
- Equities	4,959	-	-	4,959
- Debt securities	4,169	-	-	4,169
Fair value through profit or loss:				
- Equities	2,230	-	-	2,230
- Debt securities	9,564	-	-	9,564
- Funds	7,450	-	832	8,282
Investments at amortized cost:				
- Debt securities	11,477	-	-	11,477
Liabilities				
- Payable to other unit holders in consolidated funds	(622)	-	-	(622)
	39,227	**-**	**832**	**40,059**

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	3,074	-	64	3,138
- Debt securities	1,940	1,136	-	3,076
Fair value through profit or loss:				
- Equity	8,916	-	-	8,916
- Debt securities	6,495	151	-	6,646
- Funds	6,041	1,131	910	8,082
Investments at amortized cost:				
- Debt securities	9,935	-	-	9,935
Liabilities				
- Payable to other unit holders in consolidated funds	(6,701)	-	-	(6,701)
	29,700	2,418	974	33,092

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

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

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

	Level 3 2019	Level 3 2018
At 1 January	974	1,280
Total gain:		
- in income statement	(69)	(76)
- in other comprehensive income	-	(230)
Purchases	-	-
Settlements	(73)	-
Transfers into / (out) of level 3		-
At 31 December	**832**	974

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

33. Accounting classification and fair values (continued)

(iii) Valuation technique and significant unobservable input

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

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

34. Comparatives

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