

**SICO BSC (c)**  
**CONSOLIDATED FINANCIAL**  
**STATEMENTS**

**31 DECEMBER 2018**

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2018**

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## **CHAIRMAN'S REPORT**

### **For the year ended 31 December 2018**

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It is with tremendous pride and honor that I present to you SICO's annual report and financial statements for the year ending 31 December 2018. On behalf of the Board of Directors of this esteemed organization, I would like to express the strong sense of pride we feel as we share the details of SICO's financial and operational results on the forthcoming pages of this report.

Beyond the commendable numbers and landmark achievements of 2018, I am also deeply proud of the position that SICO has attained over the years as a leading capital markets player both locally and regionally. In our home market of Bahrain, we have not only consolidated our position as the leading investment bank and brokerage house in the Kingdom but we are also increasingly regarded as the partner of choice for sophisticated capital markets transactions by our clients, peers and regulators.

One year ago today as we developed our business plan and strategy for 2018 we braced ourselves for a turbulent year ahead. With the geopolitical uncertainty that has become a given in our part of the world and oil prices barely inching above US\$ 60, the region-wide fiscal and monetary challenges were clear. We were very cognizant of the fact that we would have to raise the bar in order to keep growing our core business and capturing new opportunities for both our asset management and investment banking lines of business.

Today I'm happy to report that despite the significant hurdles 2018 has proven to be a good year for SICO. All our business lines have outperformed with healthy revenue and cash flow. From brokerage to asset management, investment banking and treasury, SICO continues to demonstrate its ability to turn market opportunities into avenues for growth.

With a 12% increase in net profits to BD 3.7 million from BD 3.3 million and 20% growth in revenue y-o-y, we have delivered a solid set of results for the year and proven our exceptional ability to outperform the market despite mixed performances on regional exchanges and operational headwinds. Almost all business lines have reported higher revenue for the year resulting in a total net operating income of BD 10.7 million in 2018, up from BD 9.3 million in 2017 with basic earnings per share standing at 10.01 Bahraini fils compared to 8.01 fils in 2017.

SICO has increased its total assets under management (AUM) by 50% Y-O-Y to BD 699.1 million (US\$1.9 billion) up from BD 465.3 million (US\$ 1.2 billion) at year end 2017 with all our funds topping the league tables and distributing dividends during the year, an achievement that is not easy to come by given the current climate. Our remarkable AUM growth trajectory is testament to a prudent investment approach and a forward-looking strategy that has grown investor confidence in our institution's ability to generate risk-adjusted returns particularly during times of volatility.

Our achievements in 2018 were many but a number of operational milestones stand out in particular as we reflect on an eventful year. High atop the list is the BHD 11.880 million IPO of APM Terminals Bahrain which currently stands as the most successful public offering on in Bahrain in the past decade. SICO was exceptionally proud to have played the role of lead manager, underwriter, market maker and participating broker for an offering that attracted interest and attention from a broad base of investors. The results of this IPO were extremely encouraging as they were indicative of the degree of faith that the market has in Bahrain and in SICO. In line with our strategy to opportunistically explore regional expansion in areas where we have excelled locally, SICO has been accredited as a market maker and liquidity provider on both the Dubai Financial Market (DFM) and the Abu Dhabi Exchange (ADX) making us the first non-UAE institution to receive the accreditation.

While all of these developments are indeed encouraging signs of more good things to come, we must once again be cautious about the year ahead which promises to be a mixed bag of challenges and opportunities. Volatility remains which is why governments in the region are staying the course with their reform programs and efforts to diversify their economies away from oil.

I think we've seen good progress in Bahrain. Under the leadership of His Royal Highness, Prince Salman bin Hamad Al Khalifa, Crown Prince of Bahrain and the Chairman of the Bahrain Economic Development Board (EDB), FDI has hit record highs with the aggregate value of investment projects supported by the EDB more than doubling YoY in 2018. We've also been heartened by announcements like Amazon Web Services' (AWS) plan to open a local region in the Middle East based in Bahrain in the first half of 2019 which will no doubt attract new investment and further enhance an innovation and entrepreneurship ecosystem that is already being championed by the government.

On the back of positive announcements such as these as well as the Gulf aid package that was announced last summer, sentiment in Bahrain has improved but we must continue to invest in our infrastructure and defensive non-oil sectors that can grow the economy and spur job creation. In the short-term, the impact of some of these reform measures such as the implementation of VAT in 2019 will present uncertainties but in the long-term VAT will bolster Bahrain's non oil revenues and help the country achieve a balanced budget by 2022.

Regardless of the ups and downs that the year ahead may bring we look forward to continuing the journey with all of our internal and external partners and stakeholders. I have the utmost confidence in each and every member of the team. They have proven time and again that they have the ability to manage risk and capture opportunity sustainably and responsibly.

On behalf of SICO's Board of Directors I would like to take this opportunity to thank the Central Bank of Bahrain and the Bahrain Bourse for their strong leadership and steadfast support of our vision. The entire team at SICO would also like to offer its best wishes and sincere gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership and support of Bahrain's financial sector.

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line and a small flourish.

Abdulla bin Khalifa Al Khalifa  
Chairman of the Board



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Audit  
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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 2018, 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 2018, 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 2018. 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 20% 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.	<p><i>Our procedures included:</i></p> <ul style="list-style-type: none"><li>• Agreeing the valuation of investments in the portfolio to externally quoted prices;</li><li>• Agreeing investments holdings in the portfolio to independently received third party confirmations; and</li><li>• Assessing the adequacy of Group's disclosures by reference to the requirements of relevant accounting standards.</li></ul>



## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

### *Other information*

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the *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.



*INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)*

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2018 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 Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the board of directors' report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the 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 Manjia.

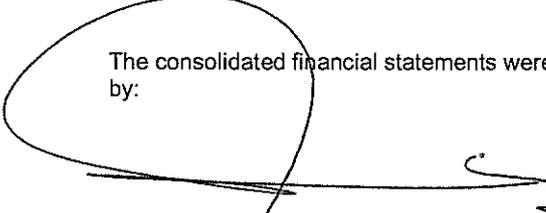
KPMG Fakhro  
Partner registration number 213  
4 March 2019

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2018**

Bahraini Dinars '000

	Note	2018	2017
<b>Assets</b>			
Cash and bank balances	7a	34,467	35,695
Treasury bills	7a	10,416	1,495
Placements with banks		-	4,974
Securities bought under repurchase agreements	7b	41,927	31,633
Investments at fair value through profit or loss	8	23,644	29,496
Investments at fair value through other comprehensive income	9	6,214	6,158
Investments at amortized cost		9,990	10,008
Investment in properties	10	1,955	-
Fees receivable	11	1,252	875
Other assets	12	4,159	9,589
Furniture, equipment and intangibles	13	1,240	1,420
<b>Total assets</b>		<b>135,264</b>	<b>131,343</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Short-term bank borrowings	14a	3,385	5,655
Securities sold under repurchase agreements	14b	42,573	32,388
Customer accounts	15	23,135	26,718
Other liabilities	16	3,805	4,173
Payable to other unit holders in consolidated funds	6	6,701	2,651
<b>Total liabilities</b>		<b>79,599</b>	<b>71,585</b>
<b>Equity</b>			
Share capital	17	42,849	42,849
Shares under employee share incentive scheme		(1,599)	(1,599)
Treasury shares	17	(5,913)	-
Statutory reserve	18	7,362	6,992
General reserve	19	3,217	3,217
Investments fair value reserve		133	307
Retained earnings		9,616	7,992
<b>Total equity</b>		<b>55,665</b>	<b>59,758</b>
<b>Total liabilities and equity</b>		<b>135,264</b>	<b>131,343</b>

The consolidated financial statements were approved by the board of directors on 4 March 2019 and signed on its behalf by:



Abdulla Bin Khalifa Al Khalifa  
Chairman



Hussain Al Hussaini  
Vice Chairman



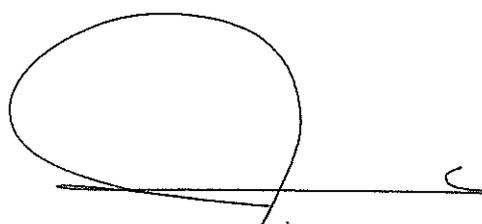
Najla M. Al Shirawi  
Chief Executive Officer

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**For the year ended 31 December 2018**

Bahraini Dinars '000

	Note	2018	2017
Net investment income	20	3,050	3,014
Net fee income	21	4,166	3,164
Brokerage and other income	22	2,332	2,072
Other interest income	23	2,288	1,743
Rental income from investment properties		188	-
<b>Total income</b>		<b>12,024</b>	<b>9,993</b>
Staff and related expenses	24	(4,267)	(3,934)
Interest expense	23	(1,280)	(715)
Other operating expenses	25	(2,383)	(1,904)
Expected Credit Loss		(20)	(4)
Share of profit of non-controlling unit holders in consolidated funds	6	(373)	(130)
<b>Profit for the year</b>		<b>3,701</b>	<b>3,306</b>
<b>Basic and diluted earnings per share (fils)</b>	31	<b>10.01</b>	<b>8.01</b>



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.

	<b>2018</b>	2017
<b>Profit for the year</b>	<b>3,701</b>	3,306
<b>Other comprehensive income</b>		
<b>Items that are or may be reclassified to profit or loss in subsequent periods:</b>		
- Net change in fair value of FVTOCI debt instruments	15	(30)
- Net amount transferred to profit or loss on sale of debt instruments	5	-
<b>Items that will not be reclassified to profit or loss in subsequent periods:</b>		
- Net change in fair value of FVTOCI equity instruments	57	567
<b>Total other comprehensive income for the year</b>	<b>77</b>	537
<b>Total comprehensive income for the year</b>	<b>3,778</b>	3,843

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 2018**

Bahraini Dinars '000

2018

	Share capital	Shares under employee share incentive scheme	Treasury shares	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
<b>Comprehensive income:</b>								
<b>Profit for the year</b>	-	-	-	-	-	-	3,701	3,701
<b>Other comprehensive income:</b>								
Net change in fair value of FVTOCI instruments	-	-	-	-	-	72	-	72
Net amount transferred to profit or loss on sale of FVTOCI debt instruments	-	-	-	-	-	5	-	5
Net amount transferred to retained earnings on sale of FVTOCI equity instruments	-	-	-	-	-	(251)	251	-
<b>Total other comprehensive income</b>	-	-	-	-	-	(174)	251	77
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(174)	3,952	3,778
- Transfer to charitable donation reserve	-	-	-	-	-	-	(30)	(30)
<b>Transaction with owners recognized directly in equity:</b>								
- Transfer to statutory reserve	-	-	-	370	-	-	(370)	-
- Dividends declared for 2017	-	-	-	-	-	-	(1,928)	(1,928)
- Treasury shares purchased	-	-	(5,913)	-	-	-	-	(5,913)
<b>Balance at 31 December 2018</b>	<b>42,849</b>	<b>(1,599)</b>	<b>(5,913)</b>	<b>7,362</b>	<b>3,217</b>	<b>133</b>	<b>9,616</b>	<b>55,665</b>

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

SICO BSC (c)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2018 (continued)**

Bahraini Dinars '000

2017

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

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

Bahraini Dinars '000

	Note	2018	2017
<b>Operating activities</b>			
Net interest received		2,428	2,480
Net decrease / (increase) in placements with banks		4,974	(4,974)
Net sale / (purchase) of investments at fair value through profit or loss		6,450	(499)
Net (purchase) / sale of investments at fair value through other comprehensive income		(61)	(1,365)
Net sale of investments at amortized cost		18	(1,107)
Purchase of investment properties		(1,955)	-
Net decrease in customer accounts		(3,583)	(16,276)
Securities bought under repurchase agreements		(10,294)	(14,664)
Securities sold under repurchase agreements		10,185	(1,966)
Dividends received		1,050	567
Rental income received		188	-
Movement in brokerage accounts and other receivables		11,442	1,630
Movement in other liabilities		(496)	175
Payments for staff and related expenses		(4,139)	(3,839)
Payments for other operating expenses		(1,939)	(1,340)
<b>Net cash from / (used in) operating activities</b>		<b>14,268</b>	<b>(41,178)</b>
<b>Investing activities</b>			
Net capital expenditure on furniture and equipment		(138)	(149)
<b>Net cash used in investing activities</b>		<b>(138)</b>	<b>(149)</b>
<b>Financing activities</b>			
Net decrease in short-term bank borrowings		(2,270)	754
Treasury shares purchased		(5,913)	-
Dividend paid		(1,928)	(2,142)
Contribution by other unit holders in consolidated fund		236	-
Distribution to other unit holders in consolidated fund		3,441	(282)
<b>Net cash used in financing activities</b>		<b>(6,434)</b>	<b>(1,670)</b>
<b>Net increase / (decrease) in cash and cash equivalents during the year</b>		<b>7,696</b>	<b>(42,997)</b>
Cash and cash equivalents at the beginning of the year		37,190	80,187
<b>Cash and cash equivalents at the end of the year*</b>	7	<b>44,886</b>	<b>37,190</b>

- Excludes ECL of BD 3 (2017: Nil)

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 2018**

The Group has adopted IFRS 15 from 1 January 2018. The Group had early adopted IFRS 9 from 1 January 2017. A number of other new standards, amendments and interpretations are also effective from 1 January 2018 but they do not have a material effect on the Group’s financial statements.

**IFRS 15 - Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group initially applied IFRS 15 on 1 January 2018, the group has adopted IFRS 15 using the cumulative method. The timing or amount of the Group’s fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. Due to transition options chosen by the group in applying this standard, comparative information has not been restated.

**(e) New Standards, amendments and interpretations issued but not yet effective****IFRS 16 – Leases**

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

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

The Group plans to apply IFRS 16 on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019.

The adoption of the standard will not have a significant impact on the financial position of the Group.

**(f) Early adoption of standards**

The Group did not early adopt new or amended standards in 2018.

**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 15.

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

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

**(ii) Non-controlling interests (NCI)**

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

**(iii) Loss of control**

When the Group loses control over a subsidiary, it 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.

**3 Significant accounting policies (continued)****(b) Foreign currencies****(i) Functional and presentation currency**

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

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

**(ii) Transactions and balances**

Transactions in foreign currencies are converted to Bahraini Dinars at rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Bahraini Dinars at the market rates of exchange prevailing at the balance sheet date. 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 management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

**Determination of control over investees – Investment funds**

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

**(d) Investment securities****(i) Classification**

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

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

**(ii) Recognition and de-recognition**

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

**3 Significant accounting policies (continued)****(iii) Measurement**

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

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

**(iv) Fair value measurement**

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

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

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

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

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

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

**(v) Impairment****Financial assets**

The Group measures loss allowances for its trade and other receivables at an amount equal to lifetime ECL.

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

**Stage 1: 12 months ECL**

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.

**3 Significant accounting policies (continued)****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.

**(e) De-recognition of financial liabilities**

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

**(f) Cash and cash equivalents**

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, placements with banks 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.

**(g) Amortized cost measurement**

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

**(h) Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties) 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 profit or loss.

**(h) Furniture, equipment and core banking software**

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

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

Core banking software	10 years
Furniture and equipment	3-5 years

**(i) Bank borrowings**

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

**(h) 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.

**(i) 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.

**(j) Investment Properties**

Investment property 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.

**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.

**(k) 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.

**3 Significant accounting policies (continued)****(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.

**(l) 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.

**(m) 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.

**(n) 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.

**(o) 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.

**(p) 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.

**(q) 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.

**(r) Fee and commission*****Policy applicable from 1 January 2018***

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 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

## 3 Significant accounting policies (continued)

## (u) Fee and commission (continued)

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.

*Policy applicable before 1 January 2018*

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

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

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

**(s) 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.

**(t) Dividend income**

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

**(u) Brokerage and other income***Policy applicable from 1 January 2018*

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. As the customer obtains control of the benefits of the services rendered.

*Policy applicable before 1 January 2018*

Brokerage and other income consist of brokerage income, other income and foreign exchange income. This income is recognized when the related services are performed.

**(v) 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, corporate finance, 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.

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**4 Financial risk management (continued)****Risk management framework**

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

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

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

**(b) Credit risk**

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

**Investments in debt securities**

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

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

**Management of credit risk**

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

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

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

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

## 4 Financial risk management (continued)

**Exposure to credit risk**

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

	2018	2017
Cash and Bank	34,467	35,695
Treasury bills	10,416	1,495
Placements with banks	-	4,974
Securities bought under repurchase agreements	41,927	31,633
FVTPL debt securities	6,647	12,682
FVTOCI debt securities	3,076	2,201
Fee receivable	1,252	875
Other receivables	3,900	9,191
	101,685	98,746

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

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

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

**Risk Exposure Concentration**

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

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

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2018 was BD 21,436 (2017: BD 12,451), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income".

## 4 Financial risk management (continued)

**Geographical Exposure Distribution**

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

<b>2018</b>	<b>Middle East &amp; Asia countries</b>	<b>North America</b>	<b>Europe</b>	<b>Total</b>
<b>Assets</b>				
Cash and bank balances	34,308	152	7	34,467
Treasury bills	10,416	-	-	10,416
Placements with banks	-	-	-	-
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 in Properties	-	1,955	-	1,955
Fees receivable	1,242	1	9	1,252
Other assets	5,385	12	2	5,399
<b>Total assets</b>	<b>126,208</b>	<b>4,225</b>	<b>4,831</b>	<b>135,264</b>
<b>Liabilities</b>				
Short-term bank borrowings	3,385	-	-	3,385
Securities bought 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 unit holders	6,701	-	-	6,701
<b>Total liabilities</b>	<b>69,869</b>	<b>93</b>	<b>9,637</b>	<b>79,599</b>

<b>2017</b>	<b>Middle East &amp; Asia countries</b>	<b>North America</b>	<b>Europe</b>	<b>Total</b>
<b>Assets</b>				
Cash and bank balances	35,663	-	32	35,695
Treasury bills	1,495	-	-	1,495
Placements with banks	4,974	-	-	4,974
Securities bought under repurchase agreements	29,505	-	2,128	31,633
Investments at fair value through profit or loss	22,118	1,382	5,996	29,496
Investments at fair value through other comprehensive income	6,158	-	-	6,158
Investments at amortized cost	10,008	-	-	10,008
Fees receivable	866	-	9	875
Other assets	11,006	-	3	11,009
<b>Total assets</b>	<b>121,793</b>	<b>1,382</b>	<b>8,168</b>	<b>131,343</b>
<b>Liabilities</b>				
Short-term bank borrowings	5,655	-	-	5,655
Securities sold under repurchase agreements	18,835	-	13,553	32,388
Customer accounts	25,808	247	663	26,718
Other liabilities	4,157	-	16	4,173
Payable to unit holders	2,651	-	-	2,651
<b>Total liabilities</b>	<b>57,106</b>	<b>247</b>	<b>14,232</b>	<b>71,585</b>

## 4 Financial risk management (continued)

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

	Financial services	Others	Total
<b>2018</b>			
Total assets	74,621	60,643	<b>135,264</b>
Total liabilities	56,419	23,180	<b>79,599</b>
<b>2017</b>			
Total assets	92,880	38,463	131,343
Total liabilities	52,727	18,858	71,585

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

Particulars	Gross Exposure	Expected Credit Loss	Net Exposure
Bank balances	34,470	3	34,467
Securities bought under repurchase agreements	41,936	9	41,927
Investment Securities	16,205	1	16,204
Other Assets (Margin Lending On-balance sheet)	856	2	854
Other Assets (Margin Lending Off balance sheet)	2,107	5	2,102
<b>Total</b>	<b>95,574</b>	<b>20</b>	<b>95,554</b>

Fees and commission income do not have any ECL as these are settled on next trade date.

Investments in debt securities classified as FVTOCI 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. The calculated expected credit loss of bank balances and treasury bills is not material for recognition purposes given its short-term nature.

**Settlement risk**

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

**(c) Liquidity risk**

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

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

## 4 Financial risk management (continued)

The Bank faces three types of liquidity risks as follows:

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

**Management of liquidity risk**

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

The residual contractual maturity of financial liabilities is as follows:

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

2017	Carrying value	Gross outflow	Less than 1 year
Short-term bank borrowings	5,655	5,660	5,660
Securities sold under repurchase agreements	32,388	32,460	32,460
Customer accounts	26,718	26,718	26,718
Other liabilities	4,173	4,173	4,173
Payable to unit holders in consolidated funds	2,651	2,651	2,651
	<b>71,585</b>	<b>71,662</b>	<b>71,662</b>

**(d) Market risk**

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

The Bank, as part of its normal operations, is exposed to market risk with regard to its investments in FVTPL securities and fair value through other comprehensive income securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio Guidelines set by the Investment Committee and the Group's management. Market risk management thus involves management of equity price risk, interest rate risk and foreign exchange risk.

**(i) Equity Price Risk**

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

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

## 4 Financial risk management (continued)

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

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

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

	Investments at fair value through profit or loss		Investments at fair value through other comprehensive income	
	2018	2017	2018	2017
Increase of 1%	236	295	62	62
Decrease of 1%	(236)	(295)	(62)	(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 portfolios. Some of these instruments are not listed but can be traded over the counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. Some debt instruments are unrated.

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

## 4 Financial risk management (continued)

## (d) Market risk (continued)

## (ii) Interest rate risk (continued)

**Interest rate re-pricing profile**

2018	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	14,813	14,813
Call deposits*	-	707	-	-	707
Treasury bills	-	10,416	-	-	10,416
Placements	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 in Properties	-	-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	4,159	4,159
Furniture, equipment and intangibles	-	-	-	1,240	1,240
<b>Total assets</b>		<b>72,682</b>	<b>19,028</b>	<b>43,554</b>	<b>135,264</b>
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 unit holders in consolidated funds	-	-	-	6,701	6,701
<b>Total liabilities</b>		<b>45,958</b>	<b>-</b>	<b>33,641</b>	<b>79,599</b>
<b>Equity</b>		<b>-</b>	<b>-</b>	<b>55,665</b>	<b>55,665</b>
<b>Total liabilities and equity</b>		<b>45,958</b>	<b>-</b>	<b>89,306</b>	<b>135,264</b>
<b>Interest rate sensitivity gap</b>		<b>26,724</b>	<b>19,028</b>	<b>(45,752)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>26,724</b>	<b>45,752</b>	<b>-</b>	<b>-</b>

## 4 Financial risk management (continued)

## (d) Market risk (continued)

## (ii) Interest rate risk (continued)

## Interest rate re-pricing profile

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

\* At 31 December 2018 the effective interest rate on Bahraini Dinar call deposits is 0.75 % (2017: 0.45%) and on USD call deposits is 0.45 % (2017: 0.15%).

\*\* At 31 December 2018 the effective interest rate of investments at amortized cost is 6.72 % (2017: 6.44%).

**(iii) Exchange risk**

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

**(e) Operational risk**

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

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**4 Financial risk management (continued)**

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

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

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

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

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

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

**(f) Capital Management**

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

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

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

## 4 Financial risk management (continued)

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

**Based on year end balances**

	<b>2018</b>	2017
<b>Risk weighted exposure</b>		
Credit risk	44,684	55,725
Market risk	26,188	30,063
Operational risk	15,101	15,288
<b>Total risk weighted assets</b>	<b>85,973</b>	101,076
Common Equity (CET 1)	54,978	59,758
Additional Tier 1	20	-
<b>Total regulatory capital</b>	<b>54,998</b>	59,758
<b>Capital adequacy ratio</b>	<b>63.97%</b>	59.12%

The capital adequacy ratio as at 31 December 2018 has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

**Capital allocation**

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

**5. Group subsidiaries and consolidated funds**

Set out below are the Group's principal subsidiaries at 31 December 2018. 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:

<b>Subsidiary</b>	<b>Percentage ownership</b>	<b>Year of incorporation /</b>	<b>Country of incorporation</b>	<b>Principal activity</b>
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 Kingdom Equity Fund	32%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
10. SICO Fixed Income Fund	65%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks.
11. SICO US Real Estate Income Fund I LP	91%	2017	Cayman Island	Investment in income generating properties in various geographies in the United States.

**6. Payable to other unit holders in consolidated funds**

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

**SICO Kingdom Equity Fund**

	<b>2018</b>	2017
Other unit holders' share	<b>68%</b>	36%
Cash and cash equivalents	394	202
Investment at fair value through profit or loss	7,295	3,107
Other liabilities	(28)	(70)
<b>Net assets</b>	<b>7,661</b>	3,239
<b>Carrying amount of payable to other unit holders – %</b>	<b>3,992</b>	<b>1,155</b>
Investment income	914	288
Profit	824	214
<b>Total comprehensive income</b>	<b>824</b>	214
<b>Profit allocated to other unit holders</b>	<b>360</b>	76
Cash flows used in operating activities	(3,407)	(202)
Cash flows from / (used in) financing activities	3,599	(437)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>192</b>	(639)

During the year 2018, consequent to a subscription by a new unit holder in the SICO Kingdom Equity Fund, there was a significant change in the unitholding of SICO in the percentage ownership in the fund. The profits of the fund has been accordingly allocated to the other unit holders and shown above on a time-proportionate basis for 2018

**SICO Fixed Income Fund**

	<b>2018</b>	2017
Other unit holders' share	<b>35%</b>	38%
Cash and cash equivalents	588	804
Investment at fair value through profit or loss	3,736	3,748
Other assets	62	60
Short-term bank borrowings	(626)	(659)
Other liabilities	(11)	(11)
<b>Net assets</b>	<b>3,749</b>	3,942
<b>Carrying amount of payable to other unit holders – %</b>	<b>1,312</b>	1,496
Investment income	138	165
Interest income	(3)	28
Profit	69	141
<b>Total comprehensive income</b>	<b>69</b>	141
<b>Profit allocated to other unit holders - %</b>	<b>24</b>	54
Cash flows from / (used in) operating activities	44	(125)
Cash flows (used in) / from financing activities	(260)	4
<b>Net decrease in cash and cash equivalents</b>	<b>(216)</b>	(121)

## 6 Payable to other unit holders in consolidated funds (continued)

## SICO US Real Estate Income Fund

	<b>2018</b>	2017
Other unit holders' share	<b>9%</b>	
Cash and cash equivalents	151	-
Investment in properties	1,955	-
Other assets	9	-
Other liabilities	(185)	-
<b>Net assets</b>	<b>1,930</b>	-
<b>Carrying amount of payable to other unit holders – %</b>	<b>174</b>	-
Rental income	188	-
Loss	(135)	-
<b>Total comprehensive income</b>	<b>(135)</b>	-
<b>Loss allocated to other unit holders - %</b>	<b>(12)</b>	-
Cash flows used in operating activities	(1,923)	-
Cash flows from financing activities	2,074	-
<b>Net increase in cash and cash equivalents</b>	<b>151</b>	-

## 7. (a) Cash and bank balances

	<b>2018</b>	2017
Cash and bank balances	14,813	16,840
Call deposits	707	261
Short-term placements	18,950	18,594
Expected credit loss	(3)	-
<b>Total</b>	<b>34,467</b>	35,695
Treasury bills	10,416	1,495
<b>Total cash and cash equivalent as per cash flow</b>	<b>44,883</b>	37,190

Cash and bank balances include bank balances amounting to BD 4,902 (2017: BD 5,058) held on behalf of discretionary customer accounts.

7. (b) Reverse repurchase agreements have been entered with clients amounting to BD 41,927 (2017: BD 31,633) for which client owned securities of BD 45,534 (2017: BD 39,103) are pledged as collateral.

## 8. Investments at fair value through profit or loss

	2018	2017
<b>Quoted equity securities – (listed)</b>		
- Consolidated funds	7,295	3,107
- Parent	1,621	2,948
<b>Funds</b>		
- Quoted	4,415	7,051
- Unquoted	3,667	3,708
<b>Quoted debt securities</b>		
- Parent	2,910	8,934
- Consolidated funds	3,585	3,516
<b>Unquoted debt securities</b>		
- Consolidated funds	151	232
	<b>23,644</b>	<b>29,496</b>

Investments at fair value through profit or loss as at 31 December 2018 include securities amounting to Nil (31 December 2017: BD 1,155), sold under agreement to repurchase (note 14 b).

## 9. Investments at fair value through other comprehensive income

	2018	2017
<b>Equity securities</b>		
- Quoted	3,074	3,662
- Unquoted	64	295
	<b>3,138</b>	<b>3,957</b>
<b>Debt securities</b>		
- Quoted	1,940	113
- Unquoted	1,136	2,088
	<b>3,076</b>	<b>2,201</b>
	<b>6,214</b>	<b>6,158</b>

## 10. Investment in properties

SICO US Real Estate Income Fund I LP (the Fund) was initially incorporated as a limited partnership by SICO on 18 January 2017 in the Cayman Islands. Operations commenced in February 2018. The Fund is managed by SICO and seeks income generating properties in various geographies in the United States. The Fund focuses on multifamily residential properties with high levels of occupancy in growing suburban markets. As of 31 December 2018, the Fund had completed the acquisition of five properties. The Fund adheres to the principles of Sharia's with oversight from a dedicated Sharia's Board and acquires properties without the use of leverage. The Fund targets a 5 year term and an investor return of 7% per annum.

## 10 Investment in properties (continued)

As of 31 December 2018, the bank has subscribed to a majority portion of the above fund and therefore, the financial positions and results of the SICO US Real Estate are consolidated with the Bank' accounts. The entire Investment in properties as shown in the statement of financial position at cost less accumulated depreciation. Since the properties were acquired during the year, the management estimates that, the fair value of the property is not significantly different from its cost. Due to this being a recent transaction, it's considered as a level 1 fair value.

The details of the investment in properties is as follows:

	Amount
<b>Cost</b>	
At 1 January 2018	-
Additions	1,985
<b>At 31 December 2018</b>	<b>1,985</b>
<b>Accumulated depreciation</b>	
At 1 January 2018	-
Depreciation for the year	(30)
<b>At 31 December 2018</b>	<b>(30)</b>
<b>Carrying amount</b>	<b>1,955</b>

## 11. Fees receivable

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

	2018	2017
Management and administration fees	852	735
Performance fee	368	109
Custody fee	32	31
	<b>1,252</b>	<b>875</b>

## 12. Other assets

	2018	2017
Receivables from clients and brokers	2,093	6,946
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	259	398
Interest receivable	570	540
Other receivables	737	1,205
	<b>4,159</b>	<b>9,589</b>

## 13. Furniture, equipment and intangibles

	Software	Furniture and Equipment & Others	Capital work in progress	2018 Total	2017 Total
<b>Cost</b>					
At 1 January	2,466	1,044	-	3,510	3,456
Additions	58	35	15	108	149
Disposals	-	(8)	-	(8)	(95)
<b>At 31 December</b>	<b>2,524</b>	<b>1,071</b>	<b>15</b>	<b>3,610</b>	3,510
<b>Depreciation</b>					
At 1 January	1,277	813	-	2,090	1,949
Charge for the year	217	71	-	288	237
Disposals	-	(8)	-	(8)	(96)
<b>At 31 December</b>	<b>1,494</b>	<b>876</b>	<b>-</b>	<b>2,370</b>	2,090
<b>Net book value at 31 December 2018</b>	<b>1,030</b>	<b>195</b>	<b>15</b>	<b>1,240</b>	-
Net book value at 31 December 2017	1,187	233	-	-	1,420
<b>Cost of fully depreciated assets in use</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,202</b>	1,203

## 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 2018	5,655
Borrowings made during the year	4,516
Borrowings settled during the year	(6,786)
<b>At 31 December 2018</b>	<b>3,385</b>

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

At 1 January 2018	32,388
Securities sold under repurchase agreements made during the year	25,608
Securities sold under repurchase agreements settled during the year	(15,423)
<b>At 31 December 2018</b>	<b>42,573</b>

The fair value of the investments at fair value through profit or loss and Investments at fair value through other comprehensive income pledged as collateral amounts to Nil (2017: BD 1,155) (refer to note 8). Additionally, repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 45,549 (2017: BD 39,103) 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**

	<b>2018</b>	2017
Accrued expenses	1,036	952
Provision for employee indemnities	653	593
Employee share incentive scheme liability	1,713	1,634
Other payables	403	994
	<b>3,805</b>	<b>4,173</b>

**17. Share capital**

	<b>2018</b>	2017
<b>Authorized share capital</b>		
1,000,000,000 (2017: 1,000,000,000) shares of 100 fils each	<b>100,000</b>	100,000

	<b>2018</b>	2017
<b>Issued and fully paid</b>		
At 1 January 2018: 428,487,741 ordinary shares of 100 fils each (2017: 428,487,741 ordinary shares of 100 fils each)	42,849	42,849
Issue of shares to employee share incentive scheme trustees during the year	-	-
As at 31 December 2018: 428,487,741 ordinary shares of 100 fils each (2017: 428,487,741 ordinary shares of 100 fils each)	<b>42,849</b>	42,849

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

Pursuant to a resolution of the extraordinary general meeting of the shareholders dated 11 December 2017, the Bank completed the repurchase of 10% of its issued and outstanding share capital. The repurchase was undertaken through an offer availed to all shareholders of the Bank at a price of BD 0.138 per share amounting to BD 5,913. The offer closed on 22 January 2018 with a total repurchase of 42,848,774 shares of SICO, representing the maximum legal limit of 10% of the Bank's issued and outstanding share capital. The repurchased shares will currently be held as treasury shares.

*Appropriations*

	<b>2018</b>	2017
Proposed dividend 8% (2017: 5%)	<b>3,085</b>	1,928

## 17. Share capital (continued)

The shareholders are:

	Nationality	2018		2017	
		Capital	% holding	Capital	% holding
Social Insurance Organization	Bahrain	15,922.5	37.16	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank (Bahrain) BSC	Bahrain	3,667	8.56	5,115	11.94
Bank of Bahrain and Kuwait BSC	Bahrain	3,390	7.91	4,125	9.63
Investcorp Bank BSC	Bahrain	2,366	5.52	3,300	7.70
Arab Banking Corporation BSC	Bahrain	2,366	5.52	3,300	7.70
Gulf Investment Corporation GSC	Kuwait	3,300	7.70	3,300	7.70
Employee Stock Ownership Plan (Volaw Trust)	Jersey	1,599	3.73	1,599	3.73
Al Salam Bank – Bahrain BSC	Bahrain	591	1.39	825	1.93
SICO BSC (c) – Treasury shares	Bahrain	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 370 (2017: BD 331).

## 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 2018, no appropriations to general reserve are recommended.

## 20. Net investment income

	2018	2017
Net gain on investments carried at fair value through profit or loss *	547	935
Loss on sale of Investments at fair value through other comprehensive income	(5)	-
Interest income from debt instruments	1,450	1,512
Dividend income	1,050	567
Other investment income	8	-
	<b>3,050</b>	<b>3,014</b>

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

	2018	2017
Realized gain / (loss) on sale	690	858
Unrealized fair value (loss) / gain	(143)	77
	<b>547</b>	<b>935</b>

## 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)

	2018	2017
<b>Fee income from trust or other fiduciary activities</b>		
- Management fee	3,099	2,537
- Performance fee	383	110
- Custody fee	426	374
- Investment banking fee	110	96
- Advisory & Underwriting fee	184	77
	<b>4,202</b>	3,194
<b>Fee expense</b>		
- Custody fee	(36)	(30)
	<b>4,166</b>	3,164

## 22. Brokerage and other income

	2018	2017
Brokerage income	1,246	1,275
Foreign exchange gain	793	661
Other income	293	136
	<b>2,332</b>	2,072

## 23. Net interest income

	2018	2017
<b>Interest income from:</b>		
Placements, call deposits and reverse repos	2,157	1,635
Margin lending	131	108
	<b>2,288</b>	1,743
<b>Interest expense on:</b>		
Bank borrowings and repos	(1,280)	(715)
	<b>1,008</b>	1,028

**24. Staff and related expenses**

	<b>2018</b>	2017
Salaries, allowances and bonus	3,953	3,655
Social security costs	177	168
Other costs	137	111
	<b>4,267</b>	<b>3,934</b>

As at 31 December 2018, the Group employed 66 (2017: 62) Bahrainis and 37 (2017: 38) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 177 (2017: BD 168).

**25. Other operating expenses**

	<b>2018</b>	2017
Occupancy expenses	272	229
Communication expenses	454	403
Marketing expenses	160	150
Professional fees	182	146
Other operating expenses	997	739
Depreciation	318	237
	<b>2,383</b>	<b>1,904</b>

**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 also has investments in certain funds.

	<b>2018</b>	2017
Fee and commission income	<b>624</b>	351
Fee receivable	<b>244</b>	106
Investments at fair value through profit or loss:		
-Khaleej equity fund	<b>1,136</b>	1,055
-Bahrain liquidity fund company	<b>1,237</b>	1,203

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

## 26. Related party transactions (continued)

**Transactions with shareholders**

The Group obtained short term borrowings from its bank shareholders for a total of BD 1,885 (2017: BD 5,655). 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.

	2018	2017
Fee and commission income	659	495
Fee receivable	236	107
Funds under management	65,356	56,362
Placements	3,019	5,199
Borrowings	1,885	5,655

**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:

	2018	2017
Salaries and short term benefits	1,071	1,019
Post-employment benefits	53	45
Equity compensation benefits	113	94
	<b>1,237</b>	<b>1,158</b>

Attendance fees and remuneration paid to Board members and other related expenses amount to BD 186 (2017: BD 167).

**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.

## 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 1,713 (2017: BD 1,634) on the shares granted till date. This liability has been determined on the value of the Group's net assets as at 31 December 2018 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

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

	<b>2018</b>	2017
	<b>No. of shares issued</b>	No. of shares issued
As at 1 January	15,987,741	15,987,741
Shares issued during the year *	-	-
	<b>15,987,741</b>	<b>15,987,741</b>

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

## 28. Involvement in unconsolidated structured entities

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

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.

	<b>2018</b>	2017
<b>Investments in funds</b>		
Khaleej equity fund	1,136	1,055
Bahrain liquidity fund	1,237	1,203
	<b>2,373</b>	<b>2,258</b>

**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 BD 106 (2017: BD 106) and margin lending drawdown commitments of BD 2,107 (2017: BD 3,124).

**Funds under management (net asset value)**

	<b>2018</b>	<b>2017</b>
Khaleej Equity Fund	15,270	16,114
SICO Gulf Equity Fund	307	1,506
Bahrain Liquidity Fund	42,469	41,298
SICO Kingdom Equity Fund	7,661	3,239
SICO Fixed Income Fund	3,749	3,941
Discretionary portfolio management accounts	629,631	399,268

*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.

	<b>2018</b>	<b>2017</b>
<b>Assets under custody</b>	<b>2,334,070</b>	<b>2,152,893</b>

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2018, assets amounting to BD 2,334,070 (2017: BD 2,152,893) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 354,487 (2017: BD 294,024) were registered in the name of the Bank.

**Legal claims**

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

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

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

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

Claims against the Bank amounting to BD 26 not acknowledged as debts, represents labour cases filed against the Bank. No provision in respect of the given case is considered necessary.

## 29. Contingencies, commitments and memorandum accounts (continued)

**Contingencies**

The Company has letters of guarantee in the amount of BD 5,133 (31 December 2017: 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. Significant net open foreign currency positions**

	<b>2018</b>	2017
QAR	(85)	418
US Dollar	40,766	46,106
JOD	15	4
KWD	1,097	637
SAR	9,698	8,852
GBP	1	16
AED	6,321	10,892
OMR	(125)	33
EUR	-	8
EGP	3	344

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

**31. Basic earnings per share**

	<b>2018</b>	2017
Profit for the year	<b>3,701</b>	3,306
Weighted average number of equity shares (in 000's)	428,487	428,487
Less: Shares issued for employee share incentive scheme	(15,988)	(15,988)
Less: 10% Treasury shares	(42,848)	-
Weighted average number of shares as at 31 December	369,651	412,499
Earnings per share (in fils)	<b>10.01</b>	8.01

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

## 32. Maturity profile of assets and liabilities

31 December 2018	Less than 1 year	1 to 5 Years	Above 5 Years	Total
<b>Assets</b>				
Cash and bank balances	34,467	-	-	34,467
Treasury bills	10,416	-	-	10,416
Placements with banks	-	-	-	-
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 in properties	-	-	1,955	1,955
Furniture, equipment and intangibles	3	296	941	1,240
Fees receivable	1,252	-	-	1,252
Other assets	4,159	-	-	4,159
<b>Total assets</b>	<b>101,824</b>	<b>3,994</b>	<b>29,446</b>	<b>135,264</b>
<b>Liabilities</b>				
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	6,701	-	-	6,701
<b>Total liabilities</b>	<b>79,599</b>	<b>-</b>	<b>-</b>	<b>79,599</b>
<b>Liquidity gap</b>	<b>22,225</b>	<b>3,994</b>	<b>29,446</b>	<b>55,665</b>
<b>Cumulative liquidity gap</b>	<b>22,225</b>	<b>26,219</b>	<b>55,665</b>	<b>55,665</b>

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

**33. Accounting classification and fair values**

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

**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	-	-	-	34,467	34,467
Treasury bills	-	-	-	10,416	10,416
Placements with banks	-	-	-	-	-
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 in properties	-	-	-	1,955	1,955
Fees receivable	-	-	-	1,252	1,252
Other assets	-	-	-	3,900	3,900
	<b>23,644</b>	<b>6,214</b>	-	<b>103,907</b>	<b>133,765</b>
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 unit holders in consolidated funds	-	-	6,701	-	6,701
	-	-	<b>6,701</b>	<b>72,898</b>	<b>79,599</b>

## 33. Accounting classification and fair values (continued)

31 December 2017

	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	-	-	-	35,695	35,695
Treasury bills	-	-	-	1,495	1,495
Placements with banks	-	-	-	4,974	4,974
Securities bought under repurchase agreements	-	-	-	31,633	31,633
Investments at fair value through profit or loss	29,496	-	-	-	29,496
Investments at fair value through other comprehensive income	-	6,158	-	-	6,158
Investments at amortized cost	-	-	-	10,008	10,008
Fees receivable	-	-	-	875	875
Other assets	-	-	-	9,191	9,191
	29,496	6,158	-	93,871	129,525
Short-term bank borrowings	-	-	-	5,655	5,655
Securities sold under repurchase agreements	-	-	-	32,388	32,388
Customer accounts	-	-	-	26,718	26,718
Other liabilities	-	-	-	4,173	4,173
Payable to unit holders in consolidated funds	-	-	2,651	-	2,651
	-	-	2,651	68,934	71,585

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.

## 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.

	Level 1	Level 2	Level 3	Total
<b>As at 31 December 2018</b>				
<b>Assets</b>				
Fair value through other comprehensive income investments:				
- Equities	3,074	-	64	<b>3,138</b>
- Debt securities	1,940	1,136	-	<b>3,076</b>
Fair value through profit or loss:				
- Equity	8,916	-	-	<b>8,916</b>
- Debt securities	6,495	151	-	<b>6,646</b>
- Funds	6,041	1,131	910	<b>8,082</b>
Investments at amortized cost:				
- Debt securities				
<b>Liabilities</b>				
- Payable to unit holders in consolidated funds	(6,701)	-	-	<b>(6,701)</b>
	<b>19,765</b>	<b>2,418</b>	<b>974</b>	<b>23,157</b>

	Level 1	Level 2	Level 3	Total
<b>As at 31 December 2017</b>				
<b>Assets</b>				
Fair value through other comprehensive income investments:				
- Equities	3,662	-	295	3,957
- Debt securities	113	2,088	-	2,201
Fair value through profit or loss:				
- Equity	6,055	-	-	6,055
- Debt securities	12,450	232	-	12,682
- Funds	7,444	2,330	985	10,759
Investments at amortized cost:				
- Debt securities	10,126	-	-	10,126
<b>Liabilities</b>				
- Payable to unit holders in consolidated funds	(2,651)	-	-	(2,651)
	<b>37,199</b>	<b>4,650</b>	<b>1,280</b>	<b>43,129</b>

## 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:

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

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

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
<b>Level 2</b>			
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
<b>Level 3</b>			
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.