



Transformation in a world of change  
Annual Report 2013

# TRANSFORMATION IN A WORLD OF CHANGE

---

In a period marked by global economic upheaval and financial crises, and regional socio-political tensions, SICO has transformed itself from a domestic securities house to a regional investment bank. The Bank has expanded its business activities and enhanced its support infrastructure, while pioneering numerous innovative investment banking products and services.

---

Securities & Investment Company BSC (c)

PO Box 1331  
Manama, Kingdom of Bahrain

Telephone: (+973) 17 515 000  
Facsimile: (+973) 17 514 000  
Brokerage: (+973) 17 515 200

[www.sicobahrain.com](http://www.sicobahrain.com)



**HIS ROYAL HIGHNESS  
PRINCE KHALIFA BIN  
SALMAN AL KHALIFA**

The Prime Minister of the  
Kingdom of Bahrain



**HIS MAJESTY  
KING HAMAD  
BIN ISA AL KHALIFA**

The King of the  
Kingdom of Bahrain



**HIS ROYAL HIGHNESS  
PRINCE SALMAN BIN  
HAMAD AL KHALIFA**

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

# CONTENTS

---

CORPORATE OVERVIEW .....	3
FINANCIAL HIGHLIGHTS .....	4
CHAIRMAN'S STATEMENT .....	6
BOARD OF DIRECTORS .....	8
GOVERNANCE & ORGANISATION STRUCTURE .....	10
CHIEF EXECUTIVE'S REPORT .....	13
MANAGEMENT TEAM .....	15
REVIEW OF OPERATIONS .....	16
CORPORATE SOCIAL RESPONSIBILITY .....	20
SICO RESEARCH UPDATE .....	23
SICO FUNDS UPDATE .....	24
CORPORATE GOVERNANCE REVIEW .....	26
RISK MANAGEMENT REVIEW .....	35
BASEL II PILLAR 3 PUBLIC DISCLOSURES .....	41
CONSOLIDATED FINANCIAL STATEMENTS .....	50
SICO CORPORATE DIRECTORY .....	94

# CORPORATE OVERVIEW

---

Headquartered in the Kingdom of Bahrain, and with a growing regional presence and international footprint, Securities & Investment Company (SICO) is one of the GCC's premier investment banks.

---

## PROFILE

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

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

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

## MISSION

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

## VALUES

SICO's business operations and corporate relationships, and the professional and personal conduct of our team members, are governed by the following values:

- Prudence
- Consistency
- Transparency
- Integrity
- Professionalism
- Confidentiality
- Innovation

# FINANCIAL HIGHLIGHTS

SICO posted a strong financial performance in 2013, with net profit increasing by 76 per cent to BD 5.1 million compared with BD 2.9 million the previous year; while operating income rose to BD 10.6 million from BD 7.5 million in 2012.

TOTAL REVENUE BD Million	2013	2012 (restated)
Net interest income	1.315	1.297
Net investment income	4.027	3.310
Brokerage	0.837	0.385
Asset management & other fee income	3.989	2.220
Investment banking income	0.166	0.060
Other income	0.246	0.226

## RETURN ON AVERAGE ASSETS

Annual Ratio

2009	4%
2010	5%
2011	1%
2012	3.8%
2013	5.7%

## EARNINGS PER SHARE (FILS)

Annual Ratio

2009	7
2010	8.9
2011	1.1
2012	6.71
2013	11.89

## COST-TO-INCOME

Annual Ratio

2009	50%
2010	51%
2011	86%
2012	61%
2013	51%

## RETURN ON AVERAGE EQUITY

Annual Ratio

2009	6%
2010	7%
2011	1%
2012	5.1%
2013	8.2%

## DIVIDENDS PER SHARE (FILS)

Annual Ratio

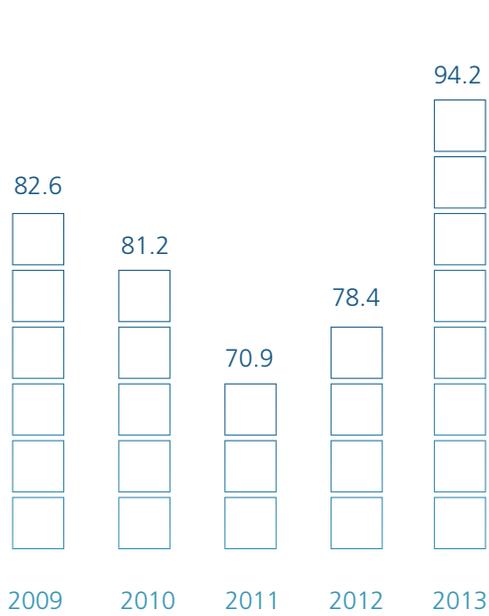
2009	5
2010	6
2011	-
2012	5
2013	7.5

## NET INTEREST MARGIN

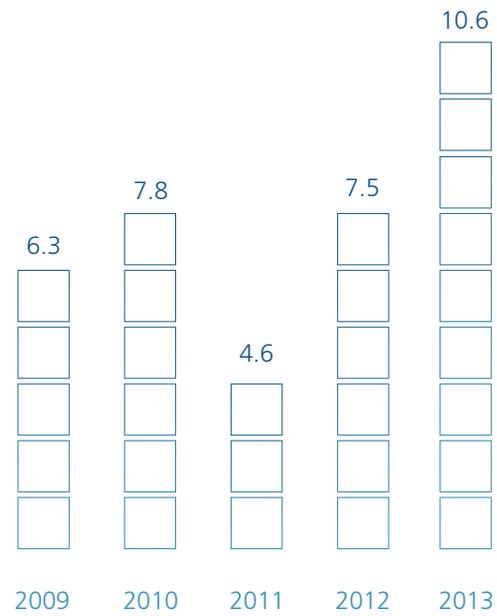
Annual Ratio

2009	7%
2010	4%
2011	3%
2012	3%
2013	3.5%

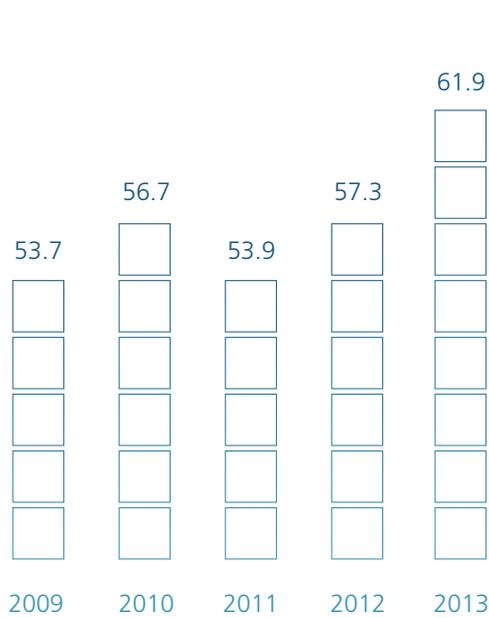
The adoption of IFRS 10 resulted in the Group consolidating SICO Kingdom Equity Fund ("SKEF") and the SICO Fixed Income Fund ("SFIF"). As a result and in accordance with the transitional requirements of IFRS 10, the comparatives have been restated.



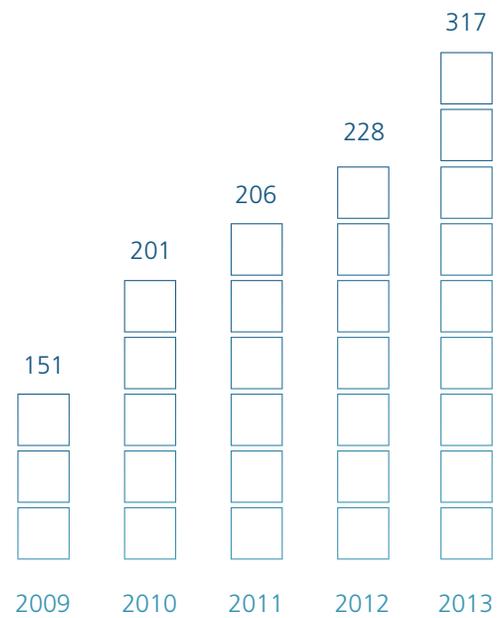
**TOTAL ASSETS** BD Million



**TOTAL REVENUE** BD Million



**SHAREHOLDERS' EQUITY** BD Million



**ASSETS UNDER MANAGEMENT** BD Million

# CHAIRMAN'S STATEMENT

---



Shaikh Abdulla bin Khalifa Al-Khalifa  
Chairman of the Board

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

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

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

Balanced and diversified revenue generators will enable SICO to better withstand market volatility.

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

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

1. Transfer of BD 542 thousand to the General Reserve;
2. Payment of a cash dividend of BD 3.2 million to shareholders, representing 7.5 per cent of paid-up capital;
3. Directors' remuneration of BD 120 thousand; and
4. BD 30 thousand to be spent on supporting charitable, cultural and educational activities.

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

During the year, we enhanced the Bank's highly-regarded independent research services with the launch of a new interactive research portal. This provides clients with convenient and flexible access to one of the most comprehensive research databases in the MENA region to complement their investment decision-making process. In addition, we significantly strengthened the

Bank's operating infrastructure through the successful testing, implementation and auditing of phase I of the new core banking system. We believe that a world-class support infrastructure is a critical success factor of SICO's vision to be a leading regional investment bank, operating at the highest levels of efficiency, effectiveness and customer service.

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

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

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

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

In October 2013, the Chief Executive Officer, Tony Mallis, announced his decision to retire from the Bank in March 2014. The Board accepted his retirement with regret, while respecting his reasons. He will remain in his present role until a successor is appointed. The timing of his decision enabled the Board to facilitate an orderly transition of leadership without undue haste or disruption to the Bank's operations.

“Looking ahead to 2014, we are optimistic on the new growth opportunities for SICO.”

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

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

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

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

**Abdulla bin Khalifa Al-Khalifa**  
Chairman of the Board

# BOARD OF DIRECTORS

---



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

---



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

---



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

---



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

---



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

---



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

---



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

---



**Meshary Al-Judaimi, CFA**  
Director - Independent and Non-executive  
Represents Gulf Investment Corporation - Kuwait

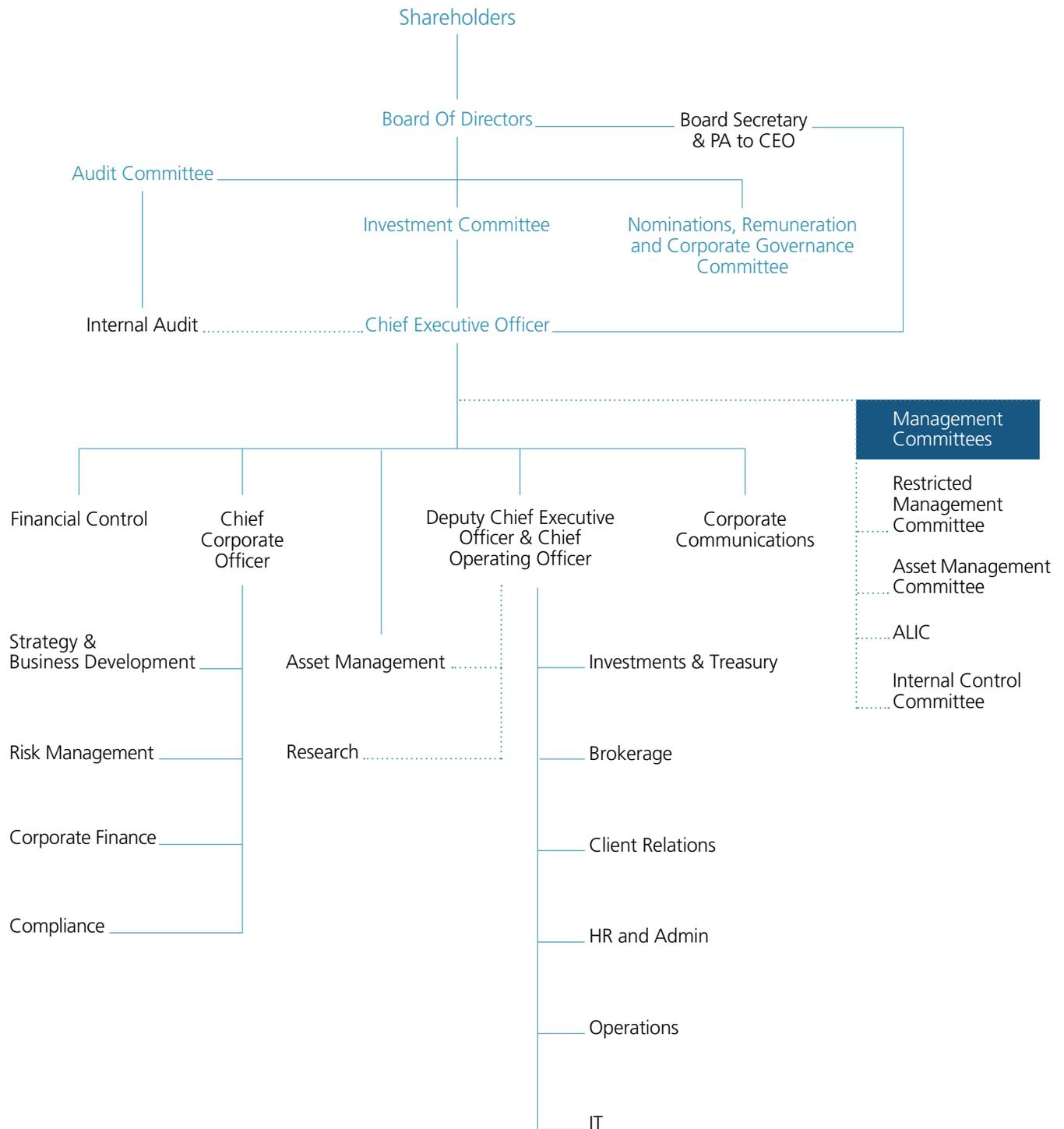
---



**Yusuf Saleh Khalaf**  
Director - Independent and Non-executive  
Represents Minority Shareholders

---

# GOVERNANCE & ORGANISATION STRUCTURE





# Transformation in a world of change

---

---

In a period marked by global economic upheaval and financial crises, and regional socio-political tensions, SICO has transformed itself from a domestic securities house to a regional investment bank. The Bank has expanded its business activities and enhanced its support infrastructure, while pioneering numerous innovative investment banking products and services.

---

# CHIEF EXECUTIVE'S REPORT

---

In many ways, 2013 was a transformational year for SICO. The best financial results since 2007 show that the Bank benefited from a more temperate capital markets environment, and is now restoring its former earnings potential. In addition, the positive strategic, business and operational initiatives during the past years have set the basis for future growth. On a more personal note, my decision to retire marks the end of one chapter in SICO's development, and the beginning of another, with the Bank now in excellent shape. I am confident that the great team which is in place, underpinned by a long-held prudent philosophy and coupled to a highly-capitalised balance sheet, will continue to energise the Bank.



**Anthony C. Mallis**  
Chief Executive Officer

---

## POSTING STRONG FINANCIAL RESULTS

I am delighted to report that SICO posted a strong financial performance for 2013. Highlights include a substantial increase in net profit – the highest for six years – which rose by 76% to BD 5.1 million from BD 2.9 million the previous year. Significantly, all core business lines contributed positively to the bottom line, with brokerage and other income growing by over 86% and net investment income rising by 22%; while assets under management increased by more than 39%. It is particularly encouraging that non-trading activities now account for 50% of net income, achieving the desired general 50:50 split between proprietary income and fee and commission based income that we enjoyed prior to the 2008 financial crisis. Interestingly, management set this as a benchmark in 2001 as a measure of success, and although not always met, it has been a positive benchmark to which the Bank has adhered.

## OPERATING IN A WORLD OF CHANGE

These financial results were achieved in what I would describe as not a particularly easy year, and which, in many ways, was a continuation of 2012, although not as challenging as 2011. The US witnessed another so-called fiscal cliff and extension of its debt ceiling, while uncertainties persisted about the tapering of the Fed's quantitative easing programme. However, there were nascent signs of a moderate revival by the world's largest economy, and a sense of things bottoming out in Europe; although China continued to see a slowdown from its previously supercharged GDP growth.

Undoubtedly, what made 2013 stand out from the previous twelve months, was the massive rally by Wall Street, which saw

the S&P 500 rising by over 30% through the year; dramatic recoveries in the Japanese and European equity stock markets; and an impressive improvement in the performance of the GCC markets. Together with the expansionary economic policy adopted by the central banks of US, Japan and Europe, proved to be a significant factor in SICO's tailwind during 2013. Looking ahead, it is possible that such policies could start to tighten up in 2014 and beyond, with oil prices entering a lower band, and therefore posing a risk to the GCC economies. Nevertheless, the region is expected to continue its robust GDP growth, with the short-term outlook remaining positive.

## EXPANDING BUSINESS ACTIVITIES

The Bank's asset management business produced another stellar performance in 2013. With the winning of new discretionary mandates, total assets under management grew to a near all-time high. SICO's equity discretionary mandates and funds continued to outperform their respective benchmarks and peers, and were accorded the highest gradings in the MENA region. In addition, a new Fixed Income Fund was launched, which invests in government and corporate fixed income, sukuk and money markets. Other business highlights include the promising performance by SICO UAE – the Bank's year-old subsidiary brokerage in Abu Dhabi; the launch of a new leading-edge research portal providing convenient and interactive access to one of the most comprehensive research databases in the MENA region; and an encouraging pick-up of corporate finance activities. In addition, through its Fixed Income Desk and a growing range of products and services, SICO has developed into a full-fledged regional fixed income player.

---

Based on its successful transformation since 2001, I am convinced that the Bank will enjoy an even more successful and exciting future in the years ahead.

---

#### STRENGTHENING THE INFRASTRUCTURE

In a significant development, SICO's new core banking system became operational during 2013. The first phase, which went live in February after successful testing, focuses initially on core business activities such as asset management, brokerage, treasury, and custody and administration. All functionalities of the system are designed to operate in a front-to-back automated process on a single integrated platform. The Bank is now embarking upon the second phase of the project's implementation, covering critical areas such as MIS; risk exposure, and online banking and trading. The new system will provide enhanced overall effectiveness, efficiency and productivity; facilitate the development of new products and expansion of business activities; and improve client service. During the year, SICO also upgraded its networking solutions infrastructure to support future growth.

#### ENHANCING THE ORGANISATION

During the year, we continued to strengthen the Bank's institutional capability with the creation of a new post of Deputy Chief Executive Officer. This has enhanced our corporate structure and succession planning, while adding depth and continuity to the management team. I would like to take this opportunity to warmly congratulate Chief Operating Officer Ms Najla Al Shirawi on her appointment as Deputy CEO. During her long tenure with SICO, Najla has made a very significant contribution to the growth of the Bank, in terms of both core business activities and support operations. Her well-deserved promotion reflects her professional attitude, disciplined intelligence, solid management skills and hands-on approach, and her loyalty to SICO; not to mention the successful and very agreeable working relationship between us for the past thirteen years.

#### PASSING ON THE BATON

As I mentioned at the beginning of this report, I have decided to retire as Chief Executive Officer of SICO in March 2014, following the appointment of my successor. After 37 years

in banking, it is time to conclude this chapter, and pursue a number of alternative options. The past thirteen years I have spent with SICO have been the most challenging and interesting of my career, and I have enjoyed every minute. So it was not an easy decision to make; however, I believe it is in the best interests of the Bank to hand over the baton to a fresh CEO, and an accomplished management team, to lead SICO through its next successful future phase. During my tenure, it has been particularly gratifying to witness SICO become a highly-respected and prominent regional investment bank and asset manager. We have not only survived but thrived in a period through which many of our regional peers found it difficult to navigate.

#### EXTENDING MY THANKS

I owe particular thanks to the two chairmen I have had the privilege to serve under during my time as CEO. Firstly, Shaikh Mohammed bin Isa Al Khalifa until October 2011; and more recently, Shaikh Abdulla bin Khalifa Al Khalifa. They have been a source of encouragement for which I am extremely grateful. I also would like to thank the board members, present and past, who supported our vision and prudent management style. It has also been an honour to lead some of the most professional and knowledgeable people in the industry – my colleagues. Time and again, they have displayed determination to adapt to a challenging and demanding environment. I would also like to thank the Bank's distinguished clientele for their enduring trust and support over the years, and their substantial contribution to the Bank's success – without them we would not have had a business. Together, you have made SICO the very special institution it is today, with a unique reputation in the region. Based on its successful transformation since 2001, I am convinced that the Bank will enjoy an even more successful and exciting future in the years ahead.

**Anthony C. Mallis**  
Chief Executive Officer

# MANAGEMENT TEAM



**1. Anthony C. Mallis**  
Chief Executive Officer

**2. Najla Al Shirawi**  
Deputy Chief Executive Officer &  
Chief Operating Officer

**3. Samir Sami**  
Chief Corporate Officer

**4. Hanan Y. Sater**  
Financial Controller

**5. Anantha Narayanan**  
Head of Internal Audit

**6. Abdulrahman Saif**  
Head of Investments & Treasury

**7. Fadhel Makhloog**  
Head of Brokerage

**8. Shakeel Sarwar**  
Head of Asset Management

**9. Samer Taleb**  
Head of Corporate Finance

**10. Nishit Lakhotia**  
Head of Research

**11. Amal Al Nasser**  
Head of Operations

**12. Nadia Albinkhalil**  
Head of HR & Administration

**13. Ismail Sabbagh**  
Head of Information Technology

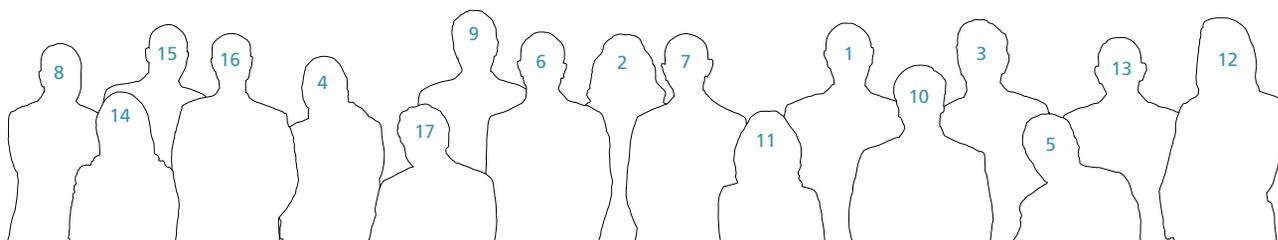
**14. Nadeen Oweis**  
Head of Corporate Communications

**15. Amr Galal**  
Head of Client Relations

## SUBSIDIARIES

**16. Mark Said**  
General Manager  
SICO Funds Services Company

**17. Bassam Khoury**  
General Manager  
SICO UAE



# REVIEW OF OPERATIONS

## BROKERAGE

### Equities

SICO's brokerage business posted a strong performance in 2013, with increased flows from clients across all product lines. These comprise direct brokerage services offered out of Bahrain and Abu Dhabi; nominee accounts across the GCC, plus Egypt and Jordan; and agency services covering GCC markets. Through its focus on serving active institutional investors with large trading books, SICO executed most of the major deals on the Bahrain Bourse during the year. Large transactions include the buy/sell of 484 million shares of Bahrain Islamic Bank, and the sale of 45 million preferred shares of Ahli United Bank. For the 15th consecutive year, SICO maintained its status as the leading broker on the Bourse, handling over 5,100 transactions involving more than one million shares with a total value of BD 130 million.

SICO UAE, the Bank's wholly-owned brokerage subsidiary based in Abu Dhabi, witnessed an active first full year of operations in 2013. Following successful testing, the Company launched its new online trading service; implemented its DVP internal operating system; and obtained approval from the Emirates Securities & Commodities Authority (ESCA) for the introduction of margin trading.

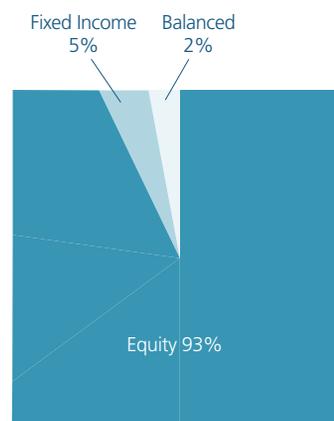
SICO's Agency Brokerage Desk, one of the very few in the GCC, continued to progress well in 2013. The Desk enables clients to trade listed investment opportunities available across the MENA region, including access to the fixed income market. During the year, brokerage operations achieved an increase in volumes, expanded its regional network of correspondent brokers, and signed up new clients. Having established a significant share of overall GCC market trades, SICO is now firmly placed among the leading brokers in the region.

### Debt

Due to the increasing number of primary issues during 2013, with regional entities increasing their exposure to fixed income, SICO's Fixed Income Desk was particularly active. SICO continues to remain active in both primary and secondary markets across the GCC, and recently expanded its coverage to include Turkey. With a growing range of products and services, SICO has developed into a full-fledged regional fixed income player. Its growing strength in this area stems from its in-house research capability, and its cost-effective, one-stop-shop service that provides end-to-end solutions for an increasing number of sukuk and fixed income investors.

## ASSET MANAGEMENT

SICO's asset management business posted another strong performance in 2013. With total assets under management rising 39% to BD 317 million at the end of the year compared with BD 228 million at the end of 2012, the Bank maintained its status as a leading institutionally-focused GCC public markets asset manager.

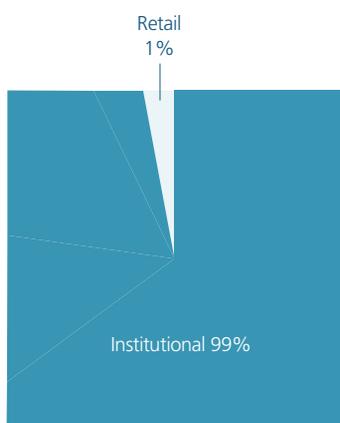


## AUM BY ASSET CLASS

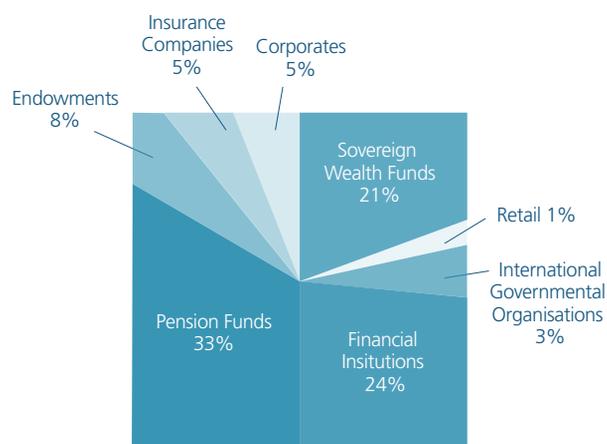
SICO's equity and money market funds continued to outperform their respective benchmarks and peers during 2013. Full details are provided in the SICO Funds Update later in this annual report. In a significant development, the Bank's equity funds received the highest gradings in the latest annual review of some 150 funds investing in the MENA region by Standard & Poor's Capital IQ. The Khaleej Equity Fund, SICO Gulf Equity Fund and SICO Arab Financial Fund were each graded 'Gold' (the only such graded funds in MENA); while the SICO Selected Securities Fund and SICO Kingdom Equity Fund were graded 'Silver' out of a total of 15 funds achieving this status. In addition, the Khaleej Equity Fund is one of the first two funds in the MENA region to be awarded a '5-Year Long-term Grading' (LTG), which recognises a fund's proven long-term consistency of style, approach and performance.

The SICO Fixed Income Fund – the first of its kind to be managed by a Bahrain-based fund manager – was launched in April 2013 and subsequently listed on the Bahrain Bourse. The Fund actively invests in government and corporate fixed income, sukuk and money markets. The primary objective is to generate income and seek capital appreciation over the medium- and long-term.

During 2013, the Discretionary Portfolio Management Accounts offered by SICO continued to attract increased interest. The Bank won a number of new mandates from regional and international clients, including sovereign wealth funds and state pension funds, for fixed income and GCC equities.



**AUM BREAKDOWN**



**COMPOSITION OF AUM**



**AUM GROWTH - US\$ MILLION**

## INVESTMENTS AND TREASURY

### Investments

Proactive management and tactical asset allocation, combined with an opportunistic and risk-averse approach, resulted in SICO's net investment income growing by 22% to BD 4 million during 2013. Starting 2013 with an overweight position towards fixed income, the portfolio allocation was gradually shifted to being overweight in equities. At the end of 2013, 47% of the portfolio was invested in GCC and global equities, while fixed income through direct and indirect investment accounted for 27% of the portfolio.

### Treasury

SICO's treasury business posted another profitable performance during 2013. The Bank continued to adopt a cautious approach, maintaining deposits with high quality financial institutions on short-term placements, while adding new counterparties. Accordingly, net interest income for the year increased to BD 1.3 million. The provision of repos and reverse repos, which comprise the majority of short-term funding, was expanded to clients. SICO maintained a sound and liquid balance sheet, with a consolidated capital adequacy ratio of 62.3%, which is considerably higher than the requirements of the Central Bank of Bahrain. At the end of the year, 35% or BD 32.8 million of the balance sheet was in cash and deposits, compared with 41.5% or BD 32.5 million at the end of 2012.

The Bank's market making activities increased as a result of higher volumes in the market and a turnaround in investors' risk appetite. SICO continued to improve spreads and boost liquidity on selective stocks listed on the Bahrain Bourse, and on a number of GCC fixed income names. On the back of an active primary fixed income market and high demand for GCC issues, high flow levels were witnessed with strong demand for investment grade credit.

BD' 000	2013	2012	2011	2010	2009
Net Investment Income	4,027	3,310	318	2,968	795

## CORPORATE FINANCE

With M&A activity picking up in Bahrain's financial services sector in 2013, SICO secured a number of corporate finance mandates during the course of the year. Based on discussion with a number of institutions during the year, SICO expects several Bahrain-based issuers to test the IPO market in 2014. On the other hand, SICO is adopting a highly selective approach to new mandates in the interests of investors.

## CUSTODY & ADMINISTRATION

With a continued focus on quality and client service, the Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – posted a successful performance in 2013, winning a number of new regional mandates, and continuing to contribute to the bottom line. Assets under custody with SFS increased by 53% to BD 1.26 billion at the end of the year compared with BD 824 million at the end of 2012. With a key fiduciary responsibility for safeguarding clients' assets, the Company's main activities comprise settlement of securities transactions, safekeeping of custody assets, securities servicing (corporate actions), comprehensive administration services such as valuations and pricing, and client reporting. During the year, SFS also acted as custodian for a growing number of new regional fixed income issues.

## CLIENT RELATIONS

The Client Relations Unit (CRU) is the first point of contact for existing and potential clients, dealing promptly and responsively with queries and complaints in all non-trading issues; and also acts as a conduit for passing on suggestions and ideas from clients to the business divisions. The CRU's scope of activities includes opening new accounts, negotiating agreements with clients and counterparties, and handling requests for research reports. The majority of calls handled by the Unit during the year involved general enquiries and requests for reports; while the number of complaints remained extremely low, reflecting the Bank's commitment to continuously improve its customer service and satisfaction standards.

## RESEARCH

A key development during the year was the introduction of a new research portal, offering convenient, flexible and interactive access to one of the most comprehensive research databases in the MENA region. In-depth information is provided for major GCC-listed companies, offering stock recommendations, financial forecasts, company reports and peer comparisons. Users can track up-to-date analysis of latest news and developments and their impact on the GCC stock markets; including intra-day charts, major volume plays, top gainers and losers, and current valuations. The portal enables downloading of key financial estimates and valuation multiples in an Excel spreadsheet format.

SICO expanded its research output during 2013 with the publication of 661 reports, and increased its coverage universe of close to 50 GCC-listed stocks. The market cap under coverage increased by more than US\$ 85 billion during 2013.

## HUMAN RESOURCES

SICO maintained its substantial investment in human capital development during 2013. The Group's total headcount remained steady at 91 employees, compared with 90 at the end of the previous year. The key focus of staff training was to support the implementation of the new core banking system; while SICO continued to sponsor staff to achieve professional qualifications. Over 20 per cent of staff are either undertaking or have completed the CFA programme, including seven Charter holders; and a number of staff gained post-graduate qualifications in 2013 such as MSc and MBA degrees. The Executive Training Programme made excellent progress, with two trainees being hired by business and support divisions in 2013, and another three high-calibre university graduates joining the programme. The Bank's unique 'partnership' corporate culture, embracing an entrepreneurial but self-disciplined style of operating, which gets things done faster without excessive bureaucracy and red tape, continues to distinguish SICO from many other financial institutions. Since its introduction in 2004, the pioneering Employee Stock Ownership Plan, which recognises and rewards the loyalty of staff with shares in SICO, has grown to constitute 3.73 per cent of the Bank's ownership.

## INFORMATION TECHNOLOGY

The first phase of SICO's new Temenos T24 core banking system went live during 2013 after successful final testing. A total of 24 modules have so far been implemented, focusing initially on core business activities such as asset management, brokerage, treasury, and custody and fund administration. All functionalities of the system are designed to operate in a front-to-back automated process on a single integrated platform. The results of a post-implementation review conducted by an independent consultant proved to be satisfactory, and revealed a high level of business functionality satisfaction; while an audit carried out by SICO's external auditors confirmed the viability of the system. The Bank is now embarking upon phase two of the project implementation, covering critical areas such as MIS, risk exposure, and online banking and trading. During the year, SICO also upgraded its networking solutions infrastructure to support future growth.

INVESTMENT INCOME  
HAS GROWN BY

**22%**

TO

**4**

MILLION BD

ASSETS UNDER  
MANAGEMENT INCREASED BY

**39%**

TO

**317**

MILLION BD

ASSETS UNDER CUSTODY  
WITH SFS INCREASED BY

**53%**

TO

**1.26**

BILLION BD

# CORPORATE SOCIAL RESPONSIBILITY

---

At SICO, we strongly believe that businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate.

---

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

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

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

In 2013, SICO provided financial and practical support for a number of charitable institutions engaged in healthcare, education and social welfare, including:

- Al Noor Charity Welfare
- Bahrain Association for Intellectual Disability & Autism
- Bahrain Child Care Home
- Bahrain Down Syndrome Society
- Bahrain Women's Association
- Children & Mothers' Welfare Society
- Muharraq Social Welfare Centre
- UCO Parents Care Centre for Elderly Patients
- SICO sponsored a team for the 16th annual American Mission Hospital Island Classic charity golf tournament, held at the private golf course of His Majesty King Hamad Bin Isa Al Khalifa. This long-running event raises substantial funds that are used by the hospital to finance new facilities, services and equipment.

## HELPING YOUNG BAHRAINIS DEVELOP LEADERSHIP SKILLS AND ENHANCE THEIR CAREER PROSPECTS

- The Bank is a sponsor of AISEC Bahrain, which seeks to promote the leadership skills of Bahraini students, and provide a positive impact on the Kingdom's youth.
- SICO's Executive Training Programme continues to make good progress, with two trainees being hired by business and support divisions in 2013, and another three high-calibre university graduates joining the programme.
- The Bank encourages and supports its staff to attain professional qualifications such as CFA and CMA, and pursue post-graduate academic studies.
- SICO hosts Bahraini students at overseas universities in their 'practical experience' year through a Summer training programme.
- The Bank provides Summer internships for students from the University of Bahrain.

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

SICO either sponsored or participated in a number of financial industry conferences and events during 2013, including the following:

- ARINDON's Annual Capital Markets & Investor Relations Conference
- CFA Bahrain Annual Forecast Dinner & Charter Award Ceremony



# Diversified investment banking solutions



.....

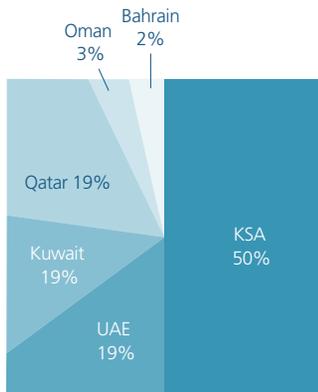
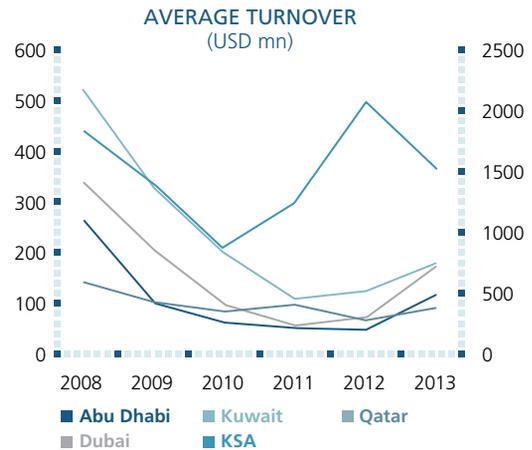
Since inception, SICO has steadily diversified its business activities to provide a select range of specialist investment banking solutions. These cover brokerage, market making, treasury, asset management, corporate finance, and custody and administration, plus an independent research capability. Many of SICO's pioneering solutions have set benchmarks for the regional industry.

.....

# SICO RESEARCH UPDATE

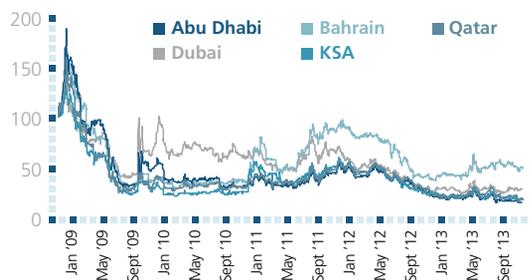
## GCC MARKET SNAPSHOT 2013

GCC markets performed strongly in 2013, with Dubai being the best performer, increasing by 108 per cent. Average turnover also increased significantly (YoY) for all markets, except Saudi Arabia, which had witnessed a considerable surge in turnover during 1H12. Risk perception, as measured by CDS spread, remained fairly stable for most countries.



GCC INDICES BREAKDOWN BY MARKET CAP

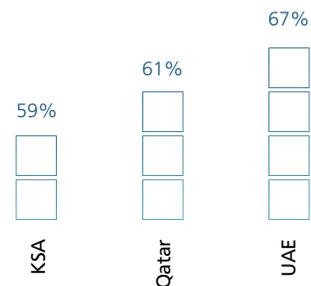
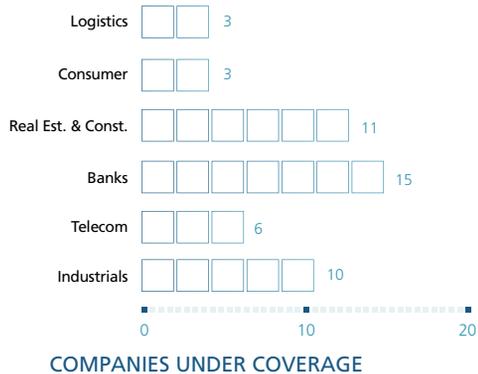
Source: Bloomberg, SICO Research



CDS SPREADS (2009-2013)

## SICO COVERAGE UNIVERSE

SICO research covers close to 50 companies across the GCC with a strong coverage in key markets such as the UAE, Qatar and Saudi Arabia.



SICO RESEARCH COVERAGE - KEY GCC COUNTRIES

Note: Coverage as a % of market cap of index based companies, UAE includes DFM and ADASM indices

# SICO FUNDS UPDATE



## KHALEEJ EQUITY FUND

<b>Launch date</b> March 2004	<b>Peer group</b> GCC
<b>Principal investment focus:</b> Equity securities listed on stock markets of GCC countries	<b>Return: 2013</b> 28.4% versus benchmark 25.0%
<b>Benchmark</b> S&P GCC Index	<b>Annualised return</b> 11.1% versus 5.0% benchmark



## SICO GULF EQUITY FUND

<b>Launch date</b> March 2006	<b>Peer group</b> GCC
<b>Principal investment focus:</b> Equity securities listed on stock markets of GCC countries, excluding Saudi Arabia	<b>Return: 2013</b> 32.4% versus benchmark 27.4%
<b>Benchmark</b> S&P GCC Ex-Saudi Index	<b>Annualised return</b> 4.7% versus benchmark minus 5.0%



## SICO KINGDOM EQUITY FUND

<b>Launch date</b> February 2011	<b>Peer group</b> Equity Saudi
<b>Principal investment focus:</b> Equity securities listed in Kingdom of Saudi Arabia	<b>Return: 2013</b> 33.1% versus benchmark 25.5%
<b>Benchmark</b> TADAWUL	<b>Annualised return</b> 13.6% versus benchmark 10.6%



## SICO SELECTED SECURITIES FUND

<b>Launch date</b> May 1998	<b>Peer group</b> Equity Bahrain
<b>Principal investment focus:</b> Equity and debt securities listed, or expected to be listed, on the Bahrain Bourse	<b>Return: 2013</b> 16.2% versus benchmark 17.2%
<b>Benchmark</b> Bahrain Bourse All Share Index	<b>Annualised return</b> 5.6% versus benchmark minus 0.1%

### SICO MONEY MARKET FUND

**Launch date**

May 2010

**Principal investment focus:**

Term deposits, short-term government and corporate papers

**Benchmark**

2 Months LIBOR

**Peer group**

Money Market GCC

**Return: 2013**

1.2% versus 0.3% benchmark

**Annualised return**

1.2% versus 0.3% benchmark

### SICO FIXED INCOME FUND

**Launch date**

April 2013

**Principal investment focus:**

Government and corporate fixed income, sukuk, repo, money market instruments, and other fixed income-related instruments

**Benchmark**

HSBC ME Aggregate Index

**Peer group**

Fixed Income GCC

**Return: April - December 2013**

minus 0.8% versus benchmark 0.4%

### REGIONAL 'FIRST' FOR KHALEEJ EQUITY FUND

SICO's Khaleej Equity Fund is one of only two funds in the MENA region to be awarded a 'Long-term Grading' (LTG) by Standard & Poor's Capital IQ.

Significantly, it is the only fund in the region to achieve both 'LTG' and 'Gold' gradings. An LTG grading recognises a fund's proven long-term consistency of style, approach and performance.

# CORPORATE GOVERNANCE REVIEW

---

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

---

## KEY DEVELOPMENTS IN 2013

- Implemented the Bank's action plan to ensure compliance with the rules of the HC Module of the Central Bank of Bahrain, and the principles of the Corporate Governance Code issued by the Ministry of Industry and Commerce.
- Conducted a review of the Bank's corporate documents, including the Board Charter, Board Committee Charters, Code of Conduct for Staff, and the Management Succession Plan.
- Management Succession Plan was approved by the Board.
- Complied with the CBB's new Rulebook Volume 7 for Collective Investment Undertakings.
- Completed a Group-wide assessment of the impact of the Foreign Account Tax Compliance Act (FATCA) on SICO and its subsidiaries.
- Appointed new Compliance Officer and MLRO for SICO and its subsidiaries.
- The COO was appointed to the newly-created post of Deputy Chief Executive Officer.

Responded to the CBB on the following consultations:

- Credit grading classification system
- Proposed directive on the internal audit function in banks
- Sound remuneration practices for banks
- Procedures for obtaining approval for controlled functions within licencees
- Proposed module on training and competency for banks

## COMMITMENT

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

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

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

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

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

## BOARD COMPOSITION AND ELECTION

The Board's composition is guided by the Bank's Memorandum of Association. As at 31 December 2013, the Board consisted of nine Directors, four of whom are Independent Non-executive directors, and five are Executive directors including the Chairman and Vice Chairman. The Bank recognises the need for the Board's composition to reflect a range of skills and expertise. Profiles of Board Members are listed later in this review.

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

## INDEPENDENCE OF DIRECTORS

In line with the requirements of the CBB's HC Module, the Bank has put in place Board-approved criteria to determine 'Test of Independence' using formal requirements as specified in the CBB rule book and other relevant requirements as assessed by the Board of SICO. The purpose of the Test is to determine whether the Director is: 'Independent of management, and any business or other relationships, which could materially interfere with the Director's ability to exercise objective, unfettered or independent judgement, or the Director's ability to act in the best interests of SICO'. Based on an assessment carried out in 2013, the Board of Directors resolved that the four Non-executive Directors of SICO met the relevant requirements of the 'Test of Independence', and accordingly, they were classified as 'Independent' Directors and Committee Members of SICO's Board of Directors.

## BOARD MEETINGS AND ATTENDANCE

According to the Bahrain Commercial Companies Law and the CBB rules, Board meetings will be conducted at least four times a year (on a quarterly basis). All Board members must attend at least 75 per cent of all Board meetings within a calendar year. At least five Directors must attend each Board meeting, including the Chairman or the Vice-Chairman. During 2013, five Board meetings were held in Bahrain, and the members' attendance is noted in the table below:

### Directors' Attendance: January to December 2013

Board Members	Board Meetings Total held 5	Investment Committee Meetings Total held 4	Audit Committee Meetings Total held 4	Nominations, Remuneration and Corporate Governance Committee Meetings Total held 4
Shaikh Abdulla bin Khalifa Al-Khalifa Chairman of the Board Chairman of the Investment Committee	5(5)	4(4)		
Mr. Hussain Al Hussaini Vice Chairman	5(4)	4(4)		
Mr. Anwar Abdulla Ghuloom	5(4)			4(4)
Mr. Fahad Murad Chairman of the Nominations, Remuneration and Corporate Governance Committee	5(5)			4(4)
Mr. Mahmoud Al Zewam Al-Amari	5(5)		3(3)	2(2)
Ms. Sawsan Abulhassan	5(5)	4(3)		
Mr. Meshary Al-Judaimi	5(5)		4(4)	
Mr. Mohammed Abdulla Isa	5(5)		1(1)	2(2)
Mr. Yusuf Khalaf Chairman of the Audit Committee	5(5)		4(4)	

■ Board Committee member

() Figures in bracket represent the number of meetings held when the director was a member of the committee.

## BOARD COMMITTEES

### Investment Committee

#### Objectives

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

- Oversee the financial and investment affairs of the Bank.
- Review major organisational changes.

### Audit Committee

#### Objectives

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

### Nominations, Remuneration and Corporate Governance Committee

#### Objectives

- Identify and screen suitable and qualified candidates as members of the Board of Directors, or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the Bank considered appropriate by the Board, and as and when such positions become vacant, with the exception of the appointment of the Internal Auditor, which shall be the responsibility of the Audit Committee.
- Submit its recommendations, including candidates for Board membership, to the whole Board of Directors, which in turn should include them in the agenda for the next Annual Shareholder Meeting.

## DIRECTORS' PROFILES

### Shaikh Abdulla bin Khalifa Al-Khalifa Chairman

#### Director since 2011 (Non-independent and Executive)

Represents Social Insurance Organisation (Bahrain)  
Chairman of SICO Investment Committee

**Chief Executive Officer** - Osool Asset Management B.S.C.(c)

**Chairman:** Seef Properties

**Board Director:** BBK, BFC Holdings Limited

**Professional experience:** 13 years

**Educational qualifications:** BSc in Business Administration, George Washington University, Washington DC, USA

Mr. Hussain Al Hussaini

Vice Chairman

**Director since 1997 (Non-independent and Executive)**

Represents National Bank of Bahrain (Bahrain)

Member of SICO Investment Committee

**General Manager** - Treasury & International Banking Group, National Bank of Bahrain

**Board Director:** Esterad

**Professional experience:** 32 years

**Educational qualifications:** PMD Programme for Management Development, Harvard Business School, Boston, USA; MBA Programme, Marketing & Management Change, DePaul University; BA in Economics, Concordia University, Montreal, Canada

Mr. Anwar Abdulla Ghuloom

**Director since 2002 (Non-independent and Executive)**

Represents Social Insurance Organisation (Bahrain)

Member of SICO Nominations, Remuneration and Corporate Governance Committee

**Board Director:** Al Seef Properties

**Professional experience:** 32 years

**Educational qualifications:** ACPA, CIPA; BSc in Accounting

Ms. Sawsan Abulhassan

**Director since 2008 (Non-independent and Executive)**

Represents Ahli United Bank (Bahrain)

Vice Chairperson of SICO Investment Committee

**Deputy Group CEO** - Private Banking & Wealth Management, Ahli United Bank

**Board Director:** Ahli United Bank (UK) PLC; The Family Bank - Kingdom of Bahrain

**Professional experience:** 23 years

**Educational qualifications:** MBA in Finance, University of Bahrain; BSc in Management, University of Bahrain

Mr. Mohammed Abdulla Isa

**Director since 2009 (Non-independent and Executive)**

Represents BBK (Bahrain)

Vice Chairman of SICO Nominations, Remuneration and Corporate Governance Committee

**Chief Financial Officer** - BBK

**Professional experience:** 22 years

**Educational qualifications:** Certified Public Accountant, American Institute of Certified Public Accountants - Delaware State Board of Accountancy (2001)

Mahmoud Al Zewam Al-Amari

**Director since 2004 (Independent and Non-executive)**

Represents Arab Banking Corporation (Bahrain)

Member of SICO Audit Committee

**First VP & Head** - Portfolio Management Department, Arab Banking Corporation

**Professional experience:** 29 years

**Educational qualifications:** AIBD; MA in Macro Economics

Mr. Fahad Murad

**Director since 2011 (Independent and Non-executive)**

Represents Arab Investment Resources Company (Bahrain)

Chairman of SICO Nominations, Remuneration and Corporate Governance Committee

**Managing Director** - Head of Placement for Bahrain and Oman - Investcorp

**Professional experience:** 29 years

**Educational qualifications:** BBA and MBA in Finance from the University of Houston, Texas, USA

Mr. Meshary Al-Judaimi, CFA

**Director since 2009 (Independent and Non-executive)**

Represents Gulf Investment Corporation (Kuwait)

Vice Chairman of SICO Audit Committee

**Director** - Head of Financial Services, Principal Investments, Gulf Investment Corporation

**Board Director:** Gulf Reinsurance Ltd; Rasameel Structured Finance Company; RasLaffan Power Company

**Professional experience:** 18 years

**Educational qualifications:** CFA Charter holder; MBA, Emory University; BSc in Mechanical Engineering, Kuwait University

Mr. Yusuf Saleh Khalaf

**Director since 2012 (Independent and Non-executive)**

Represents Minority Shareholders

Chairman of SICO Audit Committee

**Founder & Managing Director** - Vision Line Consulting

**Independent Board Director:** BBK, ESKAN Bank, Solidarity General Takaful Company

**Professional experience:** 33 years

**Professional qualifications:** Associate Chartered Certified Accountant, ACCA, UK

## MANAGEMENT

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

### MEMBERSHIP OF MANAGEMENT COMMITTEES

Managers	Restricted Management Committee	Asset Management Committee	Assets, Liabilities & Investments Committee	Internal Control Committee
Chief Executive Officer	Chairman	Chairman	Chairman	Chairman
Deputy CEO & Chief Operating Officer				
Chief Corporate Officer				
Financial Controller				
Head of Internal Audit		¥	¥	
Head of Brokerage		¥		
Head of Asset Management				
Head of Corporate Finance		¥		
Head of Investments & Treasury			¥	
Head of Research		¥		

■ Management Committee members

¥ Non-voting member

## MANAGEMENT COMMITTEES

### RESTRICTED MANAGEMENT COMMITTEE

#### Objective

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

### ASSET MANAGEMENT COMMITTEE

#### Objective

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

### ASSETS, LIABILITIES AND INVESTMENTS COMMITTEE (ALIC)

#### Objective

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

## INTERNAL CONTROL COMMITTEE

#### Objective

To assess the overall impact of the internal control system, due to the various risks encountered; and to monitor the functioning of the internal control mechanism of SICO. In addition, the committee ensures compliance with the internal policies and procedures, and regulatory best practices of internal control applicable to the industry.

## MANAGEMENT PROFILES

### Anthony C. Mallis

#### Chief Executive Officer

Joined SICO in 2000

Anthony has over 35 years' international banking experience. Prior to joining SICO he was a Partner in a London-based private equity firm focusing on the Middle East. He also worked for Credit Suisse Asset Management and its predecessor, Credit Suisse First Boston Investment Management, Bankers Trust Company, Gulf International Bank, and Citibank. He was a Board member of ABQ Zawya before its sale to Reuters, and was a Board member of the Bahrain Association of Banks. Anthony holds a Bachelor's degree in Business Administration from the American University of Beirut, and attended the Senior Executive Program at Stanford Business School, USA.

### Najla Al Shirawi

#### Deputy CEO & Chief Operating Officer

Joined SICO in 1997

Najla has more than 17 years' investment banking experience. She was appointed Deputy CEO in 2013. Prior to her appointment as COO in 2006, Najla was Head of Asset Management, and then Head of Investments & Treasury, at SICO. She was previously a lecturer in the Engineering College at the University of Bahrain. Before that, she worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust, where she was responsible for establishing private banking operations for the Group in the Gulf region. Najla holds an MBA and a Bachelor's degree in Civil Engineering, and attended the Management Acceleration Programme at INSEAD, France.

### Samir Sami

#### Chief Corporate Officer

Joined SICO in 2008

Samir has over 33 years' international experience in areas covering commercial and corporate banking, strategic planning and risk management, spanning the UK and the Middle East. He started his banking career in Bahrain with GIB as a corporate officer in 1980. He then moved to Citibank, where he spent the next 17 years managing the Bank's corporate portfolio and risk management in Saudi Arabia and the UAE. He later joined Credit Suisse private banking, and subsequently worked with Ghobash Investment & Trading as Group Vice President. Samir has a joint Biochemistry and Zoology major from the University of London, UK; and has served as a Board member for various non-profit organisations.

[Nadia Albinkhalil](#)

**Head of HR & Administration**

Joined SICO in 1995

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

[Hanan Y. Sater](#)

**Financial Controller**

Joined SICO in 1997

Hanan has more than 34 years' experience in accounting and financial control. Prior to joining SICO, she worked for Manufacturers Hanover Trust Bank, Chemical Bank, and Chase Manhattan Bank. She is a Certified Accountant from the UK-based Association of Chartered Certified Accountants (ACCA), and is also a Certified Anti-money Laundering Specialist by the US-based Association of Certified Anti-Money Laundering Specialists (ACAMS). A graduate of the University of Bahrain, Hanan has undertaken training in general management, internal control and risk management with reputed institutions such as the BIBF and INSEAD.

[Amal Al Nasser](#)

**Head of Operations**

Joined SICO in 1997

Amal has more than 25 years' banking experience. She was Head of Operations at SICO for 10 years before being appointed General Manager of SFS, a wholly-owned subsidiary of SICO, on its establishment in 2006. Amal resumed her role as Head of Operations at SICO in 2010. Before joining SICO, she spent 10 years with ALUBAF Arab International Bank in Bahrain, working in the areas of credit, investment and commercial banking operations. Amal holds a BA degree in Economics from Poona University, India.

[Abdulrahman Saif](#)

**Head of Investments & Treasury**

Joined SICO in 2003

Abdulrahman has over 14 years' experience in investments and treasury. Prior to joining SICO, he was with the Asset Management team at Taib Bank. He has also worked for Gulf International Bank and Arab Banking Corporation. A Certified Investment Representative, Abdulrahman holds a MSc in Finance from DePaul University, a BSc in Accounting from the University of Bahrain, and a Treasury & Capital Markets Diploma from the Bahrain Institute of Banking & Finance. He has also undertaken specialised training at INSEAD, France.

[Fadhel Makhloog](#)

**Head of Brokerage**

Joined SICO in 2004

Fadhel was Head of Brokerage at SICO for five years before being appointed as Head of Investments & Treasury in 2008. He was re-appointed Head of Brokerage in 2010. Prior to joining SICO, he

worked for a number of leading financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase). Fadhel holds an MBA from Glamorgan University, UK.

[Shakeel Sarwar](#)

**Head of Asset Management**

Joined SICO in 2004

Shakeel has over 19 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with the asset management division of Riyad Bank, and was part of the team that managed over US\$ 3 billion in Saudi equities. Previous experience includes working with ABN Amro Asia Securities in the UK and Pakistan. Shakeel holds an MBA in Banking and Finance from IBA, Karachi, Pakistan.

[Samer Taleb](#)

**Head of Corporate Finance**

Joined SICO in 2006

Samer has over 12 years' experience in management consulting and investment banking. Prior to joining SICO, he was manager of Strategy & Operations with Deloitte Consulting, where he provided M&A, strategy, restructuring and systems advice to medium-to-large corporates, family-owned businesses and regulatory bodies in the Middle East. Samer holds an MSc in Industrial & Systems Engineering from Georgia Institute of Technology; a Management of Technology Certification from DuPree College of Management; and a BSc in Industrial Engineering from Purdue University.

[Ismail Sabbagh](#)

**Head of Information Technology**

Joined SICO in 2007

Ismail has over 17 years' experience in the fields of business consulting and information technology. Prior to joining SICO, he worked with BDO Consulting as Business Consulting Manager; Microsoft Consulting Services as Technical Consultant for ERP and CRM, and project Manager; and New Horizons as a Business Consultant and IT Trainer. Ismail holds a BSc in Computer Science from the Lebanese American University, Beirut, and is a Microsoft Certified Professional.

[Anantha Narayanan](#)

**Head of Internal Audit**

Joined SICO in 2008

Anantha has more than 23 years' experience in the areas of audit and risk management in the banking industry. Prior to joining SICO, he worked for Credit Agricole Corporate & Investment Bank; BBK; Commercial Bank of Oman/Bank Muscat; and PriceWaterhouseCoopers. Anantha is a Chartered Accountant and Cost Accountant (India); a Certified Information Systems Auditor (USA); a Financial Risk Manager (USA); and an Associate Member of the Institute of Financial Studies (UK). He holds a BSc Honours degree from the University of Manchester, UK.

Nadeen Oweis

**Head of Corporate Communications**

Joined SICO in 2008

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

Nishit Lakhota

**Head of Research**

Joined SICO in 2009

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

Amr Galal

**Head of Client Relations**

Joined SICO in 2004

Amr Galal has over 18 years' experience in banking and information technology. Joining SICO in 2004 as a Systems and Network Administrator, he was appointed to his present position in 2006. Prior to SICO, he spent eight years working for IT and computer companies in Egypt and Bahrain. Amr holds a BSc degree in Commerce and Business Administration from the University of Helwan, Cairo, Egypt.

Mark Said

**General Manager**

SICO Funds Services Company (SFS)

Joined SICO in 2010

Mark has over 21 years' experience covering the US and the Middle East, in financial administration, operations management, custody and accounting, and financial control. Prior to joining SICO, he was with SAIB BNP Paribas Asset Management in Saudi Arabia. Before this, Mark worked in the US for Columbia Management, the investment division of Bank of America; MFS Investment Management; and State Street Bank. He holds an MSc degree in Finance and a BSc in Business Administration, both from Boston University, USA.

Bassam A. Khoury

**General Manager**

SICO UAE - Joined SICO in 2008

Bassam has over 25 years' international experience in brokerage, investments and financial consultancy. He was Head of Brokerage at SICO from 2008 to 2010, before leaving to join QInvest, Qatar as Head of Regional Brokerage. Prior to rejoining SICO in 2013 as

General Manager of SICO UAE, Bassam was Chief Executive Officer of Bahrain-based ABC Securities. Previously, he worked with Banque Saudi Fransi in Saudi Arabia; BMB Investment Bank and Lehman Brothers in Bahrain; a private family office in Paris; and M Sternburg & Company in the USA. Bassam holds a BSc degree in Business Administration & Economics from King's College, New York, USA

**GOVERNANCE FRAMEWORK**

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

**CODE OF BUSINESS CONDUCT**

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

**COMPLIANCE AND ANTI-MONEY LAUNDERING**

As a licensed conventional wholesale bank and listed company, SICO has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse. The Bank has an independent Compliance unit in keeping with Basel and CBB guidelines. The Compliance unit acts as the central coordinator for all matters relating to regulatory reporting and other requirements. Anti-money laundering measures are also an important area of the Compliance unit, with a designated Money Laundering Reporting Officer (MLRO) and Deputy MLRO. The Bank has documented anti-money laundering and combating the financing of terrorism procedures, in conformity to the regulatory requirements in the Kingdom of Bahrain. SICO is in the process of implementing a risk-based automated transaction monitoring system, which will further enhance the Bank's anti-money laundering measures in line with the regulations of the CBB.

**CORPORATE COMMUNICATIONS**

SICO conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate website, and regular announcements in the appropriate local media. To ensure disclosure of relevant information to all shareholders on a timely basis, the Bank publishes its annual report and the past 10 years' financial statements on the corporate website - [www.sicobahrain.com](http://www.sicobahrain.com).

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

The remuneration paid to Board members and senior management personnel are disclosed in Note 25 of the Financial Statements.

The information on the fees paid to external auditor for audit and other services will be available to CBB and shareholders upon request, provided such disclosure does not impact the interest of Bank.



**A growing  
regional presence**

---

.....

Commencing operations in the Kingdom of Bahrain, SICO has steadily expanded its business activities to cover the whole of the GCC region, together with Egypt and Jordan. The Bank recently established a brokerage subsidiary – SICO UAE – based in Abu Dhabi, and has identified other new business opportunities across the region.

.....

# RISK MANAGEMENT REVIEW

Throughout 2013, risk management continued to play a pivotal role in ensuring that SICO remains strong, methodical and consistent in the face of the challenging political, economic and financial environment; and is now well recognised as an area of strength and core competence for the Bank.

## KEY DEVELOPMENTS IN 2013

- Continued to adopt a cautious low-risk investment strategy aimed at preserving the Bank's strong capital base, and maintaining a safe, liquid and profitable portfolio.
- Further enhanced the focus on monitoring compliance to ensure adherence to investment guidelines.
- Monitored fiduciary portfolios to ensure compliance with investment guidelines.
- Expanded the scope and regularity of risk management reporting to the Board.
- Regularly monitored and reported ICAAP, regulatory CAR and operational risk incidents.
- Continued to provide the CBB with Basel 3 Leverage & Liquidity ratios for the Bank.
- Conducted AML training to all staff (including subsidiaries) and senior management to ensure understanding of AML, and that latest AML practices are being applied.
- Actively participated and contributed to several consultative papers issued by the Central Bank of Bahrain (CBB) and the Bahrain Bourse.

## OVERVIEW

Risk is an inherent part of SICO's business, and risk management is essential to the Bank's success. Risk management is the systematic process of identifying and evaluating the principal business risks facing SICO; establishing appropriate controls to manage these risks; and ensuring that all appropriate monitoring and reporting processes are in place.

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

The following section of this review provides a synopsis of the key qualitative disclosures that are set out in greater detail in the Basel II Pillar 3 Public Disclosures section of this annual report.

## FRAMEWORK AND STRUCTURE

The Firm has put in place a well-disciplined organisational structure to support the business strategy, risk management and internal control framework.



The Board of Directors is primarily responsible for the establishment of sound policies, guidelines and procedures to manage risks arising out of SICO's business activities. These policies are consistent with the Bank's broader business strategies, capital strength, management expertise, and ability to control risk. Recognition of the need to maintain a high reputation underpins SICO's risk management and internal control philosophy.

Budgets and business outlooks are reviewed to take account of potential adverse conditions, and are rigorously challenged at management and Board levels. The Investment Committee of the Board is the second point where decision making of SICO's investment activities is considered. This committee approves investments within its discretionary powers as delegated by the Board. The Audit Committee of the Board provides sound support to the internal control framework.

The Risk Management Department (RMD) provides leadership, direction and coordination of applying risk management across the organisation. RMD is responsible for establishing the risk management framework and appropriate resources to assist the Bank in the realisation of its business objectives and continued development.

RMD also overlooks policy supervision and provides oversight of risk management and risk controls across the organisation by coordinating and communicating with each line of business to manage risk and ensure that the principles and requirements of managing risk are consistently adopted throughout the Bank.

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

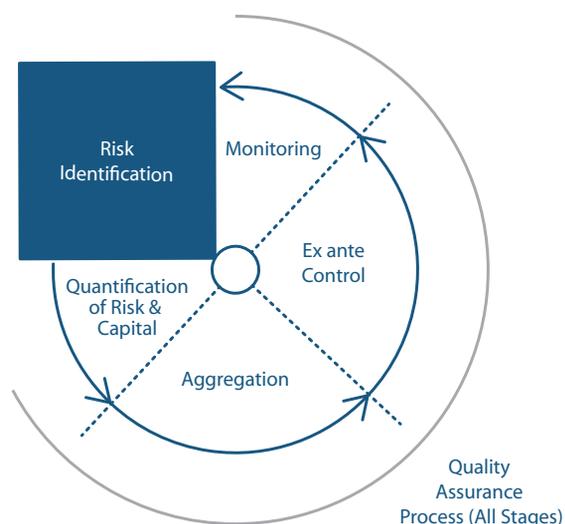
The Bank's four Management Committees comprise senior management and representatives of Business Lines, Risk Management, Finance and other Heads of Department. The committees meet frequently to discuss a broad range of topics, including current market conditions and other external events; and to ensure that the impact of risk factors are considered broadly across the Bank's businesses.

The Internal Control Unit (ICU), part of the Financial Control Department, further bolsters monitoring of the operating controls framework. The Assets, Liabilities and Investments Committee (ALIC) is a management committee that sets the investment philosophy and guidelines, and monitors the performance of the proprietary investments and Treasury activities. The Internal Control Committee (ICC) is a management committee that assesses the overall impact of the internal control system due to the various risks encountered, and monitors the functioning of the internal control mechanism of SICO.

## INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

As set out in the Basel II Pillar 2 guidelines, an ICAAP framework was established and approved by the Board in 2010. This framework goes beyond the regulatory capital prescriptions under Pillar 1, and enables the identification and measurement of the various other risks that are associated with the different business activities of SICO, with a view to ensuring adequate capitalisation at all times to protect against all risks. Resilience of Internal Capital Adequacy is also tested under stressed market conditions to further bolster capital and risk management.

### MAJOR BUILDING BLOCKS OF ICAAP



#### Board and Senior Management oversight

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

#### Risk identification

Identification of the various risks that impact the various business activities of SICO sets the foundation for building an ICAAP process, since the Bank is required to maintain adequate internal capital to cover the material risks to which it is exposed.

#### Quantification of risks and capital coverage

This step allocates internal capital to each of the risks identified and quantified in the risk identification process. It creates the objective basis for decision-making, and enables senior management to make decisions regarding SICO's risk-bearing capacity within the framework of the ICAAP.

#### Aggregation

Once risks have been identified and quantified, individual risks and associated capital requirements are aggregated to determine SICO's overall capital requirement for the purpose of ICAAP.

#### Ex ante control

SICO has established various tolerance limits based on the overall risk strategy of the Bank. These limits will be revised periodically, taking into account the changing market and economic conditions. SICO has established a comprehensive limit framework to monitor its exposure to all significant applicable risks.

#### Risk monitoring and ex post control

The risk monitoring process ensures that SICO's risk profile remains in line with its risk preferences. In this context, there is a standardised procedure for dealing with increasing levels of limit utilisation and limit overruns.

### RISK IDENTIFICATION, MONITORING & CONTROL

The Bank's ability to properly identify, measure, monitor/control and report risk, is critical to both its soundness and profitability. The Bank applies its risk management practices across the organisation through leadership, direction and coordination. The Internal Control Unit (ICU), which is part of the Financial Control Department, also reports to the Internal Control Committee (ICC) and raises concerns on control issues encountered, and reports errors caused by the business users with the relevant details. The Bank uses risk limits at various levels in the organisation to govern risk appetite by controlling the size of its exposure. These limits are reviewed frequently and amended as required to reflect changes in market and business conditions, and tolerance to risk. Limit breaches are immediately identified and escalated to Senior Management, and the Board if required.

### LIQUIDITY RISK

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

#### Liquidity management & monitoring

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

### MARKET RISK

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

#### Market risk identification and mitigation

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

#### Market risk also encompasses other risks:

##### Equity Price Risk

A significant portion of SICO's proprietary trading and available-for-sale portfolios comprise equity instruments, and are therefore affected by equity price risk. This risk is mitigated by managing the portfolio within duly approved asset allocation matrix guidelines and other investment limits. These are closely monitored by RMD, and regularly reviewed by ALIC. SICO's risk management approach continues to be forward-looking, proactive, and highly effective in rebalancing its investment portfolio in line with the Bank's investment

strategy, to ensure capital preservation, quality (equity and fixed income) and liquidity.

#### Interest Rate Risk

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

#### Currency Risk

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

#### Monitoring and controlling Market Risk

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

## CREDIT RISK

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its contractual obligations and cause SICO to incur a financial loss. Counterparty credit risk consists of two categories: pre-settlement and settlement risks. Investments in debt instruments and managed funds, and placements with counterparty banks, give rise to credit risk. Counterparty credit risk arises vis-à-vis customers and counterparty brokers. In the Asset Management, Investment and Treasury departments, deals routed through counterparty brokers give rise to counterparty credit risk. Issuer credit is separately monitored through fundamental research.

#### Credit risk identification and mitigation

The Bank is exposed to credit risk through many of its activities. Credit Risk Management works in coordination with the business in identifying and aggregating exposures. Credit risk is mitigated by a focused target market approach towards institutional and experienced, sophisticated high net worth investors.

#### The Bank's credit risk related activities:

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

#### Credit risk measurement

To measure credit risk, SICO employs several methodologies for estimating the likelihood of obligor or counterparty default. These methodologies include rating counterparties and scoring clients.

**Rating:** Bank and Financial Institution credit lines/limits are set by conducting a detailed credit assessment of each counterparty by assessing its financial strength and external credit rating. Based on the assessment, an internal credit rating is assigned to each counterparty along with an exposure limit. In relation to investments in debt instruments, the internal guidelines restrict investment to sovereign and/or high investment-grade banks and institutions.

**Scoring:** For each client that the Bank expects to deal with for its brokerage activities, a qualitative and quantitative assessment is conducted, and a credit scoring is then assigned to each client for the purpose of measuring settlement risk.

External Credit Assessment Institutions (ECAI) used to determine credit risk weightings under Basel II CAR.

SICO uses ratings issued by rating agencies such as Standard & Poor's, Moody's and Fitch, to derive the risk weightings under the CBB's Basel II capital adequacy framework. This is mainly for banks but also, where applicable, for other exposures such as debt instruments. Where ratings vary between rating agencies, the most conservative measure is adopted.

#### Concentrations of Credit risk

SICO complies strictly with the single counterparty exposure norms prescribed by the CBB. As at 31 December 2013, the following exposures of the Bank are in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

Counterparty	Country	Amount BD 000's	Exposure as a % to eligible capital base
A	Qatar	11,569	19%
B	Bahrain	10,431	17%

These exposures mainly represent short term inter-bank placements with a maturity of less than 90 days and therefore are classified as exempt exposures as per the CBB's CM Module 5.6 under large exposure norms.

The geographic and sectoral distribution of SICO's investments are disclosed in the financial statements under note 4. The other exposures of the Firm consist mainly of cash and bank balances, and receivables from client. These are concentrated predominantly in the GCC.

#### Monitoring and controlling Credit risk

Credit risk is monitored and controlled by policies and practices that are put in place by RMD, and that have been approved by the management and the Board where required. The policy framework establishes approval authorities, concentration limits, risk-rating methodologies, and guidelines for management of exposures. The Bank also adheres strictly to the large exposure norms as prescribed by the Central Bank of Bahrain under the credit risk management module.

## OPERATIONAL RISK

Operational risk is the risk of loss due to inadequate or failed internal processes, systems, human factors or external events.

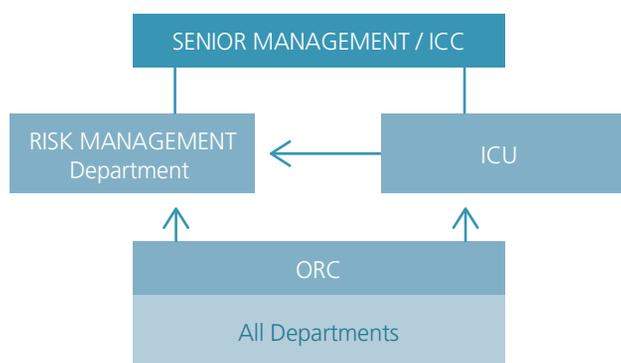
Unlike market or credit risks, which are systemic in nature, operational risk is institution-specific and is inherent in the day-to-day operations of SICO. This risk could arise from a broad spectrum of causes such as deficient transaction processing, business practices, workplace practices, system failures,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

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

#### Operational risk identification, control and monitoring

The Bank has a process for monitoring operational risk, by conducting Risks and Controls Self-Assessments, identification of key risks, nominating Operational Risk Coordinators (ORCs) in each department to identify, monitor and report, prevent or control operational risks, and report any risk incidents to RMD on a timely basis. RMD will conduct an analysis of such incidents and follow up any corrective action required. As part of enhancing controls across the Bank, an Internal Control Unit (ICU) has been formed which, as part of its major roles, identifies frequent errors arising across different business and back office units within the Bank. The Internal Controller (aside from the Operational Risk Coordinators) assesses each error, and liaises with RMD in cases where an error is considered to be an incident.

#### Operational risk incident control and response management framework



#### COMPLIANCE RISK

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

#### FIDUCIARY RISKS

The Fiduciary Risk Management function works with the Bank's relevant lines of business and committees, to ensure that SICO fulfills its fiduciary duties to clients, and adopts the appropriate standard relative to the fiduciary relationship with a client. The asset management activities of SICO, and the custody and fund administration services provided by the Bank's subsidiary, SICO Funds Services Company (SFS), can give rise to the following fiduciary risks:

##### Asset Management

Assets under management have a range of controls to support the quality of the investment process, supervised by the Asset Management Committee (AMC). There are operating policies and procedures, coupled with dedicated buy-side research and

other guidelines, to support this activity. There are also strict operational controls to protect clients' assets, and 'Chinese Walls' to avoid any conflicts of interest. The Compliance unit regularly monitors the activities of the Asset Management division, and reports its findings and observations to the AMC.

##### Custody and Fund Administration

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

##### Corporate Finance

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

#### INTERNAL AUDIT

Internal Audit provides an additional line of defence in risk management and internal controls. The role of Internal Audit is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Bank is appropriate and effectively applied.

##### The specific role of Internal Audit is to:

- Report on a quarterly basis to the Board, through the Audit Committee, on the operation of the control processes, and management's progress in addressing identified issues;
- Report the results of periodical specific divisional audits to the Audit Committee;
- Report issues emerging from, and findings of, each audit to relevant management, and obtain their commitment to undertake appropriate remedial action; and
- Continually review the effectiveness of the Bank's risk profile, placing appropriate reliance on the risk management process to optimise audit work.

# BASEL II PILLAR 3 DISCLOSURES

BAHRAINI DINARS '000

## EXECUTIVE SUMMARY

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

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

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

All figures presented in this report are as at 31 December 2013 unless otherwise stated.

## 1. INTRODUCTION

### 1.1 CBB Rulebook

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

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

### 1.2 BASEL II Framework

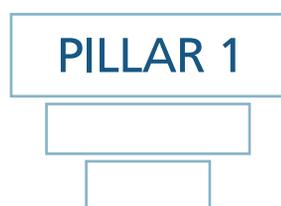
Basel II is the second of the Basel Accords, which was issued by the Basel Committee on Banking Supervision. The Basel II framework consists of the following 3 pillars:

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

*These disclosures have been prepared in accordance with the Public Disclosure Module ("PD") of the CBB Rule Book, Volume I for Conventional Banks. These disclosures should be read in conjunction with the notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank's Consolidated Financial Statements for the year ended 31 December 2013.*

*These disclosures have been reviewed by the Bank's external auditors KPMG based on agreed upon procedures as required under Para PD-A.2.4 of the PD Module.*

## BASEL II PILLAR 3 DISCLOSURES contd.



### Minimum Capital Requirements

Risk based capital requirements for:

- Credit Risk
- Market Risk
- Operational Risk



### Supervisory Review Process

Regulatory Framework for Banks:

Internal Capital Adequacy Assessment Process (ICAAP)

Supervisory Framework:

Supervisory Review & Evaluation Process



### Market Discipline

Disclosure requirement for banks:

- Specific quantitative and qualitative disclosures
- Transparency for market participants concerning the bank's risk position (scope of application, risk management etc.)
- Enhanced comparability of banks

#### 1.2.1 Pillar 1

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

Below are the approaches used for deriving the CAR.

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

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

### 1.2.2 Pillar 2

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

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

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

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

### 1.2.3 Pillar 3

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

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

## 1.3 Scope of Application

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

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

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

## 2. CAPITAL STRUCTURE, RISK WEIGHTED ASSETS AND CAPITAL ADEQUACY

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

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

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

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

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

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

## BASEL II PILLAR 3 DISCLOSURES contd.

### 2. CAPITAL STRUCTURE, RISK WEIGHTED ASSETS AND CAPITAL ADEQUACY CONTD.

#### 2.1 Capital Structure

##### Tier 1 Capital

Issued and fully paid ordinary shares	42,849
Statutory reserve	4,875
General reserve	2,100
Share premium	692
Retained earnings brought forward	8,892
Gross unrealised loss arising from fair valuing equity securities	(43)
<b>Tier 1 Capital (A)</b>	<b>59,365</b>

##### Tier 2 Capital

45% of gross unrealised gains arising from fair valuing equity securities	919
Securitisation exposures subject to deduction	-
<b>Tier 2 Capital (B)</b>	<b>919</b>

##### Total Available Capital (C) = (A) + (B)

Credit risk weighted exposures	56,668
Market risk weighted exposures	29,922
Operational risk weighted exposures	10,167
<b>Total Risk Weighted Exposures (D)</b>	<b>96,757</b>
<b>Tier 1 Capital Adequacy Ratio (A) / (D)</b>	<b>61.4%</b>
<b>Total Capital Adequacy Ratio (C) / (D)</b>	<b>62.3%</b>

#### 2.2 Changes to Capital Structure

During the year, the Bank issued 1,228,801 shares of 100 fils each under the employees share incentive scheme for the year 2012 to Volaw Trust & Corp Service Ltd. These shares were issued at the 31 December 2012 NAV of 134 fils per share.

Accordingly, the share capital has increased by BD 123 to the extent of the nominal value of the shares of 100 fils each. The share premium of BD 41 relating to the issue of these shares at a premium of 34 fils per share has been credited to the statutory reserve.

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

Subsidiaries	31 December 2012	
	Total Capital Adequacy Ratio	Tier 1 Capital Ratio
SICO Consolidated (Group)	62.31%	61.35%
SICO UAE*	7.99%	7.99%

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

### 3. RISK EXPOSURES

#### 3.1 Credit Risk

##### 3.1.1 Gross credit exposures

As at 31 December 2013	Gross credit exposure			Credit risk weighted assets	Capital requirement @ 12%
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)	Total		
Cash items	2,469	-	2,469	15	2
Claims on Sovereigns	8	-	8	-	-
Claims on Bahraini Public Sector Entities	500	-	500	-	-
Claims on Banks	41,774	-	41,774	18,883	2,266
Claims on Corporates	1,918	-	1,918	1,923	231
Investments in Securities	25,491	62	25,553	29,406	3,529
Holdings in Real Estate	1,159	-	1,159	2,318	278
Other Assets	3,637	486	4,123	4,123	495
<b>Total</b>	<b>76,956</b>	<b>548</b>	<b>77,504</b>	<b>56,668</b>	<b>6,801</b>

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

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

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

##### 3.1.2 Large exposure limits

As at 31 December 2013, the following exposures of the Bank are in excess of the 15% large exposure limit as defined in the CM Module of the CBB's rule book.

Counterparty	Country	Amount BHD 000's	Exposure as a % to the eligible capital base
Counterparty A	Qatar	11,569	19%
Counterparty B	Bahrain	10,431	17%

These exposures mainly represent cash and short term inter-bank placements. Cash and short term inter-bank placements are exposures with a maturity of less than 90 days and therefore are classified as exempt exposures as per the CBB's CM Module 5.6 under large exposure norms.

## BASEL II PILLAR 3 DISCLOSURES contd.

### 3. RISK EXPOSURES CONTD.

#### 3.1.3 Maturity profile of the credit portfolio

As at 31 December 2013	Less than 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
Cash and bank balances	32,799	-	-	-	-	32,799
Trading debt securities	-	444	-	6,161	2,557	9,162
Available-for-sale debt securities	-	-	-	4,676	2,655	7,331
Other assets	4,555	153	-	510	-	5,218
<b>Total gross credit exposures</b>	<b>37,354</b>	<b>597</b>	<b>-</b>	<b>11,347</b>	<b>5,212</b>	<b>54,510</b>
<b>Commitments and contingencies</b>	<b>730</b>	<b>607</b>	<b>123</b>	<b>-</b>	<b>-</b>	<b>1,460</b>

Note: None of the exposures have a maturity period in excess of ten years.

#### 3.1.4 Sectoral distribution

As at 31 December 2013	Financial	Real Estate/ Construction	Services / Telecom	Sovereign	Mutual Funds	Others	Total
Cash and bank balances	32,799	-	-	-	-	-	32,799
Investments at fair value through profit or loss	7,824	248	3,443	-	1,179	6,557	19,251
Available-for-sale investments	10,265	1,038	3,743	564	9,796	7,901	33,307
Other assets	-	-	-	-	-	5,218	5,218
<b>On-balance sheet</b>	<b>50,888</b>	<b>1,286</b>	<b>7,186</b>	<b>564</b>	<b>10,975</b>	<b>19,676</b>	<b>90,575</b>
<b>Off-balance sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,460</b>	<b>1,460</b>

Note: The above table excludes prepayments and fixed assets.

#### 3.1.5 Geographical distribution

As at 31 December 2013	GCC	North America	Europe & MENA (ex-GCC)	Total
Cash and bank balances	32,002	-	797	32,799
Investments at fair value through profit or loss	18,332	-	1,483	19,815
Available-for-sale investments	16,392	7,033	9,318	32,743
Other assets	5,170	9	39	5,218
<b>On-balance sheet</b>	<b>71,896</b>	<b>7,042</b>	<b>11,637</b>	<b>90,575</b>
<b>Off-balance sheet</b>	<b>1,337</b>	<b>-</b>	<b>123</b>	<b>1,460</b>

Note: The above table excludes prepayments and fixed assets.

### 3.1.6 Impairment on available-for-sale investment securities

During the year, the Bank has provided for the following impairments.

Items

Impairment on available-for-sale investments (155)

### 3.2 Market Risk

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

	Market risk weighted assets		As at 31 December 2013	Capital requirement @ 12%
	During the year ended 31 December 2013			
As at 31 December 2013	Minimum	Maximum		
Interest rate position risk	542	2,172	790	95
Equities position risk	1,440	4,066	1,516	182
Foreign exchange risk	88	194	88	10
<b>Total minimum capital required for market risk</b>			<b>2,394</b>	<b>287</b>
Multiplier			<b>12.5</b>	<b>12.5</b>
<b>Total</b>			<b>29,925</b>	<b>3,591</b>

### 3.3 Operational Risk

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

Average gross income for the past 3 years  
(Excluding extraordinary and exceptional income)

As at 31 December 2013	2010	2011	2012
Gross income	6,668	3,339	6,260
Average gross income (A)			5,422
Alpha (B)			15%
(C) = (A) * (B)			813
Risk weighted exposures (D) = [(C) * 12.5]			10,167
Capital requirement @ 12% of (D)			1,220

## BASEL II PILLAR 3 DISCLOSURES contd.

### 4. INTEREST RATE RISK

#### 4.1 Interest Rate Risk in the Banking Book

A 200 bps increase or decrease in market interest rates would affect the value of the fixed income securities in the available-for-sale portfolio as follows:-

	200 bp increase	200 bp decrease
As at 31 December 2013	<b>(531,676)</b>	<b>597,342</b>

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

#### 4.2 Interest Rate Risk Sensitive Assets and Liabilities

As at 31 December 2013	Effective Interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank balances	-	-	-	<b>9,584</b>	<b>9,584</b>
Call deposits	-	<b>1,347</b>	-	-	<b>1,347</b>
Placements with banks	<b>1.41%</b>	<b>21,868</b>	-	-	<b>21,868</b>
Investments at fair value through profit or loss	<b>7.01%</b>	<b>444</b>	<b>8,718</b>	<b>10,653</b>	<b>19,815</b>
Available-for-sale investments	<b>5.92%</b>	-	<b>7,332</b>	<b>25,411</b>	<b>32,743</b>
Furniture and equipment	-	-	-	<b>1,812</b>	<b>1,812</b>
Fees receivable	-	-	-	<b>1,980</b>	<b>1,980</b>
Other assets	-	-	-	<b>5,046</b>	<b>5,046</b>
<b>Total assets</b>		<b>23,659</b>	<b>16,050</b>	<b>54,486</b>	<b>94,195</b>
Short-term bank borrowings	<b>0.94%</b>	<b>7,094</b>	-	-	<b>7,094</b>
Customer accounts	-	-	-	<b>19,620</b>	<b>19,620</b>
Other liabilities	-	-	-	<b>3,244</b>	<b>3,244</b>
Payable to unit holders	-	-	-	<b>2,373</b>	<b>2,373</b>
<b>Total liabilities</b>		<b>7,094</b>	-	<b>25,237</b>	<b>32,331</b>
<b>Total equity</b>		-	-	<b>61,864</b>	<b>61,864</b>
<b>Total liability and equity</b>		<b>7,094</b>	-	<b>87,101</b>	<b>94,195</b>
Interest rate sensitivity gap		<b>16,565</b>	<b>16,050</b>	<b>32,615</b>	
<b>Cumulative Interest rate sensitivity gap</b>		<b>16,565</b>	<b>32,615</b>	-	

## 5. EQUITY POSITIONS IN THE BANKING BOOK

As at 31 December 2013	Gross exposure	Capital requirement @ 12%
Quoted Equities	<b>14,913</b>	<b>1,790</b>
Unquoted Equities	<b>10,499</b>	<b>1,260</b>
<b>Total</b>	<b>25,412</b>	<b>3,050</b>
Realised gain during the year	<b>1,401</b>	
Dividend income during the year	<b>393</b>	
Unrealised net gain/loss recognised in equity	<b>2,348</b>	
Gross unrealised losses deducted from Tier 1 capital	<b>(43)</b>	
45% of unrealised gains recognised under Tier 2 capital	<b>919</b>	

## 6. RELATED PARTY TRANSACTIONS

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

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

Fee and commission income	<b>657</b>
Fee receivable	<b>202</b>
Investments in own funds	<b>2,341</b>
Funds under management	<b>53,076</b>
<b>Transactions with shareholders</b>	
Fee and commission income	<b>1,597</b>
Fee receivable	<b>1,266</b>
Funds under management	<b>50,541</b>
Borrowings	<b>3,885</b>

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

### Approval process for related parties transactions:

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

# CONSOLIDATED FINANCIAL STATEMENTS

## CONTENTS

Independent Auditors' Report to the Shareholders	51
<b>Financial Statements</b>	
Consolidated Statement of Financial Position	52
Consolidated Statement of Profit or Loss	53
Consolidated Statement of Comprehensive Income	54
Consolidated Statement of Changes in Equity	55
Consolidated Statement of Cash Flows	57
Notes to the 31 December 2013 Consolidated Financial Statements	58

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

---



## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

### Responsibility of the board of directors for the consolidated financial statements

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

### Auditors' responsibility

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

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

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

### Opinion

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

## REPORT ON OTHER REGULATORY REQUIREMENTS

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013  
BAHRAINI DINARS '000

	NOTE	2013	2012	2011
<b>Assets</b>				
Cash and cash equivalents	7	<b>32,799</b>	32,544	20,050
Investments at fair value through profit or loss	8	<b>19,815</b>	16,123	18,873
Available-for-sale investments	9	<b>32,743</b>	21,832	25,145
Fees receivable	10	<b>1,980</b>	444	382
Other assets	11	<b>5,046</b>	7,271	6,472
Furniture, equipment and intangibles	12	<b>1,812</b>	235	36
<b>Total assets</b>		<b>94,195</b>	78,449	70,958
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Short-term bank borrowings	13	<b>7,094</b>	4,899	6,108
Customer accounts	14	<b>19,620</b>	13,416	8,174
Other liabilities	15	<b>3,244</b>	2,763	2,486
Payable to other unit holders	6	<b>2,373</b>	82	307
<b>Total liabilities</b>		<b>32,331</b>	21,160	17,075
<b>Equity</b>				
Share capital	16	<b>42,849</b>	42,726	42,652
Statutory reserve	17	<b>5,567</b>	4,984	4,650
General reserve	18	<b>2,100</b>	1,786	1,737
Available-for-sale investments fair value reserve		<b>2,456</b>	911	435
Retained earnings		<b>8,892</b>	6,882	4,409
<b>Total equity (page 55)</b>		<b>61,864</b>	57,289	53,883
<b>Total liabilities and equity</b>		<b>94,195</b>	78,449	70,958

The Board of Directors approved the consolidated financial statements consisting of pages 52 to 93 on 17 February 2014, and signed on its behalf by:



Shaikh Abdulla bin Khalifa Al-Khalifa  
Chairman



Hussain Al Hussaini  
Vice Chairman



Anthony C. Mallis  
Chief Executive Officer

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED  
31 DECEMBER 2013  
BAHRAINI DINARS '000

	NOTE	2013	2012 (restated)
Interest income	19	<b>1,395</b>	1,423
Interest expense	19	<b>(80)</b>	(126)
<b>Net interest income</b>		<b>1,315</b>	1,297
Net fee and commission income	20	<b>3,989</b>	2,220
Net investment income	21	<b>4,027</b>	3,310
Brokerage and other income	22	<b>1,249</b>	671
<b>Total income</b>		<b>10,580</b>	7,498
Staff and related expenses	23	<b>(3,688)</b>	(3,188)
Other operating expenses	24	<b>(1,646)</b>	(1,259)
Impairment on available-for-sale investments		<b>(155)</b>	(184)
<b>Profit for the year</b>		<b>5,091</b>	2,867
<b>Basic and diluted earnings per share (fils)</b>	30	<b>11.89</b>	6.71
Attributable to:			
Equity holders of the parent		<b>4,884</b>	2,859
Unit holders	6	<b>207</b>	8
		<b>5,091</b>	2,867



Shaikh Abdulla bin Khalifa Al-Khalifa  
Chairman



Hussain Al Hussaini  
Vice Chairman



Anthony C. Mallis  
Chief Executive Officer

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED  
31 DECEMBER 2013  
BAHRAINI DINARS '000

	2013	2012 (restated)
<b>Profit for the year</b>	<b>5,091</b>	2,867
<b>Other comprehensive income</b>		
<b>Items to be reclassified to profit or loss in subsequent periods:</b>		
Fair value reserve (available-for-sale investments):		
- Net change in fair value	3,304	1,613
- Net amount transferred to statement of profit or loss on sale / impairment	(1,268)	(1,054)
- Profit on part disposal of consolidated fund	(491)	(83)
<b>Total other comprehensive income for the year</b>	<b>1,545</b>	476
<b>Total comprehensive income for the year</b>	<b>6,636</b>	3,343
<b>Attributable to:</b>		
Equity holders of the parent	6,429	3,335
Unit holders	207	8
	<b>6,636</b>	3,343

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED  
31 DECEMBER 2013  
BAHRAINI DINARS '000

	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
<b>2013</b>						
Balance at 1 January 2013 (restated – page 56)	<b>42,726</b>	<b>4,984</b>	<b>1,786</b>	<b>911</b>	<b>6,882</b>	<b>57,289</b>
- Transfer to general reserve	-	-	<b>314</b>	-	<b>(314)</b>	-
- Transfer to statutory reserve	-	<b>542</b>	-	-	<b>(542)</b>	-
- Issue of shares to employees' scheme	<b>123</b>	<b>41</b>	-	-	-	<b>164</b>
Comprehensive income for the year:						
Profit for the year	-	-	-	-	<b>4,884</b>	<b>4,884</b>
Other comprehensive income:						
Revaluation reserve (available-for-sale securities):						
Net change in fair value	-	-	-	<b>3,304</b>	-	<b>3,304</b>
Net amount transferred to statement of profit or loss on sale / impairment	-	-	-	<b>(1,268)</b>	-	<b>(1,268)</b>
Profit on part disposal of consolidated fund	-	-	-	<b>(491)</b>	<b>676</b>	<b>185</b>
Unrealised gain on consolidated funds transferred to retained earnings	-	-	-	-	<b>(558)</b>	<b>(558)</b>
<b>Total other comprehensive income</b>	-	-	-	<b>1,545</b>	-	<b>1,545</b>
<b>Total comprehensive income for the year</b>	-	-	-	<b>1,545</b>	<b>5,002</b>	<b>6,547</b>
Transactions with owners:						
- Dividends paid	-	-	-	-	<b>(2,136)</b>	<b>(2,136)</b>
<b>Balance at 31 December 2013</b>	<b>42,849</b>	<b>5,567</b>	<b>2,100</b>	<b>2,456</b>	<b>8,892</b>	<b>61,864</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY contd.

FOR THE YEAR ENDED  
31 DECEMBER 2013  
BAHRAINI DINARS '000

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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED  
31 DECEMBER 2013  
BAHRAINI DINARS '000

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

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

# NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS

---

## 1. REPORTING ENTITY

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

The primary objectives of the Bank are:

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

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

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

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

### (b) Basis of measurement

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

### (c) Use of estimates and judgments

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

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

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

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

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

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

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

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

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

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

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

### IFRS 12 - Disclosures of interests in other entities

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

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

### IFRS 13 - Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

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

### Improvements to IFRSs (2011)

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

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

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

#### IFRS 9 'Financial Instruments'

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

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

---

### 2. BASIS OF PREPARATION CONTD.

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

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

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

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

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

#### **Amendments to IAS 32 on offsetting financial assets and financial liabilities (2011)**

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

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

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

#### **Amendments to IAS 36 on recoverable amount disclosures for non-financial assets**

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

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

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

#### (f) Early adoption of standards

The Group did not early adopt new or amended standards in 2013.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements except for the changes arising from adoption of new and amended standards (refer note 2(d)).

#### (a) Consolidation

##### (i) Subsidiaries

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

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

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

**(iii) Loss of control**

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

**(iv) Transactions eliminated on consolidation**

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

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

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

**(ii) Transactions and balances**

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

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

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

**Judgments***Classification of investments*

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

*Determination of control over investees – Investment funds*

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

**Estimations***Impairment of available-for-sale equity investments*

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

---

### 3. SIGNIFICANT ACCOUNTING POLICIES CONTD.

#### (d) Investment securities

##### (i) Classification

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

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

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

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

##### (iii) Measurement

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

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

##### (iv) Fair value measurement

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

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

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

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

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

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

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

##### (v) Impairment

The carrying amount of the Group's financial assets, except investment at fair value through profit or loss, is reviewed at each reporting period to determine whether there is objective evidence that a specific asset may be impaired. Financial assets are impaired when

objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

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

#### Available-for-sale investments

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

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

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

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

#### (f) Cash and cash equivalents

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

#### (g) Amortised cost measurement

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

#### (h) Impairment of financial assets carried at amortised cost

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

#### (i) Furniture, equipment and core banking software

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

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

Core banking software	10 years
Furniture and equipment	3 years

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

---

### 3. SIGNIFICANT ACCOUNTING POLICIES CONTD.

(j) **Bank borrowings**

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

(k) **Repurchase agreements**

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

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

(l) **Customer accounts**

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

(m) **Employee benefits**

**(i) Bahraini employees**

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

**(ii) Expatriate employees**

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

**(iii) Employee share incentive scheme**

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

(n) **Dividends**

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

(o) **Provisions**

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

(p) **Fiduciary activities**

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

(q) **Settlement date accounting**

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

**(r) Offsetting**

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

**(s) Earnings per share**

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

**(t) Interest income and expense**

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

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

**(u) Fee and commission**

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

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

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

**(v) Net investment income**

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

**(w) Dividend income**

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

**(x) Brokerage and other income**

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

**(y) Operating Segments**

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 4. FINANCIAL RISK MANAGEMENT

#### (a) Introduction and overview

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

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

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

#### Risk management framework

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

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

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

#### (b) Credit risk

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

#### Management of credit risk

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

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

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

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

#### Exposure to credit risk

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

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

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

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

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

#### Risk exposure concentration

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

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

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2013 was BD 11,569 (2012: BD 10,724), relating to "cash and cash equivalents, investments at fair value through profit or loss and available-for-sale investments".

#### Geographical exposure distribution

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

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 4. FINANCIAL RISK MANAGEMENT CONTD.

#### (b) Credit risk contd.

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

The distribution of assets by industry sector is as follows:

<b>2013</b>	Financial services	Others	Total
Total assets	<b>63,407</b>	<b>27,168</b>	<b>90,575</b>
Total liabilities	<b>11,584</b>	<b>20,747</b>	<b>32,331</b>
<b>2012 (restated)</b>	Financial services	Others	Total
Total assets	51,371	23,556	74,927
Total liabilities	10,154	11,006	21,160

**Settlement risk**

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

**(c) Liquidity risk**

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

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

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

The Bank faces three types of liquidity risks as follows:

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

**Management of liquidity risk**

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

The residual contractual maturity of financial liabilities is as follows:

<b>2013</b>	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short-term bank borrowings	<b>7,094</b>	<b>7,097</b>	<b>7,097</b>	-	-
Customer accounts	<b>19,620</b>	<b>19,620</b>	<b>19,620</b>	-	-
Other liabilities	<b>3,244</b>	<b>3,244</b>	<b>3,244</b>	-	-
Payable to unit holders	<b>2,373</b>	<b>2,373</b>	<b>2,373</b>	-	-
	<b>32,331</b>	<b>32,334</b>	<b>32,334</b>	-	-
<b>2012 (restated)</b>	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short-term bank borrowings	4,899	4,902	4,902	-	-
Customer accounts	13,416	13,416	13,416	-	-
Other liabilities	2,763	2,763	2,763	-	-
Payable to unit holders	82	82	82	-	-
	21,160	21,163	21,163	-	-

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 4. FINANCIAL RISK MANAGEMENT CONTD.

#### (d) Market risk

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

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

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

#### (i) Equity price risk

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

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

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

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

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

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

#### (ii) Interest rate risk

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

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

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

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

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

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

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

#### Interest rate re-pricing profile

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 4. FINANCIAL RISK MANAGEMENT CONTD.

#### (d) Market risk contd.

##### (ii) Interest rate risk contd.

##### Interest rate re-pricing profile contd.

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

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

##### (iii) Exchange risk

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

---

(e) Operational risk

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

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

Another endeavour of the Bank's operational risk management is to usher in straight through processing (STP) to enable seamless processing and reduce operational errors and optimize productivity. There is a well laid out plan to introduce middle office functionalities to ensure better compliance management. The Bank upgraded the core banking system and office automation which was implemented during 2013.

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

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

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

(f) Capital management

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

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

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 4. FINANCIAL RISK MANAGEMENT CONTD.

#### (f) Capital management contd.

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

Based on year end balances

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

Based on full year average balances

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

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

#### Capital allocation

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

## 5. GROUP SUBSIDIARIES

Set out below are the Group's principal subsidiaries at 31 December 2013. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund. The country of incorporation or registration is also their principal place of business:

Subsidiary	Percentage ownership	Year of incorporation	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company II BSC (c)	100%	2005	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company V BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
7. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
8. SICO Funds Company VII BSC (c)	100%	2010	Bahrain	Umbrella company for SICO mutual funds
9. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO
10. Securities and Investment Company (UAE) LLC	100%	2011	UAE	Brokerage services
11. SICO Kingdom Equity Fund	70%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
12. SICO Fixed Income Fund	59%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 5. GROUP SUBSIDIARIES CONTD.

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

Statement of financial position	31 December 2012		
	As previously reported	Restatement adjustment	After restatement
<b>Assets</b>			
Cash and cash equivalents	32,525	19	32,544
Investments at fair value through profit or loss	14,727	1,396	16,123
Available-for-sale investments	23,155	(1,323)	21,832
Fees receivable	452	(8)	444
<b>Liabilities</b>			
Other liabilities	2,757	6	2,763
Payable to unit holders	-	82	82
<b>Equity</b>			
Available-for-sale investments fair value reserve	1,020	(109)	911
Retained earnings	6,777	105	6,882
<b>31 December 2011</b>			
	As previously reported	Restatement adjustment	After restatement
<b>Assets</b>			
Cash and cash equivalents	19,964	86	20,050
Investments at fair value through profit or loss	16,738	2,135	18,873
Available-for-sale investments	27,038	(1,893)	25,145
Fees receivable	390	(8)	382
<b>Liabilities</b>			
Other liabilities	2,470	16	2,486
Payable to unit holders	-	307	307
<b>Equity</b>			
Available-for-sale investments fair value reserve	443	(8)	435
Retained earnings	4,401	8	4,409
<b>Statement of profit or loss</b>			
	31 December 2012		
	As previously reported	Restatement adjustment	After restatement
Investment income	3,133	177	3,310
Net fee and commission income	2,255	(35)	2,220
Brokerage and other income	668	3	671
Other operating expenses	1,242	18	1,260

## 6. PAYABLE TO OTHER UNIT HOLDERS IN CONSOLIDATED FUNDS

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

### SICO Kingdom Equity Fund

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

### SICO Fixed Income Fund

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 7. CASH AND CASH EQUIVALENTS

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

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

### 8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

## 9. AVAILABLE-FOR-SALE INVESTMENTS

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

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

## 10. FEE RECEIVABLE

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

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

## 11. OTHER ASSETS

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 12. FURNITURE, EQUIPMENT AND INTANGIBLES

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

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

### 13. SHORT-TERM BANK BORROWINGS

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

### 14. CUSTOMER ACCOUNTS

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

### 15. OTHER LIABILITIES

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

## 16. SHARE CAPITAL

	2013	2012
Authorised share capital		
1,000,000,000 (2012: 1,000,000,000) shares of 100 fils each	<b>100,000</b>	100,000

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

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

## Appropriations

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

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

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 17. STATUTORY RESERVE

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 542 (2012: BD 314).

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

### 18. GENERAL RESERVE

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

### 19. INTEREST INCOME / EXPENSE

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

### 20. FEE AND COMMISSION INCOME / EXPENSE

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

**21. NET INVESTMENT INCOME**

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

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

	<b>2013</b>	2012 (restated)
Realised gain / (loss) on sale	<b>1,171</b>	1,306
Unrealised fair value gain / (loss)	<b>730</b>	223
	<b>1,901</b>	1,529

**22. BROKERAGE AND OTHER INCOME**

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

**23. STAFF AND RELATED EXPENSES**

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

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

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

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 24. OTHER OPERATING EXPENSES

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

### 25. RELATED PARTY TRANSACTIONS

#### Transactions with funds owned by the Subsidiary Companies

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

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

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

#### Transactions with shareholders

The Group obtained short term borrowings from its bank shareholders for a total of BD 3,885 (2012: 3,847). The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilised 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.

BAHRAINI DINARS '000

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

#### Key Management Personnel

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

Compensation to key management personnel is as follows:

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

Other operating expenses include BD 170 (2012: BD 50) towards attendance fees, remuneration and other related expenses for members of the Board and Investment Committee.

## 26. EMPLOYEE SHARE OWNERSHIP PLAN

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

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

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme advance account classified under other assets. The employee share incentive scheme share advance account as at 31 December 2013 amounted to BD 1,559 (2012: 1,395).

The Group has recognised an employee liability of BD 1,655 (2012: 1,601) on the shares granted till date. This liability has been determined on the fair value of the Group's net assets as at 31 December 2013 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 26. EMPLOYEE SHARE OWNERSHIP PLAN CONTD.

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

	2013		2012	
	No. of shares issued	Value	No. of shares issued	Value (restated)
As at 1 January	<b>14,758,940</b>	<b>1,395</b>	14,020,230	1,301
Shares issued during the year*	<b>1,228,801</b>	<b>164</b>	738,710	94
	<b>15,987,741</b>	<b>1,559</b>	4,758,940	1,395

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

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

### 27. INVOLVEMENT IN UNCONSOLIDATED STRUCTURED ENTITIES

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	<ul style="list-style-type: none"> <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.

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

## 28. CONTINGENCIES, COMMITMENTS AND MEMORANDUM ACCOUNTS

### Investment commitment

The Group has committed to invest in SICO Selected Securities Fund a minimum of 5% of the fund's net asset value and 10% of the net assets value of the Khaleej Equity Fund at any time throughout its life. The Group has other investment commitments of BD 730 (2012: 1,128) and margin lending drawdown commitments of BD 730 (2012: 546).

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

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

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

The Bank has hedged its currency exchange risk in British pound for equivalent BD 607.

	2013	2012
<b>Assets under custody</b>	<b>1,258,081</b>	824,177

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

### Legal claims

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 29. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

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

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

### 30. BASIC EARNINGS PER SHARE

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

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

## 31. MATURITY PROFILE OF ASSETS AND LIABILITIES

## 31 December 2013

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

## 31 December 2012 (restated)

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 32. ACCOUNTING CLASSIFICATION AND FAIR VALUES

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

	Fair value through profit or loss	Available- for-sale	Loans and receivables	Liabilities at fair value	Others at amortised cost	Total carrying value
<b>31 December 2013</b>						
Cash and bank balances	-	-	<b>32,799</b>	-	-	<b>32,799</b>
Investments at fair value through profit or loss	<b>19,815</b>	-	-	-	-	<b>19,815</b>
Available-for-sale investments	-	<b>32,743</b>	-	-	-	<b>32,743</b>
Fees receivable	-	-	<b>1,980</b>	-	-	<b>1,980</b>
Other assets	-	-	<b>3,238</b>	-	-	<b>3,238</b>
	<b>19,815</b>	<b>32,743</b>	<b>38,017</b>	-	-	<b>90,575</b>
Short-term bank borrowings	-	-	-	-	<b>7,094</b>	<b>7,094</b>
Customer accounts	-	-	-	-	<b>19,620</b>	<b>19,620</b>
Other liabilities	-	-	-	-	<b>3,244</b>	<b>3,244</b>
Payable to unit holders	-	-	-	<b>2,373</b>	-	<b>2,373</b>
	-	-	-	<b>2,373</b>	<b>29,958</b>	<b>32,331</b>
<b>31 December 2012 (restated)</b>						
Cash and bank balances	-	-	32,544	-	-	32,544
Investments at fair value through profit or loss	16,123	-	-	-	-	16,123
Available-for-sale investments	-	21,832	-	-	-	21,832
Fees receivable	-	-	444	-	-	444
Other assets	-	-	3,984	-	-	3,984
	16,123	21,832	36,972	-	-	74,927
Short-term bank borrowings	-	-	-	-	4,899	4,899
Customer accounts	-	-	-	-	13,416	13,416
Other liabilities	-	-	-	-	2,763	2,763
Payable to unit holders	-	-	-	82	-	82
	-	-	-	82	21,078	21,160

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

**(ii) Fair value hierarchy**

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

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

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

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

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

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

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

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

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

## NOTES TO THE 31 DECEMBER 2013 CONSOLIDATED FINANCIAL STATEMENTS contd.

### 32. ACCOUNTING CLASSIFICATION AND FAIR VALUES CONTD.

#### (ii) Fair value hierarchy contd.

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

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

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

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

**(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

**33. COMPARATIVES**

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

# SICO CORPORATE DIRECTORY

## **SICO COURIER ADDRESS:**

BMB Building  
First floor  
Diplomatic Area  
Manama  
Kingdom of Bahrain  
Fax: +973 1751 4000

## **SICO MAILING ADDRESS:**

PO Box 1331  
Manama  
Kingdom of Bahrain

## **SICO FUNDS SERVICES CO. BSC (C):**

BMB Building  
Second floor  
PO Box 20233  
Manama  
Kingdom of Bahrain  
Tel: +973 1751 6060  
Fax: +973 1753 1777  
Email: custody@sicobahrain.com

## **CLIENT RELATIONS UNIT:**

Tel: +973 1751 5700  
Fax: +973 1754 0700  
Email: clients@sicobahrain.com

## **ASSET MANAGEMENT**

assetmanagement@sicobahrain.com

## **BROKERAGE**

brokerage@sicobahrain.com

## **CORPORATE FINANCE**

corporatefinance@sicobahrain.com

## **CORPORATE COMMUNICATIONS**

corporatecommunications@sicobahrain.com

## **ADMIN & HR**

hr@sicobahrain.com

## **GENERAL INFORMATION**

info@sicobahrain.com

## **INTERNAL AUDITOR**

internalauditor@sicobahrain.com

## **IT**

it@sicobahrain.com

## **RESEARCH**

research@sicobahrain.com

## **SECURITIES & INVESTMENT COMPANY UAE**

Al-Wahda Commercial Tower  
Fifth Floor  
Defense Road  
PO Box 37618  
Abu Dhabi  
United Arab Emirates  
Tel: +971 2659 0100  
Fax: +971 2642 9108  
Email: info@sicouae.com



