SECURITIES AND INVESTMENT COMPANY BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2014

Comprehensive investment services for the Bahrain and GCC securities market

Commercial registration	:	33469
Board of Directors	:	Shaikh Abdulla bin Khalifa Al Khalifa, Chairman of the Board and Chairman of the Investment Committee
		Hussain Al Hussaini, *Vice Chairman of the Board and Member of the Investment Committee*
		Sawsan Abul Hassan *Vice Chairman of the Investment Committee*
		Mohammed Abdulla *Vice Chairman Of Nominations, Remuneration & Corporate Governance Committee*
		Mahmoud Zewam *Member of the Audit Committee*
		Anwar Abdulla Ghuloom *Member of Nominations, Remuneration & Corporate Governance Committee*
		Fahad Murad *Chairman Of Nominations, Remuneration & Corporate Governance Committee*
		Yousif Saleh Khalaf *Chairman of the Audit Committee*
		Waleed Al Braikan *Vice Chairman of the Audit Committee*
Chief Executive Officer	:	Najla M. Al Shirawi
Office	:	1st & 2nd Floor, BMB Centre PO Box 1331, Kingdom of Bahrain Telephone 17515000, Fax 17514000
Bankers	:	Bank of Bahrain and Kuwait BSC
Auditors	:	KPMG

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Chairman's Statement

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

Financial Results

Despite severe volatility in GCC markets during the fourth quarter following the decline in oil prices, which affected SICO's profitability, I am pleased to report that the Bank posted a strong financial performance in 2014.Net profit for the year increased by 11.3 per cent to BD 5.4 million compared with BD 4.9 million the previous year; while operating income rose by 17 per cent to BD12.4 million from BD 10.6 million in 2013. Basic earnings per share rose by 11 percent to 12.68 fils from 11.41 fils in 2013. At the end of 2014, total balance sheet footings had grown by 24.5 per cent to BD 117.3 million from BD 94.2 million at the end of the previous year. SICO continued to maintain a solid capital base, with shareholders' equity increasing to BD 62.7 million from BD 61.9 million in 2013. The Bank maintained a very strong consolidated capital adequacy ratio of 63.6 per cent, which is substantially higher than the Central Bank of Bahrain's requirement.

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

Appropriations

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

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

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

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

Institutional Capability

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

Strategic Focus

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

Change in Leadership

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

Looking Ahead

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

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

Acknowledgements

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

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

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

Abdulla bin Khalifa Al-Khalifa
Chairman of the Board

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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 financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

KPMG Fakhro
Partner Registration No. 100
12 Febraury 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2014 Bahraini Dinars '000

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

The Board of Directors approved the consolidated financial statements consisting of pages 4 to 44 on 12 February 2015, and sign on its behalf by:

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2014 Bahraini Dinars ‘000

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014 Bahraini Dinars '000

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

Bahraini Dinars '000

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014 *(continued)*

Bahraini Dinars '000

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014 Bahraini Dinars '000

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

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

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 investments at fair value through profit or loss and available-for-sale investments.

(c) Use of estimates and judgments

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

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

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

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

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

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

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.
Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

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

2 Basis of preparation (continued)

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. The amendments have been applied retrospectively.
The adoption of this amendment had no significant impact on the consolidated financial statements.

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

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

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

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

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

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

IFRS 9 - Financial Instruments

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

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

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

2 Basis of preparation (continued)

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

IFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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

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

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

Amendments to IAS 19 Defined Benefit Plans: *Employee Contributions*

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

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

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

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

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

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

(f) Early adoption of standards

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

3. Significant accounting policies

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

(a) Consolidation

(i) Subsidiaries

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

(ii) Non-controlling interests (NCI)

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

Judgments

Classification of investments

In the process of applying the Group’s accounting policies, management decides on acquisition of an investment whether it should be classified as at fair value through profit or loss, 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.

3 Significant accounting policies (continued)

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

Determination of control over investees – Investment funds

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

Estimations

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments 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.

(d) Investment securities

(i) Classification

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

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

(iv) Fair value measurement

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

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

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

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

For investments in the debt instruments that are not quoted in an active market, the Group uses information from the pricing services such as Bloomberg for use as inputs in their fair value measurement that 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 recognized in profit or loss – is reclassified from fair value reserve to profit or loss. Impairment losses recognized 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 recognized 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 amortization, and the current fair value, less impairment loss previously recognized 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 recognized 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 derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

3 Significant accounting policies (continued)

(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) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The calculation of the effective interest rate includes all fees 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 amortized cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

(i) Furniture, equipment and core banking software

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

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

Core banking software	10 years
Furniture and equipment	3 years

(j) Bank borrowings

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

(k) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not 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 amortized cost using the effective interest method.

(m) Employee benefits

(i) Bahraini employees

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

3 Significant accounting policies (continued)

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

(iii) Employee share incentive scheme
The Bank operates a discretionary share based plan, which is designed to provide competitive long term incentives and is a cash-settled share based payment scheme. The total amount is expensed over the vesting period 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 recognized as a liability in the period in which such dividends are declared.

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

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

(q) Settlement date accounting
All "regular way" purchases and sales of financial assets except for derivatives are 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 recognized amounts and intends to settle either on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

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

Performance fee is recognized 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 realized and unrealized 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 recognized when the right to receive income is established. Dividends are presented in net investment income.

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

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

4. Financial risk management
(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk
- operational risk

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

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

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

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

Notes to the 31 December 2014 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

(b) Credit risk

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

Management of credit risk

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

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

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

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

Exposure to credit risk

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

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

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 honor its obligations.

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

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.

Notes to the 31 December 2014 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

(b) Credit risk (continued)

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

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2014 was BD 8,244 (2013: BD 11,569), relating to "cash and cash equivalents, investments at fair value through profit or loss and available for sale investments".

Geographical Exposure Distribution

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

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

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

Notes to the 31 December 2014 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

(b) Credit risk (continued)

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

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

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

Settlement risk

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

(c) Liquidity risk

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

It originates from the mismatches in the maturity pattern of assets and liabilities or other defaults that could result in its funding and credit lines drying up. Measuring and managing liquidity needs are considered vital for effective operation of the 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 crystallization of contingent, off balance sheet liabilities and inability to undertake profitable business opportunities when desirable.

Management of liquidity risk

Liquidity risk is currently managed by the Treasury unit monitoring the cash flow and funding requirements on a daily basis. Credit Lines have been established with a few 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.

Notes to the 31 December 2014 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

(c) Liquidity risk (continued)

The residual contractual maturity of financial liabilities is as follows:

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

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

(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 unrealized gains and losses are accounted for on a daily basis. Externally managed funds and portfolios are valued at Net Asset Value provided by the external investment managers 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.

Notes to the 31 December 2014 consolidated financial statements Bahraini Dinars '000

4 Financial risk management (continued)

(d) Market risk (continued)

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

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

(ii) Interest rate risk

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

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

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

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

Notes to the 31 December 2014 consolidated financial statements Bahraini Dinars '000

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

Interest rate re-pricing profile

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

Notes to the 31 December 2014 consolidated financial statements Bahraini Dinars '000

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

Interest rate re-pricing profile

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

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

(iii) Exchange risk

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

(e) Operational risk

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

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

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4 Financial risk management (continued)

(e) Operational risk (continued)

Another endeavor of the Bank's operational risk management is to usher in straight through processing (STP) to enable seamless processing and reduce operational errors and optimize productivity. 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 recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

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

Based on year end balances

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

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4 Financial risk management (continued)

(f) Capital management (continued)

Based on full year average balances

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

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

Capital allocation

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

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

5. Group subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2014. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the group to the total units issued by the fund. The country of incorporation or registration is also their principal place of business:

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5 Subsidiaries (continued)

Subsidiary	**Percentage ownership**	**Year of incorporation /**	**Country of incorporation**	**Principal activity**
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company II BSC (c)	100%	2005	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company V BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
7. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
8. SICO Funds Company VII BSC (c)	100%	2010	Bahrain	Umbrella company for SICO mutual funds
9. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO.
10. Securities and Investment Company(UAE) LLC	100%	2011	UAE	Brokerage services
11. SICO Kingdom Equity Fund	63%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi Arabia
12. SICO Fixed Income Fund	72%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks

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6. Payable to other unit holders in consolidated funds

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

SICO Kingdom Equity Fund

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

SICO Fixed Income Fund

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

7. Cash and cash equivalents

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

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

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8. Investments at fair value through profit or loss

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

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

9. Available-for-sale investments

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

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

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

10. Fees receivable

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

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

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11. Other assets

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

12. Furniture, equipment and intangibles

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

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

13. Short-term bank borrowings

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

14. Customer accounts

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

15. Other liabilities

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

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16. Share capital

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

	2014	2013
Issued and fully paid		
At 1 January 2014: 428,487,741 ordinary shares of 100 fils each (2013: 427,258,940 ordinary shares of 100 fils each)	42,849	42,726
Issue of shares to employee share incentive scheme trustees during the year	-	123
As at 31 December 2014: 428,487,741 ordinary shares of 100 fils each (2013: 428,487,741 ordinary shares of 100 fils each)	**42,849**	42,849

During the year, the Bank did not issue any shares under the employee share incentive scheme. During the year 2013, the Bank issued 1,228,801 shares of 100 fils each at the 31 December 2012 NAV of 134 fils per share. Accordingly the share capital did was increased by BD 123 to the extent of the nominal value of the shares of 100 fils each. The share premium of BD 41 relating to the issue of these shares at a premium 34 fils per share has been credited to the statutory reserve.

Appropriations

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

The shareholders are:

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

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

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17. Statutory reserve

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

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

18. General reserve

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

19. Net investment income

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

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

	2014	2013
Realized gain on sale	1,165	1,171
Unrealized fair value (loss) / gain	(413)	730
	752	1,901

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

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

20. Fee and commission income/ expense

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

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21. Brokerage and other income

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

22. Interest income/ expense

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

23. Staff and related expenses

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

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

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

24. Other operating expenses

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

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25. Related party transactions

Transactions with funds owned by the Subsidiary Companies

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

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

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

Transactions with shareholders

The Group obtained short term borrowings from its bank shareholders for a total of BD NIL (2013: 3,885). The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilized credit facilities with certain of its shareholders that are local banks. All such transactions are in the ordinary course of business and on normal commercial terms.

The Group also provides discretionary portfolio management account services to two of its shareholders in the ordinary course of business. These services are provided on normal commercial terms and conditions and the related funds are held by the Group in a fiduciary capacity. The excess funds are placed with the other banks as deposits on normal commercial terms.

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

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.

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25 Related party transactions (continued)

Compensation to key management personnel is as follows:

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

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

26. Employee Share Ownership Plan

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

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

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

The Group has recognized an employee liability of BD 1,233 (2013: 1,655) on the shares granted till date. This liability has been determined on the fair value of the Group's net assets as at 31 December 2014 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

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

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

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

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

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27. Involvement in unconsolidated structured entities

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

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

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

28. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in SICO Selected Securities Fund a minimum of 5% of the fund's net asset value and 10% of the net assets value of the Khaleej Equity Fund at any time throughout its life. The Group has other investment commitments of BD 115 (2013: 730) and margin lending drawdown commitments of BD 1,414 (2013: 730).

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

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

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

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

28 Contingencies, commitments and memorandum accounts (continued)

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

Legal claims

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

The plaintiff claimed damages of BD 1 million resulting from a fraudulent transaction carried out by the third party and allegedly one of the old employees of the Subsidiary. The transaction took place prior to the acquisition of the Subsidiary by the Bank when the Subsidiary's name was CI Capital Gulf Financial Brokerage Company LLC.

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

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

29. Significant net open foreign currency positions

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

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

30. Basic earnings per share

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

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

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31. Maturity profile of assets and liabilities

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

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

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32. Accounting classification and fair values

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

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

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32. Accounting classification and fair values (continued)

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

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

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32. Accounting classification and fair values (continued)

(ii) Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) Valuation technique and significant unobservable input

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

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

33. Comparatives

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