SECURITIES AND INVESTMENT COMPANY BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2010

Comprehensive investment services for the Bahrain and GCC securities market

Commercial registration	:	33469
Board of Directors	:	Shaikh Mohammed Bin Isa Al Khalifa, *Chairman*
		Anwar Abdulla Ghuloom, *Director and Member of Audit Committee*
		Hussain Al Hussaini, *Vice Chairman of the Board and Chairman of the Executive Committee*
		Sawsan Abul Hassan, *Director, Chairman of Audit Committee & Member of Corporate Gov. Imp. Committee*
		Mohammed Abdulla, *Director , Member of Executive Committee & Chairman of the Corporate Gov. Imp. Committee*
		Mahmoud Zewam, *Director and Member of Audit Committee*
		Khalid Al Rumaihi, *Director and Member of the Corporate Gov. Imp. Committee*
		Meshary Al Judaimi*, Director and Member of the Executive Committee*
Chief Executive Officer	:	Anthony C Mallis
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

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

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BOARD OF DIRECTORS' REPORT
For the year ended 31 December 2010

Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the fifteenth annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2010. I am delighted to announce that despite extremely testing market conditions, this proved to be another successful and eventful year for our Firm, during which we continued to set a benchmark for the industry. Positive financial results and sound strategic progress were supported by a strengthened institutional capability and a number of significant business achievements.

Financial results

SICO posted a solid financial performance for 2010 with a net profit of BD 3.8 million, compared with BD 3.1 million for 2009.

While the financial markets remained volatile, during the second half of the year the Firm benefited from buoyant trading conditions coupled to strong global and regional fixed income markets, and a turnaround in GCC equity markets. As a result, investments at fair value and held to maturity investments both increased substantially; while funds under management and securities under custody witnessed significant organic growth. Throughout the year, we continued maintaining a liquid balance sheet, underlined by strong capital ratios that were substantially higher than the minimum requirements of the Central Bank of Bahrain.

Business achievements

The combined prudent and proactive approach of the SICO team resulted in all business lines contributing to the Firm's revenues and profits during 2010, and continuing to set a benchmark in their respective areas of operation. We retained our position as leading broker and market maker on the Bahrain Bourse for the 12th consecutive year; secured a number of important new mandates; launched the first money market fund to be offered by a Bahraini fund manager; and expanded our research services. In addition, SICO Funds Services Company became the first national firm to be appointed as a custodian on the Bahrain Bourse.

Strategic direction

These results confirm the success of the Firm's consistent strategy: to focus on serving the GCC region; grow and diversify our business and revenue; pursue a best-of-class, client-focused business model; and maintain a disciplined approach to managing our costs, risk and capital.

Institutional capability

Throughout the year, we continued to strengthen SICO's institutional capability. In line with latest regulatory requirements including Basel 3, we reviewed and enhanced our corporate governance and risk management framework, and also established a new Internal Control Unit. In addition, we resumed recruitment, continued our substantial investment in training and development, and completed the first stage of the implementation of the Firm's new core banking system.

Economic and market background

SICO's positive performance in 2010 was achieved against an uncertain global economic background and challenging regional market conditions. International and GCC markets partially recovered ground during the second half of the year, after posting their worst monthly performance in May, and ending the second quarter in negative territory. Developments during the year included the evolving economic crises of EU peripheral members, successful stress tests by European banks; the introduction of Basel 3; the Wall Street Reform Bill in the US; the November round of quantitative easing by the US Federal Reserve; China's continued but seemingly unbalanced growth; Korean Peninsula tensions; and oil pricing stabilisation, with Brent crude ending the year at $95 per barrel. In one way or another, these affected the US dollar trade weighted value, perceptions on EU sovereign debt, inflation, and further global currency tensions.

Outlook

The recovery of oil prices from their trough of US$ 67 per barrel in May 2010 has strengthened the robust underlying macroeconomic fundamentals of the GCC for next year. While the lack of liquidity, a stressed banking sector, and lethargic credit activity in the GCC continue to be a cause for concern, the medium and long term economic outlook for the region remains positive. SICO is well positioned to take advantage of new business opportunities as markets continue their recovery.

Appropriations

Based on the Firm's 2010 financial results, the Board is recommending the following appropriations for approval by the shareholders:

1. Transfer of BD 379 thousand to the General Reserve.
2. Payment of a cash dividend of BD 2,552 thousand to shareholders, representing 6 per cent of paid-up capital.

Total shareholders' equity is BD 56.7million compared with BD 53.7 million in 2009.

Acknowledgements

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

On behalf of the shareholders, my fellow board members, and management and staff of SICO, I convey my 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.

Shaikh Mohammed bin Isa Al Khalifa
Chairman of the Board

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
Securities and Investment Company BSC(c)
Manama, Kingdom of Bahrain — 14 February 2011

Report on the (consolidated) financial statements
We have audited the accompanying (consolidated) financial statements of Securities and Investment Company BSC (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain Law, the terms of the Bank's license or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2010

Bahraini Dinars '000

	Note	**2010**	2009
Assets			
Cash and bank balances	6	35,397	47,848
Treasury bills	7	-	280
Investments at fair value through profit or loss	8	16,643	6,260
Available-for-sale investments	9	24,375	19,867
Held to maturity investments	10	-	4,740
Furniture and equipment	11	78	149
Fees receivable	12	458	660
Other assets	13	4,277	2,773
Total assets		**81,228**	82,577
Liabilities and equity			
Short-term bank borrowings	14	9,285	1,131
Payables to customers	15	12,570	20,332
Deposits from customers	16	-	5,314
Other liabilities	17	2,627	2,046
Total liabilities		**24,482**	28,823
Equity			
Share capital	18	42,528	42,420
Statutory reserve	19	4,561	4,153
General reserve	20	1,359	1,051
Available-for-sale investments fair value reserve		1,410	154
Retained earnings		6,888	5,976
Total equity (page 7)		**56,746**	53,754
Total liabilities and equity		**81,228**	82,577

Shaikh Mohammed Bin Isa Al Khalifa	Hussain Al Hussaini	Anthony C. Mallis
Chairman	Vice Chairman of the Board Chairman of the Executive Committee	Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 4 to 42 on 14 February 2011.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2010 Bahraini Dinars '000

	Note	**2010**	2009
Interest income	21	1,524	1,754
Interest expense	21	(74)	(23)
Net interest income		**1,450**	1,731
Net fee and commission income	22	2,291	2,357
Net investment income	23	2,968	795
Brokerage and other income	24	1,140	1,484
Operating income		**7,849**	6,367
Staff and related expenses	25	(3,047)	(2,464)
General, administrative and other operating expenses	26	(1,017)	(825)
Profit for the year		**3,785**	3,078
Basic earnings per share (fils)	31	**8.9**	7

Shaikh Mohammed Bin Isa Al Khalifa Chairman	Hussain Al Hussaini Vice Chairman of the Board Chairman of Executive Committee	Anthony C. Mallis Chief Executive Officer

The consolidated financial statements consist of pages 4 to 42.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010 Bahraini Dinars '000

	2010	2009
Profit for the year	**3,785**	3,078
Other comprehensive income		
Fair value reserve (available-for-sale investments)		
- Net change in fair value	2,437	1,029
- Net amount transferred to income statement on disposal of securities	(1,181)	(299)
Total other comprehensive income for the year	**1,256**	730
Total comprehensive income for the year	**5,041**	3,808

The consolidated financial statements consist of pages 4 to 42.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010 Bahraini Dinars ‘000

2010	**Share capital**	**Statutory reserve**	**General reserve**	**Available-for-sale investments fair value reserve**	**Retained earnings**	**Total equity**
As at 1 January 2010	42,420	4,153	1,051	154	5,976	53,754
2009 appropriations:						
- Dividends at 5%	-	-	-	-	(2,121)	(2,121)
- Director’s remuneration paid	-	-	-	-	(65)	(65)
- Transfer to general reserve	-	-	308	-	(308)	-
- Issue of shares to employees’ scheme	108	29	-	-	-	137
Balance after 2009 appropriations	**42,528**	**4,182**	**1,359**	**154**	**3,482**	**51,705**
Total comprehensive income for the year:						
Profit for the period	-	-	-	-	3,785	3,785
Other Comprehensive income: Revaluation reserve (available-for-sale securities)						
Net Change in fair value	-	-	-	2,437	-	2,437
Net amount transferred to profit and loss	-	-	-	(1,181)	-	(1,181)
Total Comprehensive income for the year	**-**	**-**	**-**	**1,256**	**3,785**	**5,041**
Transfer to statutory reserve	-	379	-	-	(379)	-
Balance at 31 December 2010	**42,528**	**4,561**	**1,359**	**1,410**	**6,888**	**56,746**

The consolidated financial statements consist of pages 4 to 42.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010 Bahraini Dinars '000

2009	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
As at 1 January 2009	42,346	3,832	1,028	(576)	3,229	49,859
2008 appropriations:						
- Dividends	-	-	-	-	-	-
- Director's remuneration paid	-	-	-	-	-	-
- Transfer to general reserve	-	-	23	-	(23)	-
- Issue of shares to employees' scheme	74	13	-	-	-	87
Balance after 2008 appropriations	42,420	3,845	1,051	(576)	3,206	49,946
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	3,078	3,078
Other Comprehensive income: Revaluation reserve (available-for-sale securities)						
Net Change in fair value	-	-	-	1,029	-	1,029
Net amount transferred to profit and loss	-	-	-	(299)	-	(299)
Total Comprehensive income for the year	-	-	-	730	3,078	3,808
Transfer to statutory reserve	-	308	-	-	(308)	-
Balance at 31 December 2009	42,420	4,153	1,051	154	5,976	53,754

The consolidated financial statements consist of pages 4 to 42.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2010 Bahraini Dinars '000

	Note	**2010**	2009
Operating activities			
Net interest received		1,676	1,552
Sale of investments at fair value through profit or loss		103,665	64,816
Purchase of investments at fair value through profit or loss		(112,848)	(65,808)
Sale of available-for-sale investments		40,234	20,404
Purchase of available-for-sale investments		(36,132)	(25,460)
Sale of assets held to maturity		1,785	-
Purchase of assets held to maturity		(3,216)	(4,625)
Net decrease in payables to customers		(7,762)	(15,576)
Net decrease in deposits taken from customers		(5,314)	(15,612)
Dividends received		587	235
Brokerage and other fees received		2,879	4,627
Payments for staff and related expenses		(2,682)	(2,799)
Payments for general and administrative expenses		(1,554)	(722)
Cash utilized in operating activities		**(18,682)**	(38,968)
Investing activities			
Net capital expenditure on furniture and equipment		(17)	(98)
Cash utilized in investing activities		**(17)**	(98)
Financing activities			
Proceeds from short-term bank borrowings		8,154	1,131
Dividends paid		(2,121)	-
Remuneration paid to Directors		(65)	-
Cash generated from financing activities		**5,968**	1,131
Net decrease in cash and cash equivalents		**(12,731)**	(37,935)
Cash and cash equivalents at the beginning of the year		48,128	86,063
Cash and cash equivalents at the end of the year		**35,397**	48,128
Cash and cash equivalents comprise:			
Cash and bank balances	6	35,397	47,848
Treasury bills	7	-	280
		35,397	48,128

The consolidated financial statements consist of pages 4 to 42.

1. Status and objectives

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. The Bank commenced its operations in July 1995. In September 1997, the Bank obtained an investment 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. In July 2008, the Bank was granted a conditional wholesale banking license by the CBB under Rule Book Volume 1.

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.

Principal activity

The Bank invests in securities in the Bahrain, GCC and global markets for its own account. It is an active broker in the Bahrain Stock Exchange and offers discretionary portfolio management services and margin trading to customers.

Subsidiaries

The Bank has eight wholly owned subsidiaries authorized and approved by the Central Bank of Bahrain to carry on the business of collective investment schemes:

- SICO Fund Services Company BSC (c) (SFSCO) custody and administration services;
- SICO Funds Company BSC (c) launched SICO Khaleej Equity Fund;
- SICO Funds Company II BSC (c) launched SICO Arab Financial Fund;
- SICO Funds Company III BSC (c) launched SICO Gulf Equity Fund;
- SICO Funds Company IV BSC (c) launched SICO Kingdom Fund;
- SICO Funds Company V BSC (c) launched SICO Money Market Fund;
- SICO Funds Company VI BSC (c) launched SICO Simplex Fund;
- SICO Funds Company VII BSC (c) launched SICO Selected Securities Fund;
- SICO Ventures Company SPC.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for investment securities at fair value through the profit or loss and available-for-sale securities, which are stated at fair value. The investments in subsidiaries are carried at cost in the financial statements of the parent.

(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.

2 Basis of preparation (continued)

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 5.

(d) Standards, amendments and interpretations effective on or after 1 January 2010
The following standards, amendments and interpretations, which became effective in 2010 are relevant to the Group.

- **Improvements to IFRSs**

  Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. There were no material changes to the current accounting policies of the Bank as a result of these amendments.

(e) New Standards, amendments and interpretations issued but not yet effective
The following standards and interpretations have been issued and are expected to be relevant to the Bank but not yet effective for the year ended 31 December 2010.
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IFRS 9 'Financial Instruments'

Standard issued November 2009

IFRS 9 "Financial Instruments" issued in November 2009 is the first standard issued as part of a wider project to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

Standard issued October 2010

IFRS 9 adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "Reassessment of Embedded Derivatives"

The Bank is yet to assess IFRS9's full impact. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

2 Basis of preparation (continued)

IAS 24 (Revised) "related party disclosures"
It was issued in November 2009 and is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard will be applied, the Bank and the parent will need to disclose transactions between its subsidiaries and its associates.

Improvements to IFRS (issued in April 2010)
Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Bank's 2011 annual financial statements with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.
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(f) Early adoption of standards
The Group did not early adopt new or amended standards in 2009 and 2010.

3. Significant accounting policies
The accounting policies set out below have been applied consistently by the Group and are consistent with those of the previous year except as explained in note 2 (d), which addresses changes in accounting policies.

(a) Basis of consolidation
These consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries, (collectively "the Group"). Intra-group balances and transactions, and any unrealized income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control by the parent commences until the date the control ceases.

(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) Transaction 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 securities which are taken to equity.

3 Significant accounting policies (continued)

(c) Investment securities

(i) Classification

Trading securities classified as fair value through profit or loss 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.

Held-to-maturity securities are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

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

(ii) Recognition and de recognition

Investment securities are 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

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

Available-for-sale securities (AFS securities) are initially recognized at fair value, including transaction costs. Unrealized gains and losses arising from changes in the fair values of AFS securities are recognized in the statement of other 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 income statement. Unquoted AFS equity securities whose fair value cannot be reliably measured are carried at cost less impairment.

Held-to-maturity securities are initially recognised at fair value. They are subsequently carried at amortized cost using the effective interest method.

(iv) Measurement principles

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.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

3 Significant accounting policies (continued)

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses.

(d) Impairment of assets

At each balance sheet date the Group assesses whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortized 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 income statement. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

(ii) Available-for-sale investments

In the case of investments in equity securities classified as available-for-sale and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, 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 income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not subsequently reversed through the 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.

(iii) Other non-financial assets

The carrying amount of the Group's assets (other than for financial assets covered above), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(e) Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, treasury bills and placements with banks that have an original maturity of three months or less when acquired.

(f) Furniture and equipment

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.

3 Significant accounting policies (continued)

(f) Furniture and equipment (continued)

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 of three years.

(g) Borrowings

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

(h) Deposits from customers

Deposits from customers are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(i) Employee benefits

(i) Bahraini Employees

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

(ii) Expatriate Employees

Expatriate employees are entitled to a leaving indemnity under the Bahrain Labor Law for the Private Sector 1976 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 plan, which is designed to provide competitive long term incentives, is a cash-settled share based payment scheme. The total amount to be expensed ratably over the vesting period of five years is determined by reference to the fair value of the shares determined at the grant date and re-measured at every year end over the vesting period.

(j) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognized as a liability in the period in which such dividends are declared and remuneration is accrued.

(k) 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.

(l) Fiduciary activities

The Group administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing mutual fund products. Asset administration fees are earned for providing custodial services. Fees are recognized as the services are provided.

(m) Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on trade date, i.e. the date that the Group contracts to purchase or deliver the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3 Significant accounting policies (continued)

(n) 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.

(o) 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.

(p) Interest income and expense

Interest income and expense is recognized in the income statement as it accrues, using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash flows 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.

(q) Fee and commission income and expense

Fee and commission income consists of custody fee, management fee and performance fee earned from Discretionary Portfolio Management Activity services offered by the Bank. These fees are recognized as the related services are performed.

Fee and commission expense consists of custody fee paid by the Group to third party.

(r) Net investment income/(loss)

Net investment income/(loss) includes all realized and unrealized fair value changes in the investment at fair value through profit or loss, realized gain/ losses on the available for sale investments and the related dividend income.

Dividend income is recognized when the right to receive the dividend is established.

(s) Brokerage and other income

Brokerage and other income consist of brokerage income, investment banking income and marketing income. These fees are recognized when earned.

(t) Operating Segments

IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, corporate finance, market making and custody business. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in the financial statements.

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

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4. Financial risk management (continued)

(a) Introduction and overview (continued)

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 Executive Committee.

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

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

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

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 Executive 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), Executive 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:

	2010	2009
Cash and bank balances	35,397	47,848
Treasury bills	-	280
Investments at fair value through profit or loss	6,766	5,902
Available for sale investments	18,901	14,710
Investments held to maturity	-	4,740
Fee receivable	458	660
Other receivables	1,972	1,445
	63,494	75,585

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4 Financial Risk Management (continued)

(b) Credit risk (continued)

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 assesses impairment for each financial asset specifically and does not assess impairment on a portfolio basis. This is primarily as the Group's exposure is mainly in investment in debt securities, which are not considered to have common credit characteristics to form a portfolio.

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.

Concentration of investments

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

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Distribution by sector	**Investments at fair value through profit or loss**		**Available for sale investments**		**HTM**	
	2010	2009	**2010**	2009	**2010**	2009
Commercial banks	3,480	1,443	2,181	5,127	-	1,472
Other banks	200	-	1,417	395	-	-
Services	7,775	1,100	4,504	4,062	-	713
Funds	1,369	2,488	13,456	3,275	-	-
Others	3,819	1,229	2,817	7,008	-	2,555
Total carrying amount	**16,643**	6,260	**24,375**	19,867	**-**	4,740

Geographical distribution	**Investments at fair value through profit or loss**		**Available for sale investments**		**HTM**	
	2010	2009	**2010**	2009	**2010**	2009
GCC countries	16,415	4,493	11,495	14,439	-	4,740
USA	-	-	2,235	3,275	-	-
Europe	228	1,756	10,219	2,153	-	-
Middle East and North Africa	-	11	426	-	-	-
Total carrying amount	**16,643**	6,260	**24,375**	19,867	**-**	4,740

Concentration by location for investments is measured based on the location of the issuer of the security.

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4 Financial Risk Management (continued)

(b) Credit risk (continued)

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 SFSCO.

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

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

The Bank faces three types of liquidity risks as follows:

- Funding Risk – need to replace net outflows due to unanticipated withdrawal/non-renewal of call deposit accounts, borrowing or inability to liquidate financial assets in time;
- Operating Liquidity - need to compensate for low liquidity of investments or markets and non-receipt of expected inflows of funds;
- Call Risk - due to 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.

The residual contractual maturity of financial liabilities is as follows:

2010	**Carrying value**	**Gross outflow**	**Less than 1 year**	**1 to 5 years**	**Above 5 years**
Short term borrowings	9,285	9,289	9,289	-	-
Payables to customers	12,570	12,570	12,570	-	-
Other liabilities	784	784	600	184	-
	22,639	**22,643**	**22,459**	**184**	**-**

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4 Financial Risk Management (continued)

(c) Liquidity risk (continued)

2009	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short term borrowings	1,131	1,137	1,137	-	-
Payables to customers	20,332	20,332	20,332	-	-
Deposits from customers	5,314	5,314	5,314	-	-
Other liabilities	593	593	593	-	-
	27,370	27,376	27,376	-	-

(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 Executive 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.

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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 portfolio and AFS reserve is given below:

	Investments at fair value through profit or loss		**Available for sale investments**	
	2010	2009	**2010**	2009
Increase of 1%	**166**	63	**244**	199
Decrease of 1%	**(166)**	(63)	**(244)**	(199)

(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 can only is 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.

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4 Financial Risk Management (continued)

(d) Market risk (continued)

Interest rate re-pricing profile

2010	**Effective interest rate % p.a.**	**Within 1 year**	**Over 1 year**	**Non-interest sensitive**	**Total**
Cash and bank	-	-	-	5,272	5,272
Call deposits*	-	1,786	-	-	1,786
Placements with banks	0.15%	28,339	-	-	28,339
Investments at fair value through profit or loss	2.58%	1,636	3,761	11,246	16,643
Available-for-sale securities	2.03%	2,447	2,447	19,481	24,375
Furniture and equipment	-	-	-	78	78
Fees receivable	-	-	-	458	458
Other assets	-	-	-	4,277	4,277
Total assets		**34,208**	**6,208**	**40,812**	**81,228**
Short term borrowings	0.69%	9,285	-	-	9,285
Payables to customers	-	-	-	12,570	12,570
Other liabilities	-	-	-	2,627	2,627
Total liabilities		**9,285**	**-**	**15,197**	**24,482**
Equity		**-**	**-**	**56,746**	**56,746**
Total liabilities and equity		**9,285**	**-**	**71,943**	**81,228**
Interest rate sensitivity gap		24,923	6,208	31,131	-
Cumulative interest rate sensitivity gap		24,923	31,131	-	-

NOTES to the 31 December 2010 consolidated financial statements Bahraini Dinars '000

4 Financial Risk Management (continued)

(d) Market risk (continued)

2009	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	6,658	6,658
Call deposits*	-	1,106	-	-	1,106
Placements with banks	0.47%	40,084	-	-	40,084
Treasury bills	3.75%	-	280	-	280
Investments at fair value through profit or loss	3.88%	-	3,414	2,846	6,260
Available-for-sale securities	6.39%		7,136	12,731	19,867
Held to Maturity	4.35%	-	4,740	-	4,740
Furniture and equipment	-	-	-	149	149
Fees receivable	-	-	-	660	660
Other assets	-	-	-	2,773	2,773
Total assets		41,190	15,570	25,817	82,577
Bank overdrafts	-	-	-	-	-
Short term borrowings	1.25%	1,131	-	-	1,131
Payables to customers	-	-	-	20,332	20,332
Deposits from customers	0.20%	5,314	-	-	5,314
Other liabilities	-	-	-	2,046	2,046
Total liabilities		6,445	-	22,378	28,823
Equity		-	-	53,754	53,754
Total liabilities and equity		6,445	-	76,132	82,577
Interest rate sensitivity gap		34,745	15,570	50,315	-
Cumulative interest rate sensitivity gap		34,745	50,315	-	-

* At 31 December 2010 the effective interest rate on Bahraini Dinar call deposits is 0.225% (2009: 0.20% p.a.) and on USD call deposits is 0.15% p.a. (2009: 0.20% p.a.).

(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.

NOTES to the 31 December 2010 consolidated financial statements Bahraini Dinars '000

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 has a project to upgrade the core banking system and office automation and is expected to be implemented during 2011.

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

	2010	2009
Risk weighted exposure		
Credit risk	42,756	42,007
Market risk	28,042	8,186
Operational risk	15,080	14,431
Total risk weighted assets	**85,877**	64,624
Tier 1 Capital	50,838	49,945
Tier 2 Capital	4,144	3,269
Total regulatory capital	**54,982**	53,214
Capital adequacy ratio	**64.02%**	82.34%

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4 Financial Risk Management (continued)

(f) Capital management (continued)

Based on full year average balances

	2010	2009
Risk weighted exposure		
Credit risk	40,317	36,014
Market risk	17,099	34,719
Operational risk	15,080	14,431
Total risk weighted assets	**72,496**	85,164
Tier 1 Capital	51,119	49,517
Tier 2 Capital	2,511	1,546
Total regulatory capital	**53,630**	51,063
Capital adequacy ratio	**74.79%**	59.96%

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.

5. Critical accounting estimates and judgments in applying accounting policies

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount 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.

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 securities or available-for-sale securities. The classification of each investment reflects the management's intention in relation to each investment and will be subject to different accounting treatments based on such classification.

Estimations

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity securities are impaired when there is objective evidence on impairment and there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In case of quoted equity securities, 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 12 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 Bank 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.

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6. Cash and bank balances

	2010	2009
Cash and bank balances	5,272	6,658
Call deposits	1,786	1,106
Short term placements with Banks	28,339	40,084
	35,397	47,848

Call deposits and placements are with banks of good credit standing and earn interest at prevailing rates. The Bank uses external ratings as part of credit appraisal process for exposures to banks within established country limits. Included in the cash are amounts payable to clients of BD 12,570 (2009: 20,332) as mentioned in note 15.

7. Treasury bills

Treasury bills comprise unquoted short-term treasury bills issued by the Central Bank of Bahrain. As of Dec 2010 the bank has NIL treasury bills (2009: 280).

8. Investments at fair value through profit or loss

	2010	2009
Equity securities – at fair value		
- Listed	9,877	358
Funds – at fair value		
- Listed	1,369	2,488
Debt securities – at fair value		
- Listed	4,337	399
- Unquoted	1,060	3,015
	16,643	6,260

In 2008, investment in a fund amounting to BD 1,909 has been fully provided for possible losses.

Investments at fair value through profit or loss at 31 December 2010 include securities amounting to BD 4,295 (31 December 2009: NIL), sold under agreement to repurchase.

9. Available-for-sale investments

	2010	2009
Equity securities – at fair value:		
- Listed	3,662	4,780
- Unquoted	377	377
Funds – at fair value:		
-Listed	869	1,899
-Quoted	7,641	-
-Unquoted	6,932	5,676
Debt securities – at fair value:		
-Listed	4,894	3,016
-Quoted	-	4,119
	24,375	19,867

Available for sale investments at 31 December 2010 include securities at fair value amounting to BD 4,284 (31 December 2009: NIL), sold under agreement to repurchase.

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10. Investments held to maturity

	2010	2009
Debt securities at amortized cost		
-Listed	-	4,740
Allowance for impairment	-	-
	-	4,740
Fair value of Debt Securities held at cost	**-**	5,125

During the year, the Bank has transferred held to maturity investments (HTM) with an aggregate carrying amount of BD 6,171 to the Available-for-sale (AFS) category before their maturity. Consequently, and in accordance with International Accounting Standard (IAS) 39, the HTM investment portfolio of the Bank is tainted. Therefore, the Bank is prohibited from classifying investments in the HTM category during the year and for the next two financial years.

11. Furniture and equipment

	2010	2009
Cost as at 1 January	798	715
Additions	17	98
Disposals	(5)	(15)
Cost at 31 December	**810**	798
Depreciation as at 1 January	649	547
Charge for the year	88	116
Disposals	(5)	(14)
Depreciation as at 31 December	**732**	649
Net book value at 31 December	**78**	149
Cost of fully depreciated assets in use	**520**	446

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

12. Fee receivable

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

	2010	2009
Management fee	277	255
Performance fee	85	318
Custody fee	96	87
	458	660

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13. Other assets

	2010	2009
Receivables from clients and brokers	792	512
Guarantee deposit with the Bahrain Stock Exchange	500	500
Employee share incentive scheme	1,136	999
Prepaid expenses	1,170	330
Interest receivable	84	310
Other receivables	595	122
	4,277	2,773

14. Short-term bank borrowings

	2010	2009
Bank borrowings	9,285	1,131
As 31 December	**9,285**	1,131

Bank borrowings include borrowings under repurchase agreements representing available-for-sale investments at fair value of BD 4,284 (2009: Nil) and fair value through profit and loss investments of BD 4,295 (2009: Nil) sold under agreement to repurchase.

15. Payables to customers

Payable to customers include settlement amounts for trades executed on behalf of customers.

16. Deposit from customers

As at 31 December 2010, the Bank holds no deposits from customers (2009 5,314)

17. Other liabilities

	2010	2009
Brokerage payable to counterparty	54	44
Accrued expenses	296	542
Provision for employee indemnities	270	220
Employee share incentive scheme liability	1,315	1,233
Other payables	692	7
	2,627	2,046

18. Share capital

	2010	2009
Authorized share capital 1,000,000,000 (2009: 1000,000,000) shares of 100 fils each	**100,000**	100,000

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18. Share capital (continued)

	2010	2009
Issued and fully paid		
At 1 January: 424,200,000 ordinary shares of 100 fils each (2009: 423,460,000 ordinary shares of 100 fils each)	42,420	42,346
Issue of shares to employee share incentive scheme trustees during the year	108	74
As at 31 December 2010: 425,283,688 ordinary shares of 100 fils each (2009: 424,200,000 ordinary shares of 100 fils each)	**42,528**	42,420

During the current year, the Bank issued 1,086,598 shares of BD 100 fils each under the employee share incentive scheme for the year 2009 to Volaw Trust & Corp service Ltd. at the 31 December 2009 NAV of 0.126 fils per share (2009: 739,104 shares of 100 fils each at the 31 December 2008 NAV of 0.118 fils per share). Accordingly the share capital was increased by BD 108 (2009: BD 74) to the extent of the nominal value of the shares of 100 fils each. The share Premium of BD 29 (2009: BD 13) relating to the issue of these shares at a premium of 26 fils per share has been credited to the statutory reserve.

Appropriations

	2010	2009
Proposed dividend – 6% (2009: 5%)	2,552	2,121
General reserve	379	308

The shareholders are:

	Nationality	**2010**		2009	
		Capital	% holding	Capital	% holding
Pension Fund Commission	Bahrain	9,322.5	21.92	9,322.5	21.98
General Org. for Social Insurance	Bahrain	6,600.0	15.52	6,600.0	15.56
National Bank of Bahrain BSC	Bahrain	5,362.5	12.61	5,362.5	12.64
Ahli United Bank (Bahrain) BSC	Bahrain	5,115.0	12.03	5,115.0	12.06
Bank of Bahrain and Kuwait BSC	Bahrain	4,125.0	9.70	4,125.0	9.72
Arab Investment Resources Co EC	Bahrain	3,300.0	7.76	3,300.0	7.78
Arab Banking Corporation BSC	Bahrain	3,300.0	7.76	3,300.0	7.78
Gulf Investment Corporation GSC	Kuwaiti	3,300.0	7.76	3,300.0	7.78
Bahraini Saudi Bank BSC	Bahrain	825.0	1.94	825.0	1.94
Volaw Trust & Corp Service Ltd.	Jersey	1,278.3	3.00	1,169.7	2.76
		42,528.3	**100.0**	42,419.7	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.134 (2009: BD 0.126)

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19. 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 379 (2009: BD 308).

The share premium of BD 29 (2009: BD 13) arising from the issue of shares under employee share incentive scheme has been adjusted to statutory reserve.

20. General Reserve

In accordance with the Bank's Articles of Association and the recommendations of the Board of Directors, specific amounts are transferred to the general reserve in the current year. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting.

21. Interest income/ expense

	2010	2009
Interest income		
Placements and call deposits	604	995
Interest on investments	876	736
Margin lending	44	23
	1,524	1,754
Interest expense		
Borrowings	65	22
Customer accounts	9	1
	74	23

22. Fee and commission income/ expense

	2010	2009
Fee and commission income from trust or other fiduciary activities		
- Management fee	1,934	1,834
- Performance fee	103	400
- Custody fee	336	318
	2,373	2,552
Fee and commission expense		
- Custody fee	(78)	(109)
- Collection fee	(4)	(86)
Net fee and commission income	**2,291**	2,357

23. Net investment income

	2010	2009
Net gain on investments carried at fair value through profit or loss	1,200	260
Realized gain on sale of available-for-sale investments	1,181	299
Dividend income on investments carried at fair value through profit or loss	164	123
Dividend income on available for sale investments	423	113
	2,968	795

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23. Net investment income (continued)

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

	2010	2009
Realized gain on sale	879	170
Unrealized gain representing fair value adjustments	321	90
	1,200	260

24. Brokerage and other income

	2010	2009
Brokerage income	632	987
Investment banking income	90	120
Marketing income	-	1
Foreign exchange gain	397	318
Other income	21	58
	1,140	1,484

25. Staff and related expenses

	2010	2009
Salaries and allowances	2,882	2,315
Social security costs	113	105
Other costs	52	44
	3,047	2,464

As at 31 December 2010, the Group employed 48 (2009: 52) Bahrainis and 27 (2009: 28) expatriates.

The Group’s contributions for the year to the General Organization for Social Insurance in respect of its employees amounted to BD 113 (2009: BD 105).

Other liabilities include a provision of BD 52 (2009: 179) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

26. General, administration and other operating expenses

	2010	2009
Rent	106	103
Communication expenses	200	170
Marketing expenses	163	153
Professional fees	103	109
Other operating expenses	356	174
Depreciation	89	116
	1,017	825

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27. 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.

	2010	2009
Fee and commission income	**745**	767
Fee receivable	**197**	194
Investments:		
Available for sale investments		
- Khaleej Equity Fund	**708**	620
- SICO Selected Securities Fund	**161**	154
Investments carried at fair value through profit or loss		
- SICO Arab Financial Fund	**-**	732
- SICO Money Market Fund	**1,141**	-

The details of the own funds under management are in Note 29.

Transactions with shareholders
The Group obtained short term borrowings from its bank shareholder for a total of BD 2,943 (2009: 1,131). 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. From the current year, the excess funds are placed with the Bank at its discretion as deposits on which interest on commercial terms is paid by the Bank.

	2010	2009
Fee and commission income	**273**	257
Funds under management	**36,998**	33,692
Deposits	**-**	3,518
Borrowings as at 31 December	**2,943**	1,131
Borrowings obtained during the year	**16,329**	1,131
Borrowings repaid during the year	**14,517**	-

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27. Related party transactions (continued)

Key Management Personnel

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

Compensation to key management personnel is as follows:

	2010	2009
Short term benefits	829	954
Post employment benefits	35	33
Equity compensation benefits	161	81
	1,025	1,068

General and administrative expenses include BD 133 (2009: BD 10) towards attendance fees, remuneration and other related expenses for members of the Board and Executive Committee.

28. 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 2010 amounted to BD 1,136 (2009: 998).

The Group has recognized an employee liability of BD 1,315 (2009: 1,233) 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 2010 in accordance with the rules of the Scheme.

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

	2010		2009	
	No. of shares issued	**Value**	No. of shares issued	Value
As at 1 January	11,697,090	998	10,957,986	911
Shares issued during the year *	1,086,598	1,136	739,104	87
	12,783,688	**2,134**	11,697,090	998

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28. Employee Share Ownership Plan (continued)

During the year, the Bank issued 1,086,598 new shares under the Scheme for the year 2009 as approved by the Board of Directors and was approved at the Annual General meeting which was held on 18 March 2010. (1,309,810 eligible shares net of 223,212 shares pertaining to employees who left the Group in 2010 whose obligation was cash settled).
In 2009, the Bank issued 739,104 new shares under the Scheme for the year 2008 as approved by the Board of Directors at the Annual General meeting on 26 January 2009 (803,343 eligible shares net of 64,239 shares pertaining to employees who left the Group in 2009 whose obligation was cash settled).

29. 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 3,149 (2009: 1,210) and margin lending drawdown commitments of BD 605 (2009: 604).

	2010	2009
Funds under management (net asset value)		
SICO Selected Securities Fund	**2,777**	2,681
Khaleej Equity Fund	**34,230**	30,930
SICO Gulf Equity Fund	**9,617**	9,882
SICO Arab Financial Fund	**3,541**	3,696
SICO Money Market Fund	**3,327**	-
Discretionary Portfolio Management Account	**147,602**	103,332

The Group is the fund manager for "SICO Selected Securities Fund" launched in June1998, "Khaleej Equity Fund" launched in March 2004, "SICO Gulf Equity Fund" launched in June 2008,"SICO Arab Financial Fund" launched in April 2009, "SICO Money Market Fund" launched in August 2010, "SICO Kingdom Fund" and "SICO Simplex Fund" not launched yet. The net asset values of these funds are based on audited financial statements.
The funds under discretionary portfolio management account were held in trust or in a fiduciary capacity and are not treated as assets of the Group and, accordingly, have not been included in the consolidated financial statements.
The Bank has hedged its currency exchange risk in British pound for equivalent BD 625 and in EURO for equivalent BD 1,955.

	2010	2009
Assets under management custody	**1,278,039**	1,092,094

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2010, assets amounting to BD1,278,039 (2009: BD 1,092,094) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 224,042 (2009: BD 158,886) were registered in the name of the Bank.

30. Significant net open foreign currency positions

	2010	2009
QAR	**14,619**	24,233
US Dollar	**17,735**	12,886
KWD	**1,655**	1,802
SAR	**8,831**	5,996
AED	**4,113**	1,028

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

31. Basic earnings per share

	2010	2009
Profit for the year	**3,785**	3,078
Weighted average number of equity shares (In 000's)	**425,040**	424,197
Earnings per share (in fils)	**8.9**	7

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

32. Maturity profile of assets and liabilities

31 December 2010	**Less than 1 year**	**1 to 5 Years**	**Above 5 Years**	**Total**
Assets				
Cash and bank balances	35,397	-	-	35,397
Investments at fair value through profit or loss	11,357	2,961	2,325	16,643
Available-for-sale securities	2,447	20,699	1,229	24,375
Furniture and equipment	-	78	-	78
Fees receivable	457	1	-	458
Other assets	2,369	1,908	-	4,277
Total assets	**52,027**	**25,647**	**3,554**	**81,228**
Liabilities				
Short term borrowings	9,285	-	-	9,285
Payables to customers	12,570	-	-	12,570
Other liabilities	2,627	-	-	2,627
Total liabilities	**24,482**	**-**	**-**	**24,482**
Liquidity gap	27,545	25,647	3,554	56,746
Cumulative liquidity gap	27,545	53,192	56,746	56,746

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32. Maturity profile of assets and liabilities (continued)

31 December 2009	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	47,848	-	-	47,848
Treasury bills	-	280	-	280
Investments at fair value through profit or loss	1,909	4,351	-	6,260
Available-for-sale securities	-	19,867	-	19,867
Held To Maturity	-	4,740	-	4,740
Furniture and equipment	-	149	-	149
Fees receivable	659	1	-	660
Other assets	1,267	1,506	-	2,773
Total assets	51,683	30,894	-	82,577
Liabilities				
Short term borrowings	1,131	-	-	1,131
Payables to customers	20,332	-	-	20,332
Deposits from customer	5,314	-	-	5,314
Other liabilities	2,046	-	-	2,046
Total liabilities	28,823	-	-	28,823
Liquidity gap	22,860	30,894	-	53,754
Cumulative liquidity gap	22,860	53,754	-	53,754

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33. Accounting classification and fair values

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

31 December 2010	**Fair value through profit or loss – held for trading**	**Available for sale**	**Held to maturity**	**Loans and receivables**	**Others at amortized cost**	**Total carrying value**	**Fair value**
Cash and bank balances	-	-	-	35,397	-	35,397	35,397
Investments at fair value through profit or loss	16,643	-	-	-	-	16,643	16,643
Available-for-sale investments	-	24,375	-	-	-	24,375	24,375
Investments held to maturity	-	-	-	-	-	-	-
Fees receivable	-	-	-	458	-	458	458
Other assets	-	-	-	1,971	-	1,971	1,971
	16,643	**24,375**	**-**	**37,826**	**-**	**78,844**	**78,844**
Short-term bank borrowings	-	-	-	-	9,285	9,285	9,285
Payables to customers	-	-	-	-	12,570	12,570	12,570
Deposits from customers	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	784	784	784
	-	**-**	**-**	**-**	**22,639**	**22,639**	**22,639**

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33. Accounting classification and fair values (continued)

31 December 2009	Fair value through profit or loss – held for trading	Available for sale	Held to maturity	Loans and receivables	Others at amortized cost	Total carrying value	Fair value
Cash and bank balances	-	-	-	47,848	-	47,848	47,848
Treasury bills	280	-	-	-	-	280	280
Investments at fair value through profit or loss	6,260	-	-	-	-	6,260	6,260
Available-for-sale investments	-	19,867	-	-	-	19,867	19,867
Investments held to maturity	-	-	4,740	-	-	4,740	5,125
Fees receivable	-	-	-	660	-	660	660
Other assets	-	-	-	1,445	-	1,445	1,445
	6,540	19,867	4,740	49,953	-	81,100	81,485
Short-term bank borrowings	-	-	-	-	1,131	1,131	1,131
Payables to customers	-	-	-	-	20,332	20,332	20,332
Deposits from customers	-	-	-	-	5,314	5,314	5,314
Other liabilities	-	-	-	-	599	599	599
	-	-	-	-	27,376	27,376	27,376

Included in AFS category are investments amounting to BD 962 (2009: BD 377) that are carried at cost in the absence of a reliable measure of fair value.

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33. Accounting classification and fair values (continued)

(ii) Fair value hierarchy

The Group measures fair values of financial instruments 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 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale investments				
- Funds	869	14,573	-	15,442
- Equities	3,662	-	377	4,039
- Debt Instruments	4,894	-	-	4,894
Trading:				
- Funds	1,369	-	-	1,369
- Equity	9,877	-	-	9,877
- Debt Instruments	4,337	1,060	-	5,397
Total	**25,008**	**15,633**	**377**	**41,018**

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

	Level 3 2010
At 1 January 2010	**1,704**
Total gains :	**-**
- in income statement	**-**
- in other comprehensive income	**-**
Purchases	**-**
Settlements	**-**
Transfers into / (out) of level 3	**1,327**
At 31 December 2010	**377**
Total gain / (loss) for the year included in income statement for assets / liabilities held as at 31 December 2010	**-**

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.

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As at 31 December 2009	Level 1	Level 2	Level 3	Total
Available for sale investments				
- Funds	-	5,871	1,704	7,575
- Equities	4,779	-	-	4,779
- Debt Instruments	7,136	-	-	7,136
Trading funds				
- Funds	113	2,375		2,488
- Debt Instruments	2,312	1,382	-	3,694
- Equity	358	-	-	358
Total	14,698	9,628	1,704	26,030

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

	Level 3 2009
At 1 January 2009	1,199
Total gains / (losses):	-
- in income statement	-
- in other comprehensive income	(327)
Purchases	832
Settlements	-
Transfers into / (out) of level 3	-
At 31 December 2009	1,704
Total gain / (loss) for the year included in income statement for assets / liabilities held as at 31 December 2009	-

34. Group information

The Group comprises of Securities and Investment Company BSC (c) (the Parent) and the following wholly owned subsidiaries:

Subsidiary	**Capital**	**Date of incorporation**	**Activity**
SICO Funds Company BSC (c)	50	21 March 1998	Umbrella company for SICO mutual funds
SICO Funds Services Company BSC (c)	1,000	29 Dec 2004	Custody and administration services
SICO Funds Company II BSC (c)	1	26 September 2005	Umbrella company for SICO mutual funds
SICO Funds Company III BSC (c)	1	18 January 2006	Umbrella company for SICO mutual funds
SICO Funds Company IV BSC (c)	1	15 November 2009	Umbrella company for SICO mutual funds
SICO Funds Company V BSC (c)	1	15 November 2009	Umbrella company for SICO mutual funds
SICO Funds Company VI BSC (c)	1	15 December 2009	Umbrella company for SICO mutual funds
SICO Funds Company VII BSC (c)	1	04 November 2010	Umbrella company for SICO mutual funds
SICO Ventures Company SPC	100	29 June 2010	To own the nominal shares in all other subsidiaries of SICO.

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34. Group information (continued)

In addition, the Bank is in the process of incorporation of four new entities SICO Fund IV, V, VI at a capital of BD 1 each and SICO Ventures Company at a capital of BD 100.

The following is a summary of the parent's financial statements

Parent balance sheet as at 31 December:

As at 31 December	2010	2009
Assets		
Cash and bank	5,132	6,610
Call deposits	1,783	1,103
Placements with banks	26,169	38,048
Treasury bills	-	280
Investments at fair value through profit or loss	16,643	6,260
Available-for-sale investments	24,375	19,867
Held to maturity investments	-	4,740
Investment in subsidiaries	1,656	1,554
Furniture and equipment	76	147
Fees receivable	402	575
Other assets	4,264	2,762
Total assets	**80,500**	81,946
Liabilities		
Bank overdraft	-	-
Short term borrowings	9,285	1,131
Payables to customers	12,570	20,332
Deposits from customers	-	5,314
Other liabilities	2,600	2,041
Total liabilities	**24,455**	28,818
Equity		
Share capital	42,528	42,420
Statutory reserve	4,489	4,089
General reserve	1,295	1,000
Available-for-sale securities fair value reserve	1,410	154
Retained earnings	6,323	5,465
Total equity	**56,045**	53,128
Total liabilities and equity	**80,500**	81,946

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34. Group information (continued)

Parent income statement for the year ended 31 December:

Year ended 31 December	**2010**	2009
Income		
Interest income	1,482	1,725
Interest expense	(73)	(23)
Net interest income	**1,409**	1,702
Net fee and commission income	1,998	2,117
Net investment (loss)/ income	2,969	795
Brokerage and other income	1,167	1,436
Operating income	**7,543**	6,050
Staff and related expenses	(2,860)	(2,307)
General, administrative and other operating expenses	(972)	(790)
Profit for the year	**3,711**	2,953

35. Comparative figures

Comparative figures have been regrouped to conform to the current year's presentation. Such regrouping has not affected the reported profit or total equity.