

C O M P A S S

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

CBB awards SICO a conventional wholesale banking licence



Shaikh Mohammed bin Isa Al Khalifa
Chairman

In May 2011, SICO was granted an unqualified conventional wholesale banking licence by the Central Bank of Bahrain. The Firm has been operating under a conditional wholesale banking licence since July 2008. Prior to that,

SICO had been granted an investment banking licence from the BMA (the CBB's predecessor) in September 1997, a little over two years since commencing operations in July 1995.

The very robust requirements of the licensing regime, including a high capital base and strict adherence to regulations and governance, positions SICO well in its growth path, primarily by giving the Firm additional flexibility in servicing its clients, and reinforcing the fact that it meets the exceptional high standards of the CBB license regime to existing clients. While maintaining its consistent strategy and conservative business model, SICO will be able to expand existing services and add new services, such as deposit taking, lending and money market activities. The Firm is also

considering providing new treasury products to assist clients in raising short-term debt.

A further benefit of the new licence is the ability to manage optimally SICO's balance sheet. As at 30 June 2011, SICO's paid-up capital was BD 42.6 million, while total assets stood at BD 88.3 million, with shareholders' equity of BD 54.5 million.

SICO's chairman, Shaikh Mohammed bin Isa Al Khalifa, commented: "The award of our wholesale licence heralds a new chapter in the history of the Firm. It will support our 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 and our costs, risk and capital."

SICO returns to profitability in second quarter of 2011

SICO reported a net profit of BD 1.127 million for the second quarter of 2011, compared with a loss of BD 627 thousand for the first quarter. Net profit for the first six months of the year was BD 499 thousand.

These results were achieved against a background of local, regional and international market turmoil and proving to be much more challenging than expected. Key factors included heightened political

BD 1.01 billion
Assets under Custody

signs of slowing, which potentially could have an adverse impact on the demand for oil. As a result, there has been heightened risk aversion by investors, especially with regard to investment in the GCC and wider MENA region. Overall, therefore, it was a rather pessimistic picture for the first half of 2011. However, there are some positive encouraging signs. After peaking at around US\$ 120 at the end of the first quarter, oil prices have since stabilised at between US\$ 90 and US\$ 100 per barrel. In addition, GCC governments continue to be financially robust, with above average growth being experienced in all six regional economies.

SICO currently has 50 per cent (or BD 44.3 million) of its balance sheet in cash and deposits, compared to 43.5 per cent (BD 35.4 million) at the end of 2010. This reflects the cautious position that the Firm continues to take in regards to domestic and international capital markets. SICO maintained a strong capital base, ending the first of the year with

BD 54.541 million of shareholders' equity. The Firm paid a dividend for 2010 of BD 2.552 million during the first quarter of 2011.

Commenting on the results, Anthony Mallis, Chief Executive Officer, said: "SICO reported a good relative performance for the first half of 2011. The Firm saw a return to profitability after business started to pick up in May and June. This contrasts with a loss during the first quarter, when we saw major declines in stock and bond markets, and our revenue generators witnessed substantial reduction flows.

"While the rest of the year may prove challenging for the industry, SICO continues to maintain (as it has done since summer 2008) a 'fortress balance sheet'. With our Firm remaining strongly capitalised, highly liquid and largely unleveraged, we continue to be well positioned to take advantage of new business opportunities when the markets eventually improve. That being said, we believe that the next six months with continue to see substantial market volatility in all asset classes, as major economies reposition themselves to tackle major imbalances that, until very recently, they did not address seriously."

50%
Balance Sheet in Cash and Bank Balances

BD 185 million
Assets under Management

tensions and the continued volatility of stock markets. The Eurozone crisis remains a cause for considerable concern; and the recent budget debacle in the US, and its subsequent downgrade by Standards & Poor's, has created further unnecessary havoc with global financial markets. Both ongoing crises could have significant knock-on effects, from an investment perspective, for the GCC.

Additionally, China's rapid economic growth of the last fifteen years is now showing

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NEW DIRECTOR APPOINTED TO SICO BOARD



Mr Fahad Murad



Mr Khalid Al Rumaihi

Mr Fahad Murad has joined the Board of Directors of SICO as a non-independent and non-executive director, representing shareholder Arab Investment Resources Company, a subsidiary of Investcorp. He replaces Mr Khalid Al Rumaihi, who served diligently as a Director from 2005. Mr Murad is Managing Director - Head of Placement for Bahrain, Qatar and Oman, at Investcorp. He joined Investcorp in 1996 after 12 years with

Chase Manhattan Bank, where he began his career in 1984. After completing the nine-month Chase credit training programme, Mr Murad worked in Credit - Corporate & Institutional, and Corporate Finance, before moving to Chase Manhattan Private Bank in Geneva, Switzerland, where he spent the remainder of his Chase career. He holds a BBA in Finance and an MBA from the University of Houston, Texas, USA.



SICO's successful asset management performance acknowledged by receiving of two Lipper Awards

The performance of two of SICO's funds has been acknowledged by the receipt of two Lipper Fund Awards for 2011. The Khaleej Equity Fund, sponsored and managed by SICO, was named 'Best GCC Equity Fund over 5 Years'; and the Al Aseel Islamic Equity Fund, sponsored by Ithmaar Bank and managed by SICO, was named 'Best MENA Equity Fund in a 3-year Category'.

According to Dunny Moonesawmy, Lipper's Head of Research for Western Europe, Middle East & Africa: "Finding first rate companies to manage client assets is an important concern among investors, and the Lipper Fund awards recognise the groups that are the best in producing consistent and superior results relative to their peers."

The Khaleej Equity Fund, which invests in equities listed on the six GCC stock markets, achieved a return of 14.1% for 2010 versus a 12.8% appreciation by its benchmark, the S&P GCC Composite Index. Over a 5-year period ending 2010, the fund delivered a return of 9.2% against a negative 53.4% for the benchmark. This has been achieved

despite having a significantly lower volatility, resulting in the fund achieving one of the best risk-adjusted returns among its peers over the medium-to-long-term. The Khaleej Equity Fund is rated 'AA' by Standard & Poor's, and received a previous Lipper Award in 2008.

The Al Aseel Islamic Equity Fund invests principally in Sharia-compliant equity securities listed on MENA stock markets. In 2010, the fund generated a positive return of 11.0% in comparison to a 9.8% increase by its benchmark, the S&P Arabian Islamic index. During the past 3 years ending 2010, the fund declined by 19.8% versus negative 39.7% return for the benchmark.

Commenting on the awards, SICO's Chief Executive Officer, Anthony Mallis, said: "This recognition from Lipper is yet another testament to SICO's prudent investment approach, characterised by superior stock picking and asset allocation. The combination of our regional insight and quality of research is a key factor in enabling SICO to provide consistent and stable long-term returns to our investors."

SICO remains number one broker on Bahrain Bourse

During the first half of 2011, SICO entered its 13th consecutive year as the leading broker on the Bahrain Bourse, in terms of the total number of transactions, volume and value. By the end of June, the Firm had completed the highest number of transactions, representing a total trade volume of 187.4 million shares with a market share of 52.05%; and a total value of BD 29.9 million equating to 50.39% of the total market.

Bahrain Bourse

52.05%

SICO share of total market volume for first half of 2011

\$40.3 million

Buy/sell value of 57.2 million GFH shares

The Firm also accounted for most of the largest transactions executed on the Bahrain Bourse. In the month of June, SICO handled the buy/sell of 57.2 million shares of Gulf Finance House with a total value of US\$ 40.3 million; together with the sale of 10 million shares of Ahli United Bank worth US\$ 7.2 million.

'Business as usual' for SICO

During the period February and March 2011, it was 'business as usual' for SICO, with the Firm remaining fully operational in order to service its clients. The Firm never stopped trading except for one day, when the Bahrain Bourse closed for the day.

Anthony Mallis recognised for exemplary industry leadership

SICO's Chief Executive Officer, Mr Anthony Mallis, has been named as one of the top 10 industry leaders in the 2011 MENA Fund Manager Power 50. This prestigious list recognises individuals who have demonstrated innovation, leadership, reliance and transparency throughout the difficult market conditions of 2010. The top 10 list highlights those leaders who are held in particularly high esteem across the region.

The Power 50 list is made up of nominations from the readership of the MENA Fund Manager magazine, whittled down by an anonymous judging panel of MENA fund industry insiders. This year's list comprises a mix of influential fund managers, investors

and service providers who have all played vital roles in guiding the industry through difficult times. According to the judges, although current conditions spell pessimism across the market, there are more than a few exemplary players in the region who are sure to continue driving growth.

The judges recognised Anthony Mallis - CEO of Bahrain's largest asset manager for the past 10 years - for spearheading the institution's transition from a domestic player to a regional contender. His conservative approach saw SICO's AUM recover to US\$ 540 million in 2010, up from US\$ 400 million the previous year, and he is optimistic about future growth.



Follow us on Twitter

SICO has established a corporate Twitter account - @SICOBahrain. Twitter is an increasingly popular website offering a social networking and micro-blogging service, enabling its users to send and receive messages called tweets.

SICO will use Twitter to provide existing and potential clients with timely information about the Firm's corporate and business activities, financial performance, and research reports; and to respond to comments and feedback from clients.

twitter

SICO launches four new research reports & expands company coverage

During the first half of 2011, SICO launched four new periodical research reports:

GCC Stock Coverage & Recommendations

This report summarises SICO's view of the stocks it covers, providing key investment arguments/risks, major short-term triggers/dampeners, ratings, and a summary of 3-year important forecasts and valuation ratios; together with recommended 'buy' stocks.

GCC Equities – Quarterly Results Preview

The first edition of this new report provides 2Q11 profit estimates for GCC listed companies that SICO covers, and a key sectors outlook; together with recommended 'buy' stocks.

GCC Equities – Quarterly Profit Consensus

The first edition of this new report provides 2Q11 profit consensus estimates for GCC listed companies covered by SICO, together with recommended 'buy' stocks.

GCC Equities – Results Snapshot in Charts

This report analyses the 4Q10 profits of GCC listed companies, plus an outlook for 2011; together with recommended 'buy' stocks.

SICO added two new GCC companies to its coverage – Saudi Kayan and Zain – bringing the total number of companies covered to more than 50 by the end of June 2011. SICO Research can be accessed through Thomson, Reuters, Bloomberg, Factsset, Capital IQ, Zawya, and the Firm's website.

SICO acts as lead manager for BisB rights issue

The Firm's Corporate Finance team successfully raised US\$ 56 million on the Bahrain Bourse through a secondary market rights privileged offering for shares in Bahrain Islamic Bank during the first half of 2011. BisB's capital increase should help in strengthening its equity capital base, creating a further cushion for potential risks in the current challenging market conditions. It will also support the bank's competitiveness and growth by funding growth in core banking businesses and expansion in the local market.

Disaster recovery site goes live

SICO's new 'hot' disaster recovery site has been completed and successfully tested. The site, which is now fully operational, forms a critical element of the Firm's business continuity plan.

New Compliance Officer appointed



Ms Pallavi Narayanan

Ms Pallavi Narayanan has joined SICO as Risk Operational and Compliance Officer. She is responsible for compliance, anti-money laundering and operational risk issues across all of the Firm's operations.

She has over 13 years' experience. Prior to joining SICO, she was a member of the Finance Control Team at BMB Investment Bank. Previous experience includes Credit Review (Internal Audit Department) at Sumitomo Mitsui Banking Corporation in London, UK; and KPMG Bahrain, where she was responsible for carrying out internal and external audits of a number of financial institutions based in the Kingdom. Ms Narayanan is a Chartered Accountant from India, and a Certified Financial Manager from the Institute of Management Accountants in the USA.

ASSET MANAGEMENT NEWSBITES

ASSETS UNDER MANAGEMENT REMAIN HIGH

Despite challenging market conditions for the first half of 2011, SICO's assets under management at the end of June totalled US\$ 490 million, compared with US\$ 540 million at the end of 2010, up from US\$ 400 million in 2009.

\$490million

Assets under management

MONEY MARKET FUND – STRONG FIRST YEAR PERFORMANCE

The SICO Money Market fund, which was launched in May 2010, enjoyed a successful first year. The fund outperformed both its benchmark and its peers, posting an annualised return of 1.49% for its first year ending April 2011, versus 0.29% for the 2 Months LIBOR benchmark. The fund's objective is preservation of capital and providing liquidity, while generating a higher return than short-term bank deposits.

1.49%

SICO Money Market Fund Annual return

SICO KINGDOM EQUITY FUND LISTED ON BAHRAIN BOURSE

The SICO Kingdom Equity Fund, which was launched in February 2011, has been listed on the Bahrain Bourse, bringing the number of the Firm's listed funds to six, out of a total of 33 funds listed on the Bourse. The primary objective of this latest fund from SICO is to seek long-term capital appreciation by investing in equity securities listed mainly on the Saudi stock market and other GCC markets. In addition, the fund can invest in listed and unlisted debt securities issued by governments or quasi-government institutions.

SICO FUNDS OUTPERFORM THEIR BENCHMARKS

FUND RETURNS YEAR-TO DATE (JAN-JUN 2011):

Khaleej Equity Fund:
-4.2% versus -4.4% benchmark

SICO Arab Financial Fund:
-3.8% versus -9.2% benchmark

SICO Gulf equity Fund:
-3.1% versus -8.8% benchmark

SICO Selected Securities Fund:
-2.3% versus -7.9% benchmark

GROWING INTEREST IN DPMA's

During the first half of 2011, SICO's Discretionary Portfolio Management Accounts (DPMA) continued to receive increased interest. The Firm finalised new accounts with some of the leading institutions in the region, who will start investing during the coming months. The DPMA pipeline remains very healthy.

LATEST ZAWYA RANKINGS

SICO equity funds remain among the top ranked funds by Zawya. In the latest review ending March 2011, the Firm's Khaleej Equity Fund ranked second in its category, while the Al Aseel Islamic Equity Fund, which SICO manages for Ithmaar Bank, was ranked third in its category.

Firm's Khaleej Equity Fund ranked

2nd
in its category

Al Aseel Islamic Equity Fund ranked

3rd
in its category



SFS wins important new regional mandate

SICO Funds Services Company (SFS) – a wholly-owned subsidiary of SICO – has been appointed by a highly reputable regional client to provide custody, administration and registrar services for its four funds in the GCC region. These funds, which will invest in regional and international markets, comprise both traditional and alternative asset classes. This development highlights a successful first half year of operations by SFS, during which assets under custody remained above the BD 1 billion level.

MALLIS AFORETHOUGHT



The first six months of 2011 proved to be even more challenging than anyone had expected – not just locally, but also regionally and internationally. Key factors included geo-political tensions in the MENA region; mixed economic news in Europe and the US and the continued volatility of oil prices and stock market performance. The Greek (and Portuguese / Irish / Italian – who's next?) default issue and the Eurozone crisis remain a cause for considerable concern, and could have significant potential knock-on effects, from an investment perspective, for the GCC region. China's rapid economic growth of the last fifteen years is now showing signs of decelerating, which has the potential to adversely impact the demand for oil. As a result, there has been heightened risk aversion by investors, especially with regard to investment in the GCC and the wider MENA region. Overall, therefore, it was a rather pessimistic picture for the first half of

the year, and which is spilling into the third quarter in abundance.

However, there are some encouraging positive signs. After peaking at around \$ 120 per barrel at the end of the first quarter, oil prices have since stabilised at a level ranging between \$ 90 and \$ 100. The OPEC Crude Basket, up 25.2% at the end of Q1 and down 3.5% at the end of Q2, is still up overall at 20.8% year-to-date, which is good news for regional economies dependent on hydrocarbon revenues. Regional stock markets are also showing modest signs of improvement: the S&P GCC Composite Index was down 1.9% at end-Q1 but up marginally at 0.7% by the half year. Pricings remain attractive by global standards, with the region continuing to trade at a forward price-to-earnings (P/E) ration well below the G7 and Emerging Markets averages.

At a corporate level, GCC-listed companies, we predict, are expected to post their best half-yearly profits for over two years. This should lead hopefully to a re-rating of fundamentally attractive stocks, as consensus estimates suggest that GCC stocks are currently trading at an attractive annualised PE of 11.6x, with key markets such as Saudi Arabia and Qatar trading at 12.1x and 11.5x respectively. Now is probably a good time to be buying undervalued stocks.

It is also worth remembering that the GCC economies, with their strong underlying fundamentals, have shown their ability to weather the worst of the consequences of the global financial crisis, and are forecast to grow at a faster rate than the global average over the short-term. I remain convinced that there is still a strong case to be made for investing in the GCC. While there is no denying that recent and current MENA events are serious, and have resulted in a decline in foreign investment, there is a growing realisation that international media reporting has been in many cases exaggerated and misinformed. The cycle will turn.

Against this backdrop, SICO reported a commendable performance for the first half of 2011. The Firm posted a return to profitability after business started to pick up in May and June, compared with a loss during the first quarter due to major falls in regional stock and bond markets, with most of our revenue generators witnessing substantial reduction flows. Key developments include the granting of a conventional wholesale banking licence from the Central Bank of Bahrain; the launch of a new equity fund; the receipt of two Lipper Awards; the winning of significant new client mandates; the planned introduction of new treasury products to assist clients with their short-term debt raising

requirements; and good progress in executing the Board's mandate to expand the Firm's brokerage presence outside Bahrain.

I cannot stress strongly enough that these achievements, during another unheralded period of turmoil and uncertainty, are the result of SICO's prudent, conservative and ethical approach to doing business; and the consistent execution of our GCC-focused, client-centric strategy. During the pre-crisis 'boom years', we were regarded by some as being unadventurous and too conservative. However, we resisted the temptation to jump onto the prevailing bandwagon, and went our prudent way. We have ridden out the various crises without suffering anywhere near as much as our regional competitors.

Looking ahead, while I do not have a crystal ball, and recognising that it is increasingly difficult for anyone to predict what is going to happen in the near-to-medium future – I am very positive. SICO will continue to thrive, stay on track, focus on what we do, and try to do it better, until there is greater clarity about what is happening. At the end of the day, preserving the trust and confidence of our clients is paramount, and that's what we will continue doing.

Anthony C Mallis
Chief Executive Officer



SICO sponsors two keynote events

Throughout the first half of 2011, SICO continued to implement its corporate social responsibility programme, including sponsorship of the following two keynote events:

CFA Bahrain Annual Charter Award and Forecast Dinner

For the fourth year running, SICO was a gold sponsor of this event, which took place in May. The evening featured a Charter Awards ceremony to recognise the achievement of new Charter Holders; plus presentations on the outlook for international and regional markets, and forecasts for select asset classes, by industry experts. SICO's Head of Asset Management, Shakeel Sarwar, provided an outlook on GCC stock markets. Ali Marshad from Investments & Treasury was one of the new CFA (Chartered Financial Analyst) Charter Holders to be recognised.

ARINDON's Annual Capital Markets and Investor Relations Conference

SICO sponsored the 4th Annual Capital Markets and Investor Relations Conference, which took place in March. The event included buy-side/sell-side equity analysts, representatives of listed companies, credit agencies and members of the capital markets and financial community engaged in constructive dialogue surrounding MENA capital markets and the need for improved transparency and IR services. SICO's CEO, Anthony Mallis chaired the market outlook panel.



'OVERALL VERY GOOD, BUT ROOM FOR IMPROVEMENT'

The comment above describes the overall response to the first Brokerage Client Survey conducted by SICO during April and May 2011. The majority of respondents (90%) rated SICO as best, very good or good; 87% considered SICO as better or on par with the competition; and 83% would recommend SICO to others.

However, many respondents commented that there was room for improvement in some areas, especially attending to client enquiries and answering telephone calls in a more efficient and responsive manner. Suggestions for enhancing client satisfaction included the provision of online services; a

more proactive approach to advising clients about SICO's views on market trends; and a more timely dissemination of information, such as a morning brief or sending SICO research reports to Brokerage clients.

The survey has provided SICO with considerable food for thought, and actions will be taken to address key areas needing improvement, and to respond to suggestions. The Brokerage Client Survey will be conducted on a semi-annual basis to enable SICO to benchmark response on a regular basis and to monitor progress.

SICO staff achieve professional qualifications

Two members of staff have joined the growing number of SICO employees to achieve internationally-recognised professional qualifications. Mr Ali Marshad, from the Investments & Treasury department

received his Chartered Financial Analyst (CFA) accreditation; while Ali Alalawi from SICO Funds Services Company (SFS) received his Certified Management Accountant (CMA) designation.