

COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

Welcome to this latest issue of Compass, which provides an overview of SICO's performance during 2009, and takes a look at the prospects for the new decade.

CHALLENGING

The global financial and economic meltdown, and its subsequent adverse effect on the GCC, carried through into 2009, reaching its peak in the early months of the year. The second quarter of the year, however, witnessed a mild revival in the worldwide macroeconomic environment and an improvement in global business confidence, as fiscal and monetary measures by governments and central banks across the world, including the GCC, began to take effect. This triggered reductions in bank borrowing costs, an improvement in liquidity levels, and signs of renewed investor confidence. With most major economies beginning to register modest growth, oil prices recovered strongly from their lows at the end of 2008 to reach US\$ 79 per barrel at the end of the year.

While international and GCC markets have regained their composure to some extent and the future outlook has improved, we believe that there is still a great amount of uncertainty in the global economic system. There are concerns that the markets may be over-reaching themselves, and a considerable number of economic and banking challenges still remain on the international and regional horizons, which do not seem to have been factored in.

The issues surrounding the problems of two large family groups in Saudi Arabia, the near collapse of some banks in different parts of the region, and requested debt moratoriums in the UAE, have once again raised serious questions about regulation, transparency, corporate governance and risk management.

EVENTFUL

Business achievements

In what can best be described as an arid business environment and volatile market conditions – which made new business difficult to come by – SICO performed well across all areas of the business during the year. The performance of the Firm's business divisions is detailed separately in



MESSAGE FROM THE CEO

Challenging, eventful and successful. In my view, these three words succinctly sum up the year as a whole for our Firm during 2009.

this issue, but I would like to highlight some of the key achievements during 2009:

- SICO maintained its status as the leading Market Maker on the BSE and also consolidated its position as one of the region's premier market makers.
- Proprietary Investments returns and Treasury activities posted a profit for the year, backed by the mild revival of regional markets.
- Asset management secured a mandate to manage the Saudi component of a GCC fund from a Kuwaiti institution, plus a mandate from a Japanese institution to manage a new Bahrain-domiciled GCC fund.
- SICO's Equity Funds continued to perform strongly against their market indices and peers, and received further industry recognition with five new awards. Their high ratings assigned by Standard & Poor's in 2008 were all re-affirmed.
- SICO maintained its status as the largest Broker on the Bahrain Stock Exchange, for the 11th consecutive year, and managed three of the largest transactions on the BSE during 2009.
- SICO Research published a total of 414 reports, and

introduced a new monthly 'GCC Economies – The Numbers' report that analyses data from regional central banks and tracks economic trends.

- The Firm's subsidiary, SICO Funds Services Company (SFS), increased its capital to support its application to the Central Bank of Bahrain to change its licence from 'service provider for custody and fund administration' to 'investment business'.

Operational developments

During 2009, we continued to invest in enhancing the institutional capability and organisational strength of the Firm. In this respect, I would like to acknowledge the sterling efforts of our 'back room' staff in the various corporate and support functions. These cover Strategic & Business Development, Client Relations, Risk Management, Compliance, Internal Audit, Financial Control, Information Technology, Human Resources, Operations, and Corporate Communications, together with our secretaries and messengers. Key developments include:

- Conducted a major review and revision of SICO's risk management policies, processes and procedures across the entire organisation. As a result, SICO now has in place a far more comprehensive and robust risk management framework.
- Signed an agreement with a leading provider for an international banking system as a replacement core banking system (CBS) for

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Net Profit of the year 2009

BD 3.1 million
versus 2008 loss of BD1.4 m

MESSAGE FROM THE CEO CONTINUED

SICO. With a total cost exceeding BD 1.5 million, the new CBS represents the largest capital expenditure to date by the Firm.

- Maintained headcount at 2008 levels.

These examples illustrate the importance that we place on continuing to invest in the growth and development of the Firm, even in the most difficult times. I believe such investments will help to ensure that SICO is well positioned to take advantage of improvements in the GCC markets, and capitalise on new business opportunities.

SUCCESSFUL

Financial results

SICO's focused and consistent strategy, and the concerted efforts of our team, enabled the Firm to benefit from the modest revival in global and regional markets seen during the year. I am pleased to report that SICO achieved a solid financial performance in 2009. The most notable achievement was the Firm's return to profitability, with a net profit of BD 3.1 million for the year compared to a loss of BD1.4 million in 2008. Other financial highlights include:

- Client fee generated Income represented 60% of total operating income.
- Net investment income recovered to BD 795 thousand from a loss of BD 3 million in 2008.
- Shareholders' equity grew by over 7% to BD53.8 million compared to BD 49.9 million in 2008.
- Total expenses, which include staff overheads and general administration and other expenses, reduced to BD 3.3 million from BD 3.9 million in 2008.
- Fee and commission income decreased slightly to BD2.4 million compared to BD 2.8 million in 2008.
- Brokerage and other income reduced to BD 1.5 million from BD 3.7 million in 2008.
- Assets under management reduced slightly to BD 150.5 million compared to BD 154.2 million in 2008.
- Due to the overall reduced level of capital markets activity the Firm's balance sheet contracted during the year to BD 82.6 million from BD108.8 million in 2008, but remained highly liquid.

TEAM NEWS

I would like to take this opportunity to bring

you up to date with some personal news about members of the SICO team who constitute the backbone of the enduring and mutually beneficial relationships that the Firm has established with its stakeholders.

On the professional front, I would like to pay tribute to Waruna Kumerage from Asset Management and Nishit Lakhota from Research who both received the CFA Charter from the Chartered Financial Institute. The self-study, graduate level CFA programme sets the global standard for investment knowledge, professional excellence and ethics. Congratulations are also due to Fadi Mahmood from Corporate Finance, who passed the CFA Level 1 examination. On a more personal note, I would like to congratulate Hussein Najati and his wife on the birth of their daughter, and Mohammed Khalf and his wife on the birth of their twins – a boy and a girl. (SICO staff never do things by halves!)

I would also like to welcome our new staff – Nishit Lakhota (Research), Eman Aryan (Hr & Administration) Gurusundaram Ganesh (Internal Audit) and Mohamed Al Maskati (Investments & Treasury) who initially joined SICO as an Executive Trainee from McGill University, Canada.

FUTURE OUTLOOK

Without doubt, 2010 will prove to be another highly challenging year, marked by continued uncertainty and lack of clarity. A positive development is that oil prices, having picked up well from their lows at the end of 2008 have remained relatively stable for most of 2009, and look likely to remain stable in the foreseeable future. This will give GCC governments the ability to withstand a slowed world economy. However, key challenges regarding regulatory and legal frameworks, corporate governance, minority shareholders' rights, and development of capital markets still need to be resolved.

The regional economies will be among the few that will grow during 2010, albeit at a slower pace than recent years. Clearly, risks remain in the form of fluctuating oil prices, the future value and yield of real estate, credit availability, deflation, liquidity, geopolitical tensions, and the regulatory environment; but the fundamentals of the GCC economy mean it will continue to deliver strong growth, and benefit SICO's business.

Anthony C. Mallis
Chief Executive Office

CORPORATE FINANCE

Due to adverse market conditions, four corporate finance mandates awarded to SICO during the previous year were put on hold by clients at the beginning of 2009. However, following the moderate revival of regional markets and improving business confidence from quarter two onwards, the Firm signed a number of new mandates during the year. During 2009, SICO continued to provide sell-side and buy-side advisory services to corporate clients across the GCC region.

Research Reports

414

Issued in 2009

Total Operating Income

+36%

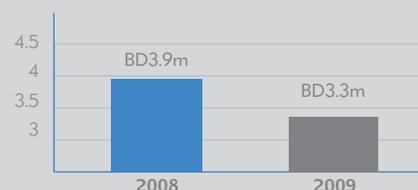
To BD 6.4 million in 2009

Client Fee-generated Income

60%

Of Total Operating Income

TOTAL EXPENSES



BROKERAGE

For the 11th consecutive year, SICO maintained its position as the leading broker on the Bahrain Stock Exchange (BSE), and continued to be the preferred choice for larger trades.

During 2009, the Firm completed 12,517 transactions, equating to 21% of all transactions. The volume of shares traded was 672 million, giving SICO a 39% share. The total value shares of traded was BD 122 million, with SICO accounting for 34%. The Firm managed three of the largest transactions on the BSE in 2009.

SICO continued to expand its cross-border activities in 2009. This enabled clients to trade listed investment opportunities available throughout the GCC and MENA, including Jordan and Egypt, together with access to the fixed income market. The Firm also increased its business with non-GCC clients, further

enhancing its status as the 'broker of choice' on the BSE for international fund managers, prime brokers and financial institutions. Over 50 per cent of the BSE's turnover is generated by foreign investors, with most of the trading being executed by SICO.

To support this business, SICO pioneered the establishment of an Agency Brokerage Desk in collaboration with counter-brokers and institutional clients. The first of its kind in Bahrain, and one of the first in the GCC, the Desk became fully operational in 2009. The network is now complete, and a number of major accounts have already signed up.

ASSET MANAGEMENT

The Firm continued to grow its asset management business during 2009, winning new mandates with prestigious regional and international financial institutions.

Among these mandates was one to manage the Saudi Arabian component of a Kuwaiti bank's GCC fund. This was followed by a mandate by a Japanese institution to manage a new Bahrain-domiciled GCC fund. SICO also started investing for the 'Arabia Inside Fund', a Luxembourg-domiciled UCITS III compliant fund. This mandate was awarded to the Firm in 2008 by Aquila Capital, a German-based alternative investment institution. SICO is currently discussing partnership agreements with US-based institutions for the marketing and distribution of the Firm's funds in the USA, which are expected to be signed in early 2010.

Together with existing partnerships in Germany for Europe, and Japan for East Asia, this will provide SICO with a strong pan-global marketing and distribution footprint.

SICO's four equity funds continued to perform strongly against their respective benchmarks and peers during the year. The high ratings assigned to the Firm's funds by Standard & Poor's in 2008 were all re-affirmed in 2009. Three of SICO's funds were recognised by the receipt of further industry awards, including the Khaleej Equity Fund and the SICO Gulf Equity Fund, which were placed First and Second respectively in the GCC Equity Fund category by Zawya Funds Ranking.

Due to market conditions, total assets under management decreased slightly in 2009 to BD 150.5 million compared to BD 152.4 million at the end of 2008, with a corresponding decline in management and performance fees during the year.

Assets under management

BD 150.5

million in 2009

CUSTODY & FUND ADMINISTRATION

Through its wholly-owned subsidiary, SICO Funds Services Company (SFS), the Firm provides a sophisticated range of integrated custody and fund administration solutions and services to regional clients. Despite difficult market conditions affecting some of its existing clients, SFS was successful in securing a number of new mandates in 2009, and continued contributing to SICO's bottom line.

During the year, SFS increased its capital to support its application to the Central Bank of Bahrain to change its licence from 'service provider for custody and fund administration' to 'investment business'. This new licence would result in SFS being the first local company to achieve custodian status on the Bahrain Stock Exchange, further enhancing its recognition and reputation.

Shareholders' Equity

BD 54 million

vs BD 50 m in 2008

Volume of shares traded

672 million

34% of total volume on BSE

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Leading Broker on BSE for the 11th consecutive year

RESEARCH

During 2009, SICO continued to enhance its provision of in-depth proprietary research, which provides clients with an independent, value-added service.

The Firm's database, which is regularly updated, now covers over 90 per cent of major listed GCC companies, of which approximately half are blue-chip, top-tier entities. During 2009, SICO published a total of 414 reports (4,328 pages) of which 326 reports were periodical, while 88 were detailed company/sector reports and strategy notes.

The Firm's diverse and comprehensive research output comprises a daily GCC market watch; a

weekly coverage of the Bahrain market; a quarterly review of GCC markets; quarterly and half-yearly strategic outlooks for the GCC economy; and periodic reports of GCC listed companies and major regional sectors. A key development in 2009 was the introduction of a new monthly 'GCC Economies – The Numbers' report that analyses data from regional central banks and tracks economic trends.

MARKET MAKING

SICO continues since 1997 to be the sole market maker on the Bahrain Stock Exchange (BSE), which has provided greater depth and liquidity to the stock market, and helped to reduce short-term price fluctuations and narrowing of spreads. During 2009, SICO maintained its status

as the leading market maker on the BSE and also consolidated its position as one of the region's premier market makers. The Firm continued to serve clients on the equity side, as well as offering regional fixed income to investors.

TEAM ACTIVITY



Above: The SICO Team participated in the Bahrain Marathon Relay 2009

RATINGS & HIGHLIGHTS

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Khaleej Equity Fund and
SICO Gulf Equity Fund
All ratings re-affirmed by S&P

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SICO Arab Financial Fund and
SICO Selected Securities Fund
All ratings re-affirmed by S&P