

COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

SICO UAE commences operations



The SICO UAE Team: Back row (from right to left): Fadi Ghosaini, Anas Al Momani, Zayed Batainah, Zaher Alaffouri, Jacob Mathias, Mahmoud Metwally, Mohamed Othman, Abdalla Ali.
Front row (from right to left): Sameera Ahmed, Duna Khalid Alameed, Majdoline Sabbagh.

SICO received final approval from the Emirates Securities & Commodities Authority (ESCA) in July 2012 for its new brokerage firm in the UAE to commence operations.

A wholly-owned subsidiary of the Bank, Securities & Investment Company United Arab Emirates (SICO UAE) is licensed by ESCA to provide brokerage services in the United Arab Emirates. Located in Abu Dhabi, SICO UAE will execute trades for its

institutional and high net worth clients in the Emirates on the three principal stock exchanges – ADX, DFM and NASDAQ Dubai. The Company also provides online trading and DVP (delivery-versus-payment) services, and plans to introduce margin trading from the beginning of 2013.

The official go-ahead follows ESCA's regulatory approval of SICO UAE's key personnel; and inspection of the Company's new premises

at Al Wahda Commercial Tower in Abu Dhabi, and its supporting IT and operating infrastructure. The Board of Directors of SICO UAE comprises senior executive managers of Securities & Investment Company: Mr Anthony Mallis (Chairman), Mr Samir Sami (Vice Chairman), Mrs Najla Al Shirawi, and Mr Fadhel Makhloq.

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SICO posts BD1 million net profit for the first six months of 2012

SICO's operating income for the first six months of 2012 rose to BD 3.4 million compared with BD 2.71 million for the corresponding period in 2011. Net profit increased by 112 per cent to BD 1.06 million from BD 499 thousand a year earlier. Basic earnings per share rose to 2.48 Bahraini fils from 1.17 fils for the same period in 2011.

Net interest income, net fee and commission income, and brokerage and other income contributed BD 583 thousand, BD 1.10 million, and BD 401 thousand respectively to operating income; while net investment income contributed BD 1.32 million. For the first six months of 2012, total operating

expenses, which include staff overheads, general administration and other expenses, were BD 2.2 million, compared with BD 2.1 million for the corresponding period in 2011.

As at 30 June 2012, total balance sheet footings had increased by 24 per cent to BD 87.5 million from BD 70.6 million at the end of 2011. Assets under management stood at BD 205 million (BD 206 million as of end of 2011), while assets under custody with SICO's wholly-owned subsidiary SFS, totalled BD 858 million (BD 864 million as at end-2011), both largely unchanged from the end of 2011.

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BD 87.5
million
Total assets up by 24%

112%
Net profit increase
for HY1

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Investment Income tops BD 1.3 million

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New independent director appointed to SICO board



Mr Yusuf Khalaf has joined the SICO Board as a non-executive and independent director, and is Chairman of the Audit committee. He also serves as an independent director on the boards of BBK, Eskan Bank, First Leasing Bank, and Solidarity General Takaful Company. With a career spanning more than 30 years in accounting, auditing and banking, he has worked in the GCC, Middle East, UK and India. Mr Khalaf is the Managing Director of Vision Line Consulting, which he founded in 2010. Prior to that, he played a leading role in the incorporation and listing of Ajman Bank in the UAE, where he served as the bank's first CEO.

Previously, he was CEO of Bahrain Islamic Bank, Support Group Head at Ithmaar Bank, Assistant General Manager at BBK, and Resident Manager of the London office of Peat Marwick. Mr Khalaf graduated as a chartered certified accountant in 1980, and became a Fellow of the UK Association of Chartered Certified Accountants in 1983.

He has attended the Executive Leadership Program at Columbia Business School, and the Strategic Management in Banking Programme at INSEAD. A Bahraini national, Mr Khalaf is married with three children.

SICO Board in compliance

Following the appointment of Mr Yusuf Khalaf, and the recent classification of Mr Meshary Al-Judaimi, Mr Mahmoud Al Zewam Al Amari, and Mr Fahad Murad as non-executive independent directors, the SICO Board is in compliance with the recommendations of the Corporate Governance Code of the Kingdom of Bahrain. This states that at least 50 per cent of an institution's board should be non-executive directors, and at least three of those persons should be independent directors. The SICO Board comprises nine directors, of which four are now both non-executive and independent members.

SICO UAE operational

(Continued from front page)

Commenting on this development, Mr Anthony Mallis said: "The establishment of SICO UAE provides the Bank for the first time with a physical presence outside Bahrain. As well as expanding the scope of our regional brokerage business, and opening up cross-selling opportunities for other business lines, it gives SICO additional access to one of the GCC region's dynamic and growing economies.

"This significant initiative, which could be replicated elsewhere in the region, is in line with our strategy to expand SICO's operating presence outside Bahrain into other appropriate GCC countries, and underscores our enduring commitment to our clients in the region."

The establishment of SICO UAE took less than one year to complete. In September 2011, SICO received approval from ESCA to acquire an existing licensed brokerage house in Abu Dhabi and change its name to Securities & Investment Company United Arab Emirates (SICO UAE). The same month, Mr Fadi Ghosaini was appointed as the new General Manager. The operation was then suspended, while steps were taken to totally rebuild the operation in a new location with substantial investment in personnel and

information technology, supported by new capital injection of UAE Dirhams 30 million.

By February 2012, SICO UAE had moved to the new premises, commenced installation of a state-of-the-art trading system and supporting IT infrastructure, and started to recruit new staff. In April 2012, the Company held its first Board and Annual General Meetings. ESCA reinstated the brokerage licence of SICO UAE in June 2012, following its regulatory approval of key personnel, and a rigorous inspection of the company's new premises, and IT and operating infrastructure. Final regulatory approval to commence operations was granted in July 2012.

On behalf of SICO and the SICO UAE Board, Mr Mallis congratulated the team for their exemplary efforts in successfully establishing the company according to regulatory requirements in such a short space of time.

The offices of SICO UAE are located in Abu Dhabi at Al Wahda Commercial Tower, in the new prestigious Al Wahda Commercial Complex, which includes the Grand Millennium Hotel.

SICO expands research activities

During the first half of 2012, SICO added three new companies in the banking, telecoms and industrial sectors to its coverage universe. A total of 216 reports were published – comprising 40 company coverage and initiation reports, one strategy report, and 175 periodical reports – constituting just over half the total reports published during the whole of 2011. Interest in SICO research reports remained strong, with a 17 per

cent increase in the number of reports downloaded through Reuters during the period, compared with the last six months of 2011. In response to feedback, a new daily GCC Morning Call service was introduced for the Bank's tier-one clients. Coverage includes company updates, regional news, stock recommendations, market performance and extracts from latest published reports.

YTD 2012 financial results

(Continued from front page)

SICO reported second quarter operating income of BD 859 thousand compared with BD 2.25 million for the corresponding period for 2011, while net earnings were negative, registering a loss of BD 292 thousand (Q2 2010: BD 1.13 million), with basic earnings per share of negative 0.68 Bahraini fils (Q2 2011: 2.64 fils).

Net interest income, net fee and commission income, and brokerage and other income during the second quarter of 2012 contributed BD 274 thousand, BD 554 thousand and BD 233 thousand respectively to operating income; conversely SICO recorded a net investment loss of BD 202 thousand which negatively impacted operating income. Total operating expenses for the period were BD 1 million.

SICO continued to maintain a strong capital base, ending the first six months of the year with increased shareholders' equity of BD 55.22 million, and a strong consolidated capital adequacy ratio of 61.87 per cent.

The Bank currently has 38.7 per cent (or BD 33.87 million) of its balance sheet in cash and deposits, compared with 28.2 per cent (or BD 19.96 million) at the end of 2011, reflecting the prudent position that SICO continues to take with regard to the domestic and international capital markets. Available-for-sale securities at the end of June 2012 rose to BD 30.67 million (end-2011: BD 27.04 million), while investments at fair value through profit or loss reduced to BD 14.98 million (end-2011: BD 16.74 million).

Putting these results into context, Anthony Mallis, Chief Executive Officer of Securities & Investment Company, commented: "International and regional markets started the year on a positive note, with confidence levels increasing as a result of a brighter global economic outlook. Regional markets witnessed a surge in volumes, with speculative stocks appreciating by as much as 80 per cent. Reflecting these buoyant market conditions, SICO reported operating income of BD 2.6 million for the first three

months of 2012, with net investment income contributing BD 1.5 million. Net profit for the period was BD 1.4 million.

"However, after a four-month rally, investors booked profits due to rising concerns over the health of the Euro zone; weaker economic data from the US and China; and a deteriorating regional geo-political environment. The three-month period of April to end-June witnessed a return of the unprecedented volatility in regional and international capital markets experienced during 2011, with some year-to-date gains in 2012 having been erased.

"As can be appreciated, these turbulent investment conditions were discouraging to most investors, with many staying on the sidelines, but with the more active investors taking a keen interest in the sukuk and conventional bond markets. The regional sukuk/bond market has been particularly active during the second quarter of 2012, which in our opinion is a positive as it expands further the regional capital markets' product

range. Generally these negatively-biased business conditions had a constraining impact on the Bank's business, particularly on the non-trading business lines," Mr Mallis pointed out.

BD 205
million
Assets under Management

61.9%
Capital Adequacy Ratio

SICO funds continue to perform well against benchmarks

The GCC markets started 2012 on a positive note, with the first quarter performance being exceptionally strong. Trading volumes across the markets surged on the back of renewed investor interest and improved

international developments. However, during the second quarter, the markets gave back the majority of their returns. This was due primarily to a worsening of the Euro debt crisis, and a slowdown in the global

economies. As a result, the markets ended flat at the end of the first half of the year. Against this scenario, SICO Funds performed well, with the majority continuing to outperform their respective benchmarks

and peers. At the end of June 2012, total assets under management stood at BD 205 million compared with BD 206 million at the end of December 2011.

SICO Fund	YTD 2012 (Jan-June)	Index / Benchmark	YTD 2012 (Jan-June)
Kingdom Equity Fund	4.7%	Tadawul	4.6%
Arab Financial Fund	0.8%	S&P Pan Arab Financial	1.2%
Gulf Equity Fund	-0.4%	S&P GCC Ex Saudi	-3.7%
Khaleej Equity Fund	0.2%	S&P GCC	1.0%
Selected Securities Fund	4.3%	Bahrain Bourse	-1.5%
Money Market Fund	0.84%	2 Months LIBOR	0.38%

Net investment income exceeds BD 1.3 million

SICO's investment portfolio started 2012 aggressively positioned, with an overweight towards GCC and global equities. However, as the year progressed and economic conditions deteriorated, a more defensive stance was adopted, with fixed income dominating the portfolio allocation. At the end of June 2012, approximately 49 per cent of the portfolio was invested in fixed income through direct and indirect investment. Equity, split between GCC and global equities, accounted for around 29 per cent of the portfolio. Net investment income totalled BD 1.32 million at the end of June 2012. Available-for-sale securities at the end of the period had risen to BD 30.67 million, while investments at fair value through profit or loss had declined to BD 14.98 million.

Treasury activities remain profitable

Despite declining deposit rates throughout the first half of 2012, SICO's treasury activities remained profitable. The Bank continued to adopt a cautious approach, maintaining deposits with high quality financial institutions on short-term placements of up to seven days. A new counterparty relationship was added during the period. At the end of June 2012, SICO had 38.7 per cent of its balance sheet in cash and deposits compared with 28.2 per cent at the end of December 2011, reflecting the prudent position that the Bank continues to take with regard to the domestic and international capital markets. At the end of the period, SICO's capital adequacy ratio stood at a very strong 61.87 per cent.

BD 1.32
million
Net investment income

38.7%
Balance sheet
in cash and deposits

Encouraging start for Fixed Income Desk

SICO's new Fixed Income Desk commenced operations in early 2012, initially covering clients in Bahrain, and with plans to expand to other GCC countries during the second half of the year. The Desk should also be able to benefit in the near future from flows generated by the fixed income funds under the management of SICO Asset Management, as well as discretionary mandates. Also planned for the second six months of the year is an increase in the number of counterparties with whom the Desk deals in the region in order to expand market coverage.

In general, clients are becoming more aware and knowledgeable of this asset class, which helped to increase trading flow during the first six months of 2012. They are also becoming more active in terms of switching positions and trading the spread, rather than holding the positions to maturity. The Desk provides a daily GCC fixed income run, which includes the indicative prices and yields of most issues in the region. In addition, a weekly commentary is provided for clients, indicating trade flow and market interest.

SICO in advisory role for Hidd Power Company deal

M&A activity has yet to pick up in Bahrain, with just one significant deal concluded during the first half of 2012. In May 2012, GDF Suez and International Power sold 40 per cent of Hidd Power Company to Malakoff International Limited, with SICO Corporate Finance acting as advisor to one of the bidders. Regional M&A targets reached US 8.2 billion during the first half of 2012, marking a strong performance. The largest deal was NBK's US\$ 2.1 billion offer for Boubyan Bank in June. The largest M&A targets market remains the UAE at 39 per cent, followed by Kuwait at 29 per cent of total deals.

Primary issues of equity capital in the GCC appear to be recovering, albeit slowly, with capital raised during the first half of 2012 increasing to US\$ 1.18 billion. Regional primary issues have been subdued since the global financial crisis, and are still much lower than levels witnessed in the first half of 2008. Saudi Arabia remains by far the dominant centre of primary issues in the GCC, accounting for five of the six issues in the first half of 2012, with US\$ 1.02 billion raised. Questions remain as to whether there will be primary issues from other GCC countries in the second half of the year.

GCC bond and sukuk issues were very active during the first half of 2012. The aggregate value of bonds issued reached US\$ 10.5 billion, and the performance of the market was impressive considering the backdrop of exceptional global uncertainty. The sukuk market took top spot in the GCC capital markets sector during the period, with an aggregate value of US\$ 13.3 billion. The Qatar Government's recent sukuk issue in July 2012 impressed, with demand reaching US\$ 25 billion for the US\$ 4 billion sukuk. New bond and sukuk issues seem to be more spread out over the region than

equity; however, the market is still heavily dominated by sovereign and quasi-sovereign issuances.

SICO remains cautiously optimistic that the increased investment banking activity in the GCC region will have a spillover effect on the Bahrain market during the second half of 2012.

MALLIS AFORETHOUGHT



Looking back over the past nine months, one is left with a distinct sense of déjà vu. I keep asking myself (and you also probably do) whether we weren't here before many times over the past two years? The same quarterly peaks and troughs; the same volatility and uncertainty; the same 'don't hold your breath' scenarios; and the daily expected and unexpected 'fat tail events', (a term that I last heard of forty years ago and which I had forgotten its meaning until 2008), which now has become part of our everyday language – at least for economists and journalists. From a global perspective, there is not much disagreement that there is a feeling that things are not going well, despite the 'best efforts' of governments and central banks. This is compounded by the belief that major economies have seemingly synchronized themselves for a further fall. In bygone times, one could reasonably expect the economic downswing of one country to be offset by the economic upswing of others. But apparently this is no longer the case, with all major economies currently appearing to be in a similar state of relative stagnation.

And yet we should be optimistic: mankind has muddled through history and economic cycles, albeit sometimes at a huge and tragic cost. The global economy is adjusting now brutally after fifteen years of leverage induced growth; but the good news is we are also seeing the new seeds of growth germinating across the world - faint but there. Schumpeter gave us the rather quaint term

of 'creative destruction'; and this is what we have been seeing during the past four years. The world will come out stronger until the next down cycle! But to further balance out this universal collective sense of glumness, let us not forget the incredible advances we have seen in the past ten years in medicine, communications, practical and theoretical sciences, bio-engineering, engineering, arts and literature, etc. The incredible economic progress we see in formerly 'poor' countries is impressive, and paradoxically, partially a result of the great 'debt inflation'.

GCC economies, with their strong underlying energy-based fundamentals, continue to perform well and grow at a faster rate than the global average. However, in the face of recent political, social and geo-political events, GCC regional governments have been presented with new challenges: how to ensure that the benefits of economic growth percolate optimally down to the common man, while ensuring long-term economic sustainability. Continuing stability can only be achieved through greater individual prosperity, hope and social well-being. This entails generating jobs and encouraging individual entrepreneurship; while providing quality and affordable housing, healthcare and excellent education. In my mind, creating a well-educated and adaptive population, with East and South East Asia as a recent example, is the key to a future well-balanced success of a country.

And yet the challenge is that the silver spoon should not be overextended. Overextending a government's social commitments leads to an entitlement culture, which in the long run is harmful to a country's well-being and productivity. For us in the GCC we should not forget that energy prices can also fall, and the fact that oil and gas are far more abundant globally than many of us thought for a long time should be an early and very clear

warning bell. Eventually these commitments become unaffordable – ask the Americans and Europeans about that.

But the private sector should also act as a major provider of growth in a sustainable model. In a number of Gulf countries the private sector has to re-energise itself for it to remain relevant. In this context the regional banking sector has an important and growing role to play. With international banks deleveraging, the importance of regional banks will grow by necessity.

With investment horizons having been totally compressed, it is not surprising that investors remain on the sidelines with a 'wait-and-see' attitude. Similarly, it is understandable that many companies and financial institutions have opted to 'hold the fort' – and SICO is one of these by the way – until the storm subsides. However, we are also cognizant that taking a back seat role does not engender growth and development: stand still too long, and you are likely to get run over by the competition. As Andy Grove, Intel's former legendary CEO, famously said – 'only the paranoid survive'.

At SICO, we have taken a more balanced view. On the one hand, adopting a professional, prudent and ethical business approach, and maintaining a very strong balance sheet; while on the other hand, continually seeking innovative and risk contained ways to grow the business, serve our clients and diversify sources of revenue. Since inception, we have tried to set the benchmark for the regional investment banking industry in the areas of market making, brokerage, asset management, corporate finance, custody and administration, and research.

The first half of 2012 was no exception. During this period we expanded our physical

presence for the first time outside Bahrain, with the launch of our brokerage firm in the UAE; commenced operations of a new fixed income desk; and extended our research services scope. We have also continued hiring a number of amazing Bahraini graduates. At the same time, we continued to enhance our corporate governance framework, with SICO's Board of Directors now comprising just under 50 per cent of members who are independent and non-executive directors.

The Bank's acceptable (I use the word reluctantly) financial performance for the first half of 2012, with net profits increasing by over 100 per cent to BD 1.1 million, underscores the continued effectiveness of our consistent strategy, and prudent management principles based on product and asset class diversification. It also highlights the dedicated commitment of the SICO team to deliver high quality and innovative services with integrity and professionalism, while retaining the confidence, trust and loyalty of our clients.

While it remains difficult, if not impossible, to predict what will happen in the short-term with any degree of accuracy and certainty, there is no doubt that the rest of the year will be extremely challenging. Until we see greater clarity, SICO will continue to stay on track, focus on what we do best, and try to do it better; always acting in the interests of our clients, shareholders and employees.

Anthony C. Mallis
Chief Executive Officer

SFS wins four new regional mandates

During the first half of 2012, the Bank's subsidiary, SICO Funds Services Company (SFS), was appointed by four regional institutions to provide custody and administration for their funds and portfolios. In the area of electronic trading, SFS also acted as custodian for several clients who were buyers of new regional bond issues during the period.

BD 858
million
Assets under Custody

SICO team wins charity golf tournament

The SICO-sponsored team was crowned winners of the Championship Flight of the annual AMH Island Classic charity golf tournament. Organised under the patronage of His Majesty King Hamad Bin Isa Al Khalifa, the 15th edition of the Island Classic was held during March 2012 at his private golf course in Safriya. Since its establishment, the event, which is one of the biggest events on Bahrain's charity calendar, has helped the American Mission Hospital raise substantial funds that have been used to finance additional facilities, services and equipment.



SICO sponsors 2012 Investors Conference

SICO sponsored an expert panel at the 5th ARINDON Investors Conference held in Bahrain on 25 January 2012. The panel, which was moderated by SICO's Chief Executive Officer, Anthony Mallis, was entitled 'Market Outlook: Where are the

regional markets heading in light of the volatile landscape?' At the end of the event, Mr Mallis was interviewed by CNBC Arabia. A video of the interview can be viewed on SICO's website at www.sicobahrain.com/newsroom.



SICO people in the news

77

**Headcount end-June 2012
Up from 72 at end-Dec 2011**

PROFESSIONAL QUALIFICATIONS

Congratulations to the following staff who passed the Level 3 Chartered Financial Analyst (CFA) examinations earlier this year:

- Ambereen Jiwani – Research
- Mohammed Al Maskati – Investments & Treasury

PROMOTIONS

Congratulations to the following staff who have been promoted to a higher grade:

- Ali Mohammed Abdulredha, Khaled Al Kooheji and Fatima Al Harmi from Financial Control
- Amr Jalal from Customer Relations
- Mohammed Al Maskati from Investments & Treasury
- Hamad Alheddi from Risk Management
- Jassim A. Husain from HR & Administration

TRANSFERS

- Eman Aryan - Receptionist, transferred to the Operations Department

NEW JOINERS

Welcome to the following people who have joined the SICO team:

- Chiradeep Ghosh:- Senior Analyst, and Basma Abbas Mahmood Ali Reza:- Junior Analyst, to Research
- Binsu George Thomas:- Portfolio Administrator, and Rami Jamal Abdalnaser Yusuf Hasan:- Associate, Asset Management Sales, to Asset Management
- Abdulhameed Ali Abdulhameed Khonji:- Associate Fixed Income Sales, to Investments & Treasury
- Nadia Mahmood Hasan Khursheed Qamber:- Broker, to Brokerage
- Asma Mohamed Ali Abdulrasool Baljeek:- Receptionist, to HR & Administration
- Noor Wajdi Mohamed Al Shirawi:- Officer, Funds Administration, to SFS

SICO EXECUTIVE TRAINING PROGRAMME

Welcome to the following graduates who enrolled in the Programme:

- Nadia Mahmood Hasan Khursheed Qamber – Brokerage (recruited)
- Sumaya Ali Ahmed Ali Mohamed Ali – Research
- Zahra Abbas Mandi – SFS

SICO STUDENT INTERNSHIPS

SICO is pleased to be providing the following students with work experience:

- Shayma Jassim Mohammed Al Hammadi – with Customer Relations
- Zahra Abbas Mandi – with Customer Relations: Asset Management and SFS
- Abdulla Fouad Rashed Al Basteki – with Brokerage and Investments & Treasury
- Fadhel Abdulla Salman – with Information Technology
- Mustafa Abbas Ali Al Najjar – with Information Technology
- Amina Al Maskati – with Research: Asset Management
- Farah Habib Al Ansari – with Customer Relations and Operations

HAPPY OCCASIONS

Congratulations to the following SICO staff members:

Engagements

- Ali Mohammed of Financial Control
- Alya Fadhel of SFS

Marriage

- Basel Mohsen of Brokerage

Births

- Syed Naveed of Asset Management – a baby boy
- Aneel Kanwer of Asset Management – a baby boy
- Waruna Kumara of Asset Management – a baby boy
- Nishit Lakhota of Research – a baby girl