بنك استثماري
Investment Bank
sico

Annual Report 2008

Conservative

Consistent

Client-driven

Securities & Investment Company BSC (c)
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Designed and produced by Gulf Marcom

HIS HIGHNESS
SHAIKH KHALIFA BIN SALMAN AL KHALIFA

The Prime Minister of the Kingdom of Bahrain

HIS MAJESTY
KING HAMAD BIN ISA AL KHALIFA

The King of the Kingdom of Bahrain

HIS HIGHNESS
SHAIKH SALMAN BIN HAMAD AL KHALIFA

The Crown Prince and Deputy Supreme Commander

SICO Mission Statement and Corporate Profile

SICO MISSION

To emerge as a leading securities house offering a selective range of investment banking services - including asset management, corporate finance and brokerage - throughout the GCC region. We aim to continuously provide innovative products and services, catering to the growing investment needs of our clients, while abiding to high ethical and professional standards of conduct. In so doing we aim to maximise shareholders' value as well as contribute towards strengthening Bahrain's position as a regional capital markets centre.

SICO PROFILE

A leading Bahrain-based investment banking institution, Securities & Investment Company (SICO) provides clients across the GCC region with a selective range of investment banking services focused on the Gulf and MENA. These comprise asset management, brokerage, market-making, corporate finance, and custody and administration, which are underpinned by an independent, value-added research capability.

Commencing operations in 1995, SICO holds a banking licence from the Central Bank of Bahrain (CBB), and was listed on the Bahrain Stock Exchange in 2003 as a closed company. The Firm has a wholly owned subsidiary – SICO Fund Services Company (SFS) – which is a specialised regional custody house.

The core shareholders of SICO are major GCC financial institutions. They include Bahrain's Social Insurance Organisation, and several prominent regional investment, merchant and commercial banks.

SICO is the largest broker on the Bahrain Stock Exchange as well as the only active market-maker. The firm also provides a pan GCC brokerage platform, an activity which it pioneered. SICO's Asset Management unit manages funds of over $400 million through a range of institutional products: SICO's four equity funds have consistently outperformed indices and generated stellar returns. Khaleej Equity Fund won the Lipper Fund Award and its rating was upgraded from 'A' to an 'AA' by Standard & Poor's in December 2008. In addition, SICO Gulf Equity Fund was assigned an 'AA' rating, while SICO Selected Securities Fund and SICO Arab Financial Fund were both assigned an 'A' rating by Standard & Poor's.

SICO is also the leading provider of corporate finance services, having successfully concluded a number of high profile IPOs, private placements, debt and equity issues both in Bahrain, the GCC and Egypt.

Financial Highlights

RETURN ON AVERAGE ASSETS

Annual Ratio	
2004	17%
2005	20%
2006	7%
2007	17%
2008	-2%

EARNINGS PER SHARE (FILS)

Annual Ratio	
2004	33
2005	56
2006	29
2007	38
2008	(4)

COST-TO-INCOME

Annual Ratio	
2004	26%
2005	20%
2006	38%
2007	25%
2008	87%

NET INTEREST MARGIN

Annual Ratio	
2004	1%
2005	1%
2006	3%
2007	3%
2008	4%

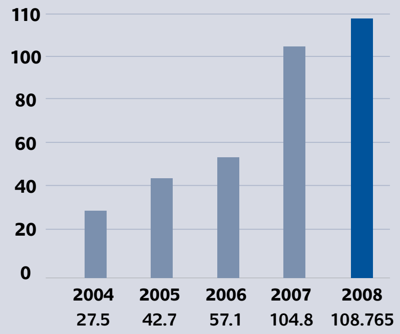
RETURN ON AVERAGE EQUITY

Annual Ratio	
2004	23%
2005	31%
2006	14%
2007	36%
2008	-3%

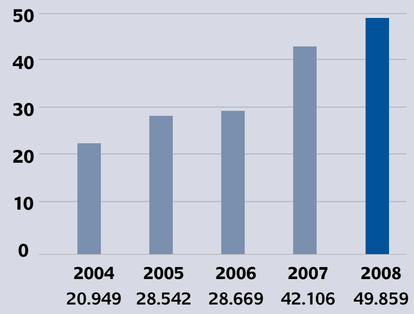
DIVIDENDS PER SHARE (FILS)

Annual Ratio	
2004	7
2005	10
2006	8
2007	10
2008	-

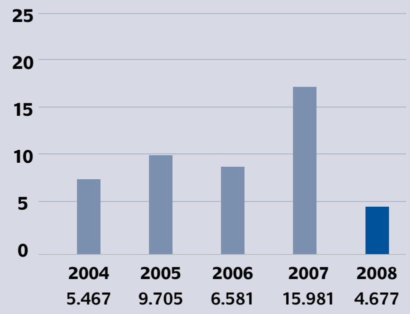
TOTAL ASSETS
BD Millions



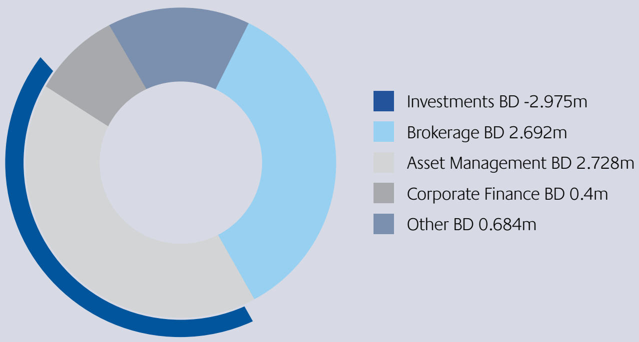
SHAREHOLDERS' EQUITY
BD Millions



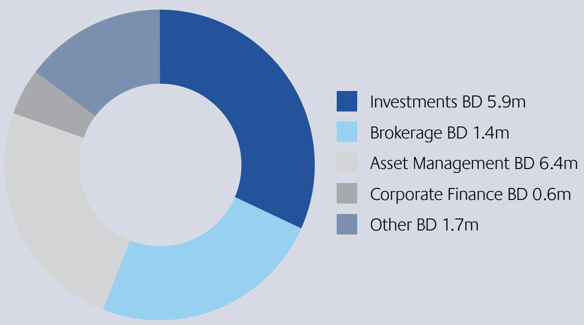
TOTAL REVENUE
BD Millions



TOTAL REVENUE / LOSS 2008
BD Millions
Year ended 31 December 2008



TOTAL REVENUE 2007
BD Millions
Year ended 31 December 2007



Chairman's Statement

On behalf of the Board of Directors, I present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2008.

Shaikh Mohammed bin Isa Al Khalifa

Without doubt, this proved to be the most challenging year ever for the Firm since we commenced operations in 1995. After an encouraging start to the year, the second half of 2008 was marked by one of the worst financial meltdowns the world has experienced, with an ensuing downturn in all major industrial and emerging economies, and extraordinary turbulence in international financial markets. The impact on the Gulf economies was much deeper than originally expected, with most of the major regional stock markets experiencing their worst year ever.

The economies of the GCC states were hit by a massive slide in the price of crude oil, as well as by huge losses to their large foreign and domestic investments. However, the underlying fundamentals for the Gulf region remain strong on the medium and longer term, with economic growth increasingly reliant on the non-oil sectors, which now account for over 50 per cent of total real GDP. The six member states enter this current turbulent period with substantial foreign reserves and low government debt levels. As such, the economic stability of the region is unlikely to be significantly overstressed by a weakening global economy. With the inflationary pressures of the past three years having abated, key concerns continue to be reduced liquidity and money market strains, and the ongoing credit squeeze.

SICO posted record financial results for the first half of 2008. However, the adverse conditions of the second half of the year impacted our Firm, and we posted a loss of BD 1.4 million for fiscal 2008 compared to a profit of BD 11.9 million for 2007. This was due to our wish to conservatively provision equity securities impaired negatively by the ongoing financial crisis. However, it is worth noting that all fee-earning business lines achieved positive returns, with brokerage and other income increasing by 43.6 per cent to BD 3.6 million compared to BD 2.5 million in 2007.

In June 2008, SICO completed a rights issue, with paid-up capital increasing to BD 42.35 million, reflecting the continuing confidence of our shareholders. Since inception, and particularly during the beginning of the current global financial crises, SICO has consistently operated on a 'fortress balance sheet' basis, protecting clients' and shareholders' assets. Although the Firm was impacted during the second half of the year by the turmoil in the global financial markets, and its adverse effect on the GCC equity markets, SICO continued to perform in an exceptionally responsive and conservative manner to the unfolding events, always putting clients' interests at the forefront of its activities.

Key business achievements during the year include the performance and underlying quality of SICO's equity funds, which continued to outperform their respective indices and other mutual funds in their class. This was reinforced by Standard & Poor's, with all four funds now being rated 'A' or higher. In addition, the Khaleej Equity Fund was recognised by the receipt of a prestigious Lipper Fund Award for the best GCC fund in a three year category. SICO also retained its position as the leading market maker and broker-of-choice on the Bahrain Stock Exchange, broadened its range of products and services, and expanded activities outside Bahrain.

Our core business performance in 2008 confirms once again that the Firm's overall strategy is working: to focus on serving the GCC region; to grow and diversify our business; to pursue a client-oriented business model; and to maintain a disciplined approach to managing our expenses, risk and capital. Our strategy is supported by a unique corporate culture that embraces a conservative business approach and an enduring commitment to the values of integrity, consistency, confidentiality and transparency.

These served us well during the challenging market conditions of the second half of 2008, helping us to weather the worst of the storm. Highly liquid, strongly capitalised, and not leveraged, SICO is in a strong position to take advantage of new business opportunities when the markets improve. However, any decisions regarding our future growth and expansion will be made cautiously, and only if they make sound business sense.

Throughout the year, we continued to build the Firm's institutional capability: enhancing our corporate governance and risk management framework; maintaining our focus on expense discipline; and continuing to broaden the balance sheet. In addition, we recruited additional professionals to support our

Chairman's Statement

strategic and business growth; further enhanced our human and technical resources; and expanded our research facilities.

We also continued the Firm's social responsibility programme by assisting a variety of charitable, medical, educational, cultural and community organisations and other deserving causes, and contributing to initiatives that support the development of the Kingdom's financial sector and regional capital markets.

Based on the Firm's 2008 financial results, the Board recommends for the approval by the AGM that the firm will be authorised to spend BD 30 thousand in the year 2009 on supporting charitable, cultural and educational activities.

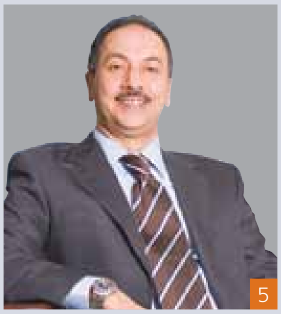
On behalf of the Board of Directors, I would like to thank Mr. Albert Kittaneh and Mr. Ali Rahimi, who resigned from the Board during 2008, for their respective valuable contributions to the Board. In turn, I welcome our new director, Ms. Sawsan Abulhassan, whose skills and experience will be of great benefit in helping the Board to meet all future challenges. I also take this opportunity to pay tribute to the continued confidence and financial support of our shareholders; the trust and encouragement of our clients and business partners; and the commitment, dedication and integrity of our management and staff.

As a final point, on behalf of the shareholders, my fellow Board members, and management and staff of SICO, I express my appreciation to His Majesty the King, His Highness the Prime Minister, and His Highness the Crown Prince, for their wise leadership, visionary reform programme, and support of the Kingdom's financial sector. Thanks are also due 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.

Shaikh Mohammed bin Isa Al Khalifa
Chairman of the Board

“ Highly liquid, strongly capitalised, and not leveraged, SICO is in a strong position to take advantage of new business opportunities when the markets improve. ”

Board of Directors & Management Team



BOARD OF DIRECTORS

1. Shaikh Mohammed bin Isa Al Khalifa
Chairman
Represents Social Insurance Organisation

2. Hussain Al Hussaini
Vice Chairman
Represents National Bank of Baharin

3. Anwar Abdulla Ghuloom
Director
Represents Social Insurance Organization (Pension Fund Commission)

4. Abdulaziz I. Al-Mulla
Director
Represents Gulf Investment Corporation

5. Mahmoud Al Zewam Al-Amari
Director
Represents Arab Banking Corporation

6. Abdul Karim Bucheery
Director
Represents Bank of Bahrain and Kuwait

7. Khalid Al Rumaihi
Director
Represents Arab Investment Resources Company

8. Sawsan Abulhassan
Director
Represents Ahli United Bank

MANAGEMENT TEAM

Anthony C. Mallis
Chief Executive Officer

Najla Al Shirawi
Chief Operating Officer

Samir Sami
Chief Corporate Officer

Hanan Y. Sater
Financial Controller

Nadia Khalil
HR & Administration

Shakeel Sarwar
Asset Management

Bassam Khoury
Brokerage

Fadhel Makhlouq
Investments & Treasury

Ramy Echo
Corporate Finance

T. Rajagopalan
Risk Management

Ismail Sabbagh
Information Technology

David Halstead
Operations

Nadeen Oweis
Corporate Communications

Jithesh Gopi
Research

Anantha Narayanan
Internal Audit

Chief Executive's Report

I can best describe 2008 as a 'roller coaster' year, marked by the strikingly contrasting fortunes of the first and second halves of the year.

ECONOMIC AND MARKET OVERVIEW

The year started positively, supported by the ongoing growth momentum of the GCC economies, which was underlined by continued strong business fundamentals and renewed investor confidence, despite underlying concerns with the global and regional credit squeeze, high energy prices and regional inflation. GCC equity and real estate markets continued to perform well, building on the strong recovery that characterised 2007.

Anthony C. Mallis

Accordingly, SICO reported a record performance for the first six months of 2008, both in terms of financial results and business achievements, with total income rising by 52 per cent and net profit increasing by 61 percent compared to the same period last year. This strong performance was supported by increased contributions by all our business activities – market making, investments, treasury, brokerage, asset management, corporate finance and custody through our subsidiary – SICO Funds Services Company (SFS). Once again, these results illustrated the success of the Firm's policy to diversify revenue streams and achieve a balance between fee-based revenue and proprietary income. Additionally, the Firm's strategy to focus its business activities on the GCC continued to pay dividends in terms of an expanded client base, improved revenues and increased margins.

The second half of 2008, however, could not have been more different. The US sub-prime mortgage crisis and credit squeeze escalated into one of the worst financial and economic meltdowns for the past seventy-five years, with the unprecedented collapse of Lehman Brothers and an ensuing government bail-out and nationalisation of many major global financial institutions. The contagion spread to Europe with similar dire consequences, and then began to impact the GCC region more deeply than had been anticipated. Simultaneously, major industrialised and emerging economies started to feel the adverse economic back-draft of sudden and lowered economic demand, with global economic growth having to be drastically revised. The effects of this global economic contraction passed itself into diminishing industrial production and a drastic fall in commodity prices including energy, the GCC's revenue mainstay.

Most of the region's seven stock markets witnessed their worst year ever in 2008, slumping even more than the bourses in the West where the crisis began. Their market value dropped by about US$ 500 billion with capitalisation standing at just US$ 570 billion compared to US$ 1.1 trillion at the end of 2007. In the UAE, the Dubai Financial Market was the worst loser, sliding over 72 per cent, with its sister market, the Abu Dhabi Securities Exchange, shedding 47 per cent, both near their respective four-year lows. These two markets reeled under a severe correction in the real estate market, which experienced spectacular growth in the past few years. The Saudi market, the largest in the Arab world, dropped 56 per cent, while Kuwait, the second largest, shed 38 per cent. The Qatar Securities Market was the least affected in the Gulf, falling just over 28 per cent, while the Muscat Securities dipped 40 per cent, and the Bahrain Stock Exchange dropped 34 per cent.

Other negative developments during the second half of 2008 include the price of crude oil plummeting from a record high of just under US$ 150 per barrel in July to US$ 38 at the end of the year. In addition, GCC states experienced massive losses in their huge overseas investments, with an estimated drop of US$ 350 billion in their total US$ 1.3 trillion assets. With major international and regional banks unable to continue their project financing activities in the GCC, several planned large infrastructure and industrial projects in the region were cancelled or put on hold, while many existing projects experienced difficulty in securing refinancing facilities.

On a more positive note, the GCC states are sitting on very substantial foreign reserves following their six-year boom on the back of soaring oil prices. Their underlying macro-economic fundamentals remain robust, with the IMF forecasting GDP growth slowing down to around 3 to 5 per cent compared to over 6 per cent in 2008. Despite fiscal budgets being adjusted to show a loss for next year, most GCC governments have committed funding to complete major social and infrastructure projects, while the regional markets are expected to react positively once more global economic clarity is seen.

FINANCIAL OVERVIEW

Following the significant and unprecedented deterioration in global and regional market conditions during the second half of the year, SICO is reporting a loss of BD 1.4 million for 2008, compared to a profit of BD 11.9 million for 2007. This reflects the Firm's decision to make full provisions, amounting to BD 2.2 million, for the impairment of equity securities and managed funds negatively impacted by the current crisis. While all fee-generating lines produced positive earnings to income for the year, their contribution declined significantly due to market conditions. Subsequently, operating income for 2008 was BD 4.7 million compared to BD 16 million for the previous year. Net interest income increased by 27 per cent to BD 1.1 million (2007: BD 0.9 million) while net fee and commission decreased by 57 per cent to BD 2.8 million (2007: BD 6.6 million). Brokerage and other income increased positively by 43.6 per cent to BD 3.6 million (2007: BD 2.5 million). Assets under management at the year-end were BD 152.4 million compared to BD 229.8 million at the end of 2007.

Chief Executive's Report

Despite the Firm's early decision to start liquidating its positions from mid-year, preceding the extensive GCC market falls from September onwards, the investment portfolio registered a net loss of BD 3 million, compared to a gain of BD 5.9 million in 2007 when regional stock markets recorded unprecedented strength and levels of performance. The average fall of GCC markets by 56 per cent in 2008 affected the valuation of SICO's investments in its longer term available-for-sale equities and managed funds.

Total expenses, which include staff, general, administration and other expenses, decreased by 4.2 per cent in 2008 to BD 3.9 million (2007: BD 4.1 million) due to our prudent management of costs. However, the Firm will maintain its ongoing investment in the business to ensure that it is well positioned to take advantage of the expected future upswing in GCC markets.

I would like to point out that during 2008, SICO maintained prudent polices and employed extensive risk management strategies across its business lines and operations, closing the year with over 72 per cent of the balance sheet in cash and deposits. The successful rights issue in June 2008 increased the Firm's capital to over BD 42 million, illustrating the confidence of our shareholders and their continued financial support.

BUSINESS AND ORGANISATIONAL DEVELOPMENTS

The Firm's business achievements during 2008 are detailed in the following Review of Operations section of this annual report. As already mentioned, the majority of these took place during the first half of the year, followed by a drop in business activities during the second half due to deteriorating market conditions, which resulted in many mandates from clients being put on hold. Importantly, however, SICO continued to enhance its reputation as a leading market maker, 'broker of choice', successful Fund Manager, and provider of high quality independent research.

Organisationally, we strengthened the Firm's senior management team in 2008 with the creation of a new post of Chief Corporate Officer (CCO), responsible for strategic and business development, and risk management. As a client-driven organisation, committed to the highest standards of customer satisfaction, we established a new Client Relations Unit, which will act as the first point of contact for SICO clients in all non-trading issues. Also during the year, a preferred vendor was selected for the Firm's planned investment of around BD 1.6 million in a new core banking system. This new system is a critical business enabler that will support the future growth and development of SICO and its subsidiaries.

OUTLOOK

Without doubt, 2009 will prove to be highly challenging year, marked by even greater uncertainty. The global financial crisis and the recessionary environment are far from over, and will continue to present a gloomy picture for the year ahead. I believe that comparatively higher economic growth post-2009, coupled with attractive regional demographics, is likely to keep the GCC growth engine working in the longer term for regional markets, which will have a positive effect on SICO's business activities.

I would like to stress that the Firm is strongly capitalised, highly liquid, and not leveraged. Together with its consistent strategic approach, robust business model, and high calibre management team, SICO is well placed to take advantage of new business opportunities as they arise in the future, although we will continue to proceed with caution.

On a wider note, it is to be hoped that the impact of the global financial crisis on the GCC will encourage greater coordination between the region's central banks; increased transparency to be imposed by the authorities; harmonisation of capital market regulatory controls across the GCC; and a greater spirit of cooperation in working together to integrate regional stock markets, while creating an effective government debt market; leading to a deeper and more diversified regional capital market. At the same time, institutions need to look very closely at their corporate governance and risk management frameworks, and adopt a 'back-to-basics' business approach based on trust. Undoubtedly a major revision to the international financial architecture will be seen over the next period; the Basel risk-weighted capital approach, one of the biggest inducements to pro-cyclicality, has lost credibility. A better approach, among other measures, would be to build capital cushions for banks during prosperous times that could be depleted during crises.

ACKNOWLEDGEMENTS

In conclusion, I would to thank our Board of Directors for their continued confidence, encouragement and guidance; and to pay special tribute to the ongoing professionalism and commitment of our management and staff during these challenging times.

Anthony C. Mallis
Chief Executive Officer

“ SICO maintained prudent polices and employed extensive risk management strategies across its business lines and operations, closing the year with over 72 per cent of the balance sheet in cash and deposits. ”

Management Review of Operations

During 2008, all fee-generating business lines produced positive earnings, although they declined significantly compared to the previous year, due to adverse market conditions. The Firm's shared services departments continued to expand and enhance their activities, and contribute to strengthening the institutional capability of SICO.

BUSINESS LINES

Market Making

During 2008, SICO maintained its position as the leading market maker on the Bahrain Stock Exchange since 1997, and also consolidated its position as one of the region's premier market makers. As a result of growing interest from clients, especially outside Bahrain, the Firm transacted Global Depository Receipts, and extended its geographic reach during the year. These activities generated an increase in fee income for the year.

Investments

Anticipating a probable market downturn, SICO started to liquidate positions from the middle of the year, preceding the extensive GCC market falls from September onwards. However, the severity of the downturn in the financial markets, together with GCC markets falling on average by over 56 per cent, affected valuations of investments in longer term available for sale equity and managed fund positions, resulting in a reduction in the value of assets.

The Firm took the decision to make full provisions for the impairment of equity securities negatively impacted by the financial crisis. This contributed to a net investment loss of BD 3 million, compared to a gain of BD 5.9 million in 2007, when regional stock markets recorded unprecedented strength and levels of performance.

Treasury

The Firm's Treasury business posted another strong performance in 2008, despite the challenging market conditions. Clients' deposits, cash management and currency exchange contributed to the robust growth in interest and forex income. Interest income from margin trading accounts and OD accounts also grew during the year.

Treasury continued to widen its network of counterparties in 2008, diversifying activities outside Bahrain and introducing new treasury products for clients. In June, the paid-up capital of SICO was increased to BD 42.346 million. The Firm remains highly liquid and unleveraged at year-end, with over 79 per cent of the balance sheet in cash, deposits and short term government securities.

Brokerage

During 2008, SICO maintained its position as the leading broker on the Bahrain Stock Exchange (BSE) for the tenth consecutive year, and remained the number one choice for larger trades. This status was reinforced by the Firm managing the largest transaction on the BSE in 2008, which involved a very competitive auction of BBK shares through a distinctive process.

Also during the year, SICO 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 banks. There was high interest by non-GCC investors during the first half of the year, with the majority of trading being executed by the Firm. To support the growth of such business and expand activities across the region, SICO introduced an Agency Brokerage Desk in collaboration with counter-brokers and institutional clients. This is the first of its kind in Bahrain and one of the first in the GCC.

SICO's pan-Gulf capabilities continued to complement the Firm's Bahrain-based brokerage activities. During 2008, an upgrade in coverage and service levels contributed to a substantial increase in cross-border activity on behalf of institutional and individual clients in GCC markets. At the same time, SICO expanded its brokerage coverage to Jordan and Egypt.

The success of SICO's four equity funds in consistently outperforming their respective market indices and their peers, has been recognised by important new ratings from Standard & Poor's during 2008.

Upgraded rating:

'**AA**' from 'A' - Khaleej Equity Fund

New assigned rating:

'**AA**' - SICO Gulf Equity Fund

'**A**'- SICO Selected Securities Fund

'**A**' - SICO Arab Financial Fund

Asset Management

The Firm continued to grow its asset management business during 2008, winning several new mandates with prestigious regional and international financial institutions. SICO is also planning to expand its activities outside the region through the introduction of a new Jersey-domiciled feeder fund for the Khaleej Equity Fund, which will be launched in due course.

The Firm's four equity funds continued to perform strongly till July 2008, substantially outperforming their respective benchmarks. Nonetheless, with the extensive GCC market falls from August onwards, these funds ended the year in negative territory, but well outperforming market indices, and just as importantly, our peers. Despite these adverse market conditions, the fund's assets had positive net inflows for the year.

A significant achievement during the year was the Khaleej Equity Fund winning the prestigious Lipper Fund Award for best GCC fund in the three-year category, and its rating being upgraded from 'A' to 'AA' by Standard & Poor's. The agency also assigned an 'AA' rating for the SICO Gulf Equity Fund, and 'A' ratings for the SICO Selected Securities Fund and the SICO Arab Financial Fund.

Due to market conditions, the Firm's assets under management decreased in 2008 to BD 152.4 million, compared to BD 229.8 million for the previous year. The level of redemptions was minimal, with the fall in assets under management reduced by market performance. Management fees were slightly higher than 2007, but performance fees declined.

Corporate Finance

The Firm's corporate finance and equity-debt origination team was active during the first half of the year. Transactions included rights issues for Bahrain Commercial Facility Company (BCFC) and General Trading and Food Processing Company (TRAFCO), the listing of Khaleej Commercial Bank on the Bahrain Stock Exchange, the rights issue for SICO, and two financial advisory engagements.

Research

In 2008, SICO increased its research team with the recruitment of additional senior analysts, further expanded its research database, and increased the number of reports compared to the previous year. These include coverage of GCC economies, markets, sectors, and companies. Key reports published in 2008 include Bahrain and Oman banks, and the Dubai real estate sector, together with a timely report on the GCC outlook for 2009.

Also during the year, the Firm was reappointed as the Official Research Partner to the Oxford Business Group for their annual publication "The Report – Bahrain", and continued to contribute data for the Quarterly Updates on Capital Markets issued by the Central Bank of Bahrain.

SHARED SERVICES

Client Relations

As a client-driven institution, SICO is committed to providing the highest standards of customer service, and to achieving the highest possible levels of client satisfaction. In 2008, a new Client Relations Unit (CRU) was established to act as the first point of contact for SICO clients in all non-trading issues and is responsible for handling anti-money laundering and compliance issues.

Operations

During 2008, the 'back office' Operations team focused on expanding and enhancing its services to meet the needs of its 'internal customers' throughout the Firm, especially the 'front office' business divisions. Operating policies, processes and procedures were reviewed and upgraded, systems were further streamlined and the use of SWIFT increased. These measures will support SICO's organisational growth and new business activities.

Management Review of Operations

Information Technology

During the year, the Firm completed its review of the shortlisted potential suppliers for the new core banking system, and selected its preferred final vendor.

The core banking system, which constitutes a major investment of BD 1.6 million, is a critical business enabler that will support the future growth and development of SICO and its subsidiaries. Implementation will be in two phases – the first by the second half of 2009, and the second by early 2010. The system will automate all key processes, thereby minimising manual intervention, and allowing staff to concentrate on providing a superior service to clients.

Also during the year, the Firm's business continuity plan was reviewed and upgraded, the disaster recovery site became operational, and state-of-the-art information security systems were installed.

Human Resources

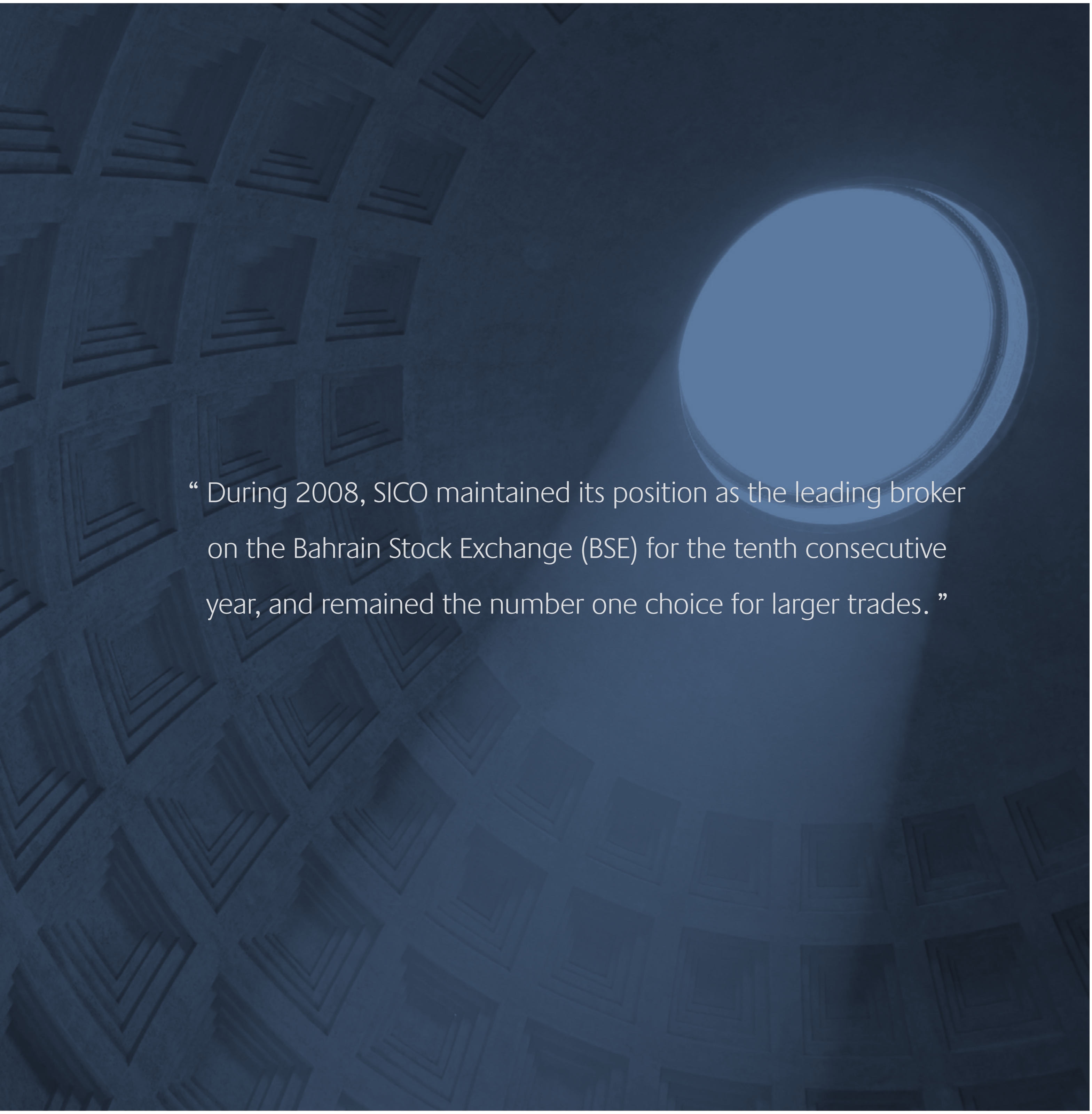
SICO's 'partnership' corporate culture is a major factor in the Firm's continued success. An entrepreneurial but self-disciplined style of operating, which gets things done faster without excessive bureaucracy and red tape, sets SICO apart from other financial institutions, and underlines the growing recognition of SICO as a 'preferred employer'.

In 2008, SICO continued to attract new talent to support the Firm's current and future business plans and strategic direction. At the same time, some positions were filled internally, highlighting the ability of SICO, as a relatively small organisation, to provide career progression opportunities for its staff. Also during the year, the Firm continued to make a substantial investment in training and development, providing staff with every opportunity to gain new qualifications, enhance their knowledge and skills, and realise their full potential.

SUBSIDIARIES

Custody and Fund Administration

Through its wholly-owned subsidiary, SICO Funds Service Company (SFS), the Firm provides a range of sophisticated custody and fund administration solutions to regional clients. SFS enjoyed its most successful year to date in 2008, during which it expanded its client base, substantially grew funds under custody, and increased its contribution to the bottom line of SICO. Other key developments include an increase in capital, and SFS application to change its licence – from service provider for custody and fund administration to investment business – which will allow SFS to provide a wider range of services, and to be registered as a custodian by the Bahrain Stock Exchange. A number of new mandates were signed during 2008 with both regional and international institutions.



" During 2008, SICO maintained its position as the leading broker on the Bahrain Stock Exchange (BSE) for the tenth consecutive year, and remained the number one choice for larger trades. "

SICO Research

DEFINING SICO's PERFORMANCE IN THE MARKETPLACE

The provision of in-depth, proprietary research is a key differentiating factor of SICO, and a major contributor in defining the Firm's ongoing successful performance. Through its dedicated team of experienced senior analysts, SICO provides an independent, value-added service for its **clients**, and also supports the **conservative** business approach adopted by the Firm's business units. During the past few years, SICO has **consistently** enhanced its research capabilities, with research staff now accounting for almost 10 per cent of total employees.

SICO'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, and periodic reports of GCC listed companies, major regional sectors, and strategic outlooks for the GCC economy. The Firm's database, which is regularly updated, now covers over 90 per cent of all listed GCC companies.

SICO's research team with dedicated senior analysts covering all major sectors in the region has published thought provoking and insightful notes on leading sectors and companies. These include reports on Dubai real estate sector, Bahrain and Oman banking sectors, Petrochemical sector and a timely GCC market outlook report for 2009.

RESEARCH PARTNERSHIP

During 2008, SICO was appointed for the fifth year running as the Official Research Partner to the Oxford Business Group for their annual "The Report: Bahrain" publication. This has now become an indispensable intelligence tool for overseas firms and foreign investors seeking to do business in the Kingdom.

SICO also continued to contribute regular data and information to the Central Bank of Bahrain for its Quarterly Update on Capital Markets.

شـركة سيكــو لخدمـات الصناديق الاستثمارية ش.م.ب (مقفلة)
SICO Funds Services Co. BSC (C)

SOPHISTICATED CUSTODY AND FUND ADMINISTRATION SOLUTIONS

Licensed by the Central Bank of Bahrain, SICO Funds Services Company (SFS) is a leading regional provider of sophisticated and integrated custody and fund administration solutions, with a **consistent** track record of over 10 years in the custody business.

In line with SICO's commitment to transparency and Chinese Walls approach, SFS was established as a separate subsidiary in 2004 by spinning off the Firm's custody unit to create an independent, specialised custody and fund administration house to better serve the interests of its **clients**. While benefiting from the solid foundation and mature market presence of SICO, the operations and services of SFS are totally independent and fully segregated from its parent company. The Firm's relationship with SICO as a broker and asset manager is conducted strictly on an arm's length basis.

The utilisation of advanced technology tools, processes, and delivery platforms enables SFS to offer a unique and flexible service, which is designed to streamline the day-to-day management of investment funds and portfolios, thereby allowing clients to focus on their core business activities. The Firm's team of dedicated and experienced professionals, operating through a select network of local sub-custodians and preferred financial institutions, provides clients with a seamless, professional service that corresponds to their varying requirements.

The core solutions provided by SFS cover all aspects of custody and fund administration, including registrar functions and customised reporting services, supported by an independent, value-added research capability.

CUSTODY

SFS provides a wide-ranging custodian solution covering both collective investment schemes and private portfolios, in line with regional regulatory requirements. Covering the entire life cycle of the investment, this solution comprises a comprehensive range of services.

These include the safekeeping of assets, custody of legal documents, and preparation of custody statements; the opening and management of bank accounts, reconciliation of accounts, and settlement of investment transactions and expenses; and processing benefits such as dividends, bonus shares and rights offerings.

FUND ADMINISTRATION

SFS provides a comprehensive fund administration solution that helps to streamline the day-to-day management of investment funds and portfolios. Covering all necessary bookkeeping and reporting activities, a wide range of services is offered.

These include performing multi-currency fund accounting, maintaining principal books and records, and verifying adherence to fund/portfolio guidelines; monitoring the investments of each fund in accordance to the fund prospectus, and computing and reporting NAV for funds; producing complete financial statements, and coordinating internal and external audits; and ensuring regulatory compliance such as anti-money laundering.

REGISTRAR

SFS provides detailed fund registrar services that constitute a critical element of the Firm's fund administration solution.

These include processing investment applications, maintaining a register of unit holders, and safeguarding originals of subscription agreements; processing transfers, subscriptions and redemptions, and managing income distribution; and providing information to external auditors as required, and generating regular reports of the register.

REPORTING

SFS provides a high quality reporting service that meets clients' requirements for both format and frequency, in order to enhance their decision-making. These are based on a fully automated process – from extraction of data, modeling and formatting, to delivery by fax or email – which minimises the possibility of human error; and a customisable platform, enabling the generation of tailored reports that meet clients' specific information needs and preferences.

SICO Funds

GROWING RECOGNITION FOR SICO'S EQUITY FUNDS

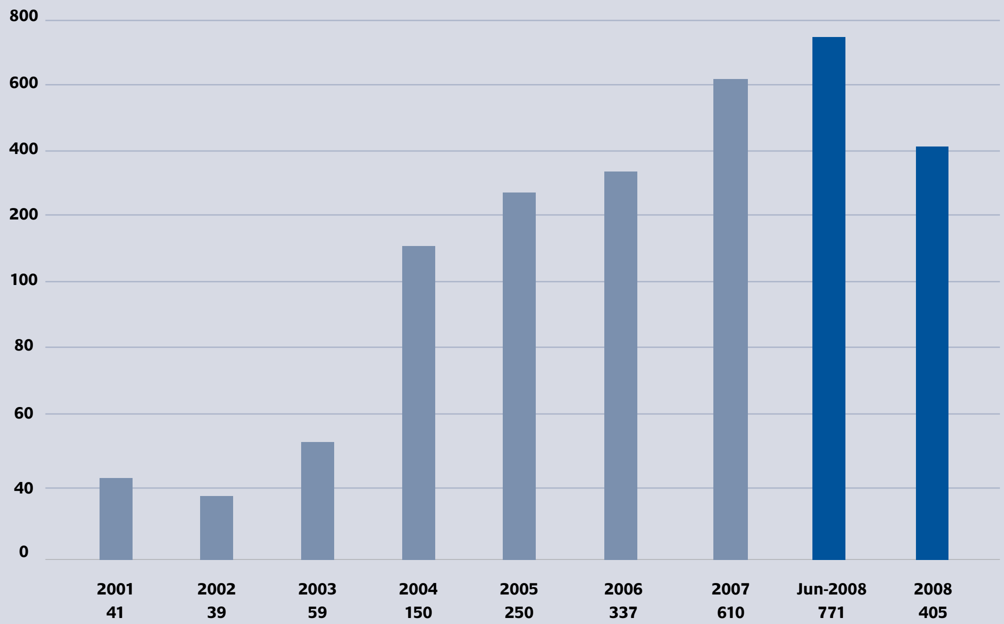
SICO's four equity funds continued to perform strongly during the first half of the year, substantially outperforming their respective benchmarks. Nonetheless, as the global financial turmoil intensified, the GCC markets corrected sharply during the second half of the year. As a result, our funds ended the year in the negative territory, but significantly outperformed the market indices and, just as importantly, their peer groups.

In a significant development during the year, the Khaleej Equity Fund received the prestigious Lipper Fund Award for best three-year GCC fund, while its rating was upgraded from 'A' to 'AA' by Standard & Poor's. According to the rating agency: "The Khaleej Equity Fund has established itself as one of the best-performing GCC equities funds. Its success is testament to the Group's disciplined but decisive approach." Standard & Poor's also assigned an 'AA' rating for the SICO Gulf Equity Fund, and 'A' ratings for the SICO Selected Securities Fund and the SICO Arab Financial Fund in December 2008.

The **consistent** performance to date by SICO's equity funds is attributable to the Firm's **conservative** asset allocation and bottom-up driven stock picking strategy, to achieve long-term capital appreciation. SICO's portfolio managers focus on identifying companies that are fundamentally strong, and that are trading at less than their fair values. Such an approach will continue to help to provide the Firm's **clients** with diversified, risk-averse and stable returns over the medium to long term.

"The deliberately measured approach adopted by the Bank's top management is likely to make SICO a more stable outfit than several peers during times of significant disruption."
STANDARDS & POOR'S (DECEMBER 2008)

ASSETS UNDER MANAGEMENT - GROWTH
US $ Million



The consistent performance

of SICO's flagship fund,

Khaleej Equity Fund

was recognised in 2008 by

receipt of the prestigious

Lipper Fund Award

as the best-performing GCC equity fund

over the past 3 years.

KHALEEJ EQUITY FUND

Launch date	March 2004
Principal investment focus	Equity securities listed on stock markets of GCC countries
Rating	Upgraded to 'AA' by Standard & Poor's in December 2008 from 'A'
Benchmark	MSCI GCC Index
Peer group	GCC

RETURN: JANUARY-JUNE 2008

Benchmark:	- 9.4 %
SICO Fund Return:	14.3%

RETURN: JANUARY-DECEMBER 2008

Benchmark:	- 56.8 %
SICO Fund Return:	-33.9%

RETURN: SINCE INCEPTION

Benchmark:	- 15.7 %
SICO Fund Return:	63%

SICO GULF EQUITY FUND

Launch date	March 2006
Principal investment focus	Equity securities listed on stock markets of GCC countries, excluding Saudi Arabia
Rating	Assigned 'AA' by standard & Poor's in December 2008
Benchmark	MSCI GCC ex- Saudi Index
Peer group	GCC ex- Saudi

RETURN: JANUARY-JUNE 2008

Benchmark:	- 1.6%
SICO Fund Return:	18.5%

RETURN: JANUARY-DECEMBER 2008

Benchmark:	- 53.6 %
SICO Fund Return:	-30.8%

RETURN: SINCE INCEPTION

Benchmark:	- 49 %
SICO Fund Return:	-11.8%

SICO Funds

SICO ARAB FINANCIAL FUND

Launch date	August 2007
Principal investment focus	Financial sector equities listed on Arab stock markets in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the UAE
Rating	Assigned 'A' by standard & Poor's in December 2008
Benchmark	S & P GCC Financial Sector Index
Peer group	MENA

RETURN: JANUARY-JUNE 2008

Benchmark:	- 4.1%
SICO Fund Return:	14.2%

RETURN: JANUARY-DECEMBER 2008

Benchmark:	- 53.4 %
SICO Fund Return:	-29.9%

RETURN: SINCE INCEPTION

Benchmark:	- 38.8 %
SICO Fund Return:	-15.4%

SICO SELECTED SECURITIES FUND

Launch date	May 1998
Principal investment focus	Equity and debt securities listed, or expected to be listed, on the Bahrain Stock Exchange (BSE)
Rating	Assigned 'A' by standard & Poor's in December 2008
Benchmark	BSE All Share Index
Peer group	Equity Bahrain

RETURN: JANUARY-JUNE 2008

Benchmark:	3.8 %
SICO Fund Return:	11.5%

RETURN: JANUARY-DECEMBER 2008

Benchmark:	- 34.5%
SICO Fund Return:	-28.4%

RETURN: SINCE INCEPTION

Benchmark:	42.9 %
SICO Fund Return:	123.4%

Risk Management

RISK MANAGEMENT REVIEW

Risk is an inherent part of SICO's business, and Risk Management is essential to the Bank's success.

Risk Management is the systematic process of i) identifying, and evaluating the principal business risks facing SICO, ii) establishing appropriate controls to manage these risks, and iii) ensuring that appropriate monitoring and reporting processes are in place.

SICO adopts a structured, consistent, and disciplined methodology to align business strategy, processes, people, technology and knowledge, in order to evaluate and manage its risks. This is based on a simplified risk management framework for active investment banks with non-complex activities or transactions.

This section provides a synopsis of the key qualitative disclosures that are set out in greater detail in the Basel-II Pillar 3 disclosures of this Annual Report.

Framework and Structure

It is the responsibility of the Board of Directors to establish sound policies, guidelines and procedures to manage risks arising out of SICO's business activities. These policies are consistent with the Firm's broader business strategies, capital strength, management expertise, and ability to control risk. Cognisance of the need to maintain a high reputation underpins the risk management and internal control philosophy of SICO.

There is a well disciplined organisational structure in place to support the business strategy, risk management and internal control framework. Budgets and business outlooks are reviewed to take account of potential adverse conditions, and are rigorously challenged at Management and Board levels.

The Risk Management department (RMD) is responsible for the leadership, direction and coordination of the application of risk management across the organisation. RMD ensures that the principles and requirements of managing risk are consistently adopted throughout SICO, and is responsible for establishing the risk management framework and appropriate resource to assist SICO in the realisation of its business objectives and continued development.

Key developments in 2008

A number of initiatives were undertaken during the year to further strengthen SICO's corporate governance, risk management, compliance, and internal controls framework.

- The Compliance unit was brought under the umbrella of the Risk Management department to provide a unified approach to risk and compliance functions.
- Two new Management Committees were established: Internal Control Committee (ICC); and Assets, Liabilities and Investments Committee (ALICO), with the latter incorporating the responsibilities of the previous Investment and Credit Committee.
- Following the introduction of Basel II guidelines by the Central Bank of Bahrain, which became effective from 1 January 2008:
    - SICO has adopted the Standardised Approach for Market Risk and Credit Risk, and the Basic Indicator Approach for Operational Risk under Pillar 1;
    - Internal Capital Adequacy Assessment process was introduced as per Pillar 2;
    - Pillar 3 disclosures are set out in a separate section of this Annual Report.

Investment Strategy and policies and procedures

The business plan driving the investment strategy of the Group sets realistic targets, provides significant and quality resources to deliver the plan results, and ensures that the investment products and limits are in line with the Group's risk profile and corporate goals.

Management receives periodical information detailing key performance indicators, for example price risk and operational issues.

Traders are instructed of the Group's policies and procedures, and relevant laws and regulations, to ensure that the Group is not exposed to financial losses, fraud, and regulatory non-compliance.

Loss making positions are subject to high level attention with management action and closure strategy.

MARKET RISK REVIEW

Market risk is the risk of loss in the value of any financial instrument due to an adverse fluctuation in equity prices, interest rates and foreign exchange rates, whether arising out of factors affecting a specific instrument or the market in general.

Equity price risk

A significant portion of SICO's proprietary trading and available-for-sale portfolios comprises equity instruments and are therefore affected by Equity Price Risk. This risk is mitigated by managing the portfolio within duly approved asset allocation matrix guidelines and other investment limits. These are closely monitored by the Risk Management department and regularly reviewed by ALICO.

At the early stages of the financial crisis, SICO's risk management approach proved highly effective, resulting in the timely exit of a significant portion of the equity portfolio and a rebalancing of its investment strategy and priority towards capital preservation, quality (equity and fixed income), and liquidity.

Classification of Investments

At the time of acquisition of an investment, Management decides whether it should be classified as at fair value through profit or loss, held-to-maturity securities or available-for-sale securities. Clear articulation of the intention of holding the investment for profit taking from short term fluctuation of market prices or, to benefit from long term capital appreciation in value is essential to determine whether it is to be classified as Trading Investments (fair value through profit or loss) or long term (available for sale). The classification of each investment reflects Management's intention for the investment, and will be subject to the corresponding accounting and risk treatments relevant to the classification. Currently there are no investments in the portfolios that are held for reasons such as exercising strategic relationship or management control over the investee company.

Investments in equities and managed funds are selected adopting a careful selection process using a bottom up approach that includes fundamental research into the merits of each investment. An Investment Memorandum documenting the robust due diligence carried out is prepared for each investment and is approved by the Risk Management department and ALICO as the first level of authority.

Interest rate risk

Interest rate risk (IRR) is the risk where changes in market interest rates might adversely affect the Bank's financial condition. Investments in debt instruments, placements, deposits and borrowings give rise to interest rate risk. Treasury carefully monitors and manages these exposures in order to mitigate this risk. Adverse conditions in the equity markets led SICO to substantially increase its cash and cash equivalents, and high investment grade bond investments.

A reasonable spread is maintained between money market placements and deposit interest rates. Treasury assets and liabilities are maintained in closely matching maturity buckets in highly liquid short term money market to avoid any material mismatch. Medium term debt instruments are largely intended to be held to maturity. SICO does not trade speculatively in derivatives.

Foreign exchange risk

A substantial portion of SICO's business is transacted in the Bahraini Dinar, GCC currencies and United States Dollar. Therefore the exposure to foreign exchange risk is minimal.

LIQUIDITY RISK AND FUNDING

Liquidity risk is the risk that SICO is unable to meet its financial obligations as they fall due, as a result of the potential inability to liquidate its financial assets at the required time and price to cope with a payout of liabilities or investment obligations in assets. It may arise from a depletion of cash and cash equivalents, investments turning illiquid, mismatches in the maturity pattern of assets, and liabilities, etc. Measuring and managing liquidity needs are vital for the effective operation of investment banks. As the investment horizon outlook is very uncertain in the near term, a very high level of the total assets is preserved in cash and cash equivalents. Treasury manages this risk by monitoring settlement obligations and maintaining sufficient liquid assets, including call deposits and short term placements. Liquidity position is monitored on a daily basis by the Risk Management department, and weekly by ALICO.

COUNTERPARTY CREDIT RISK

Credit risk is the risk that a counterparty to a financial asset fails to meet its contractual obligations and causes SICO to incur a financial loss. Counterparty credit risk consists of two categories of risks – Pre-Settlement and Settlement risks. Investments in debt instruments and managed funds, placements with counterparty banks give rise to credit risk. Counterparty credit risk arises vis-à-vis customers and counterparty brokers. In the Asset Management, Investment and Treasury departments, deals routed through counterparty brokers give rise to counterparty credit risk. Issuer credit is separately monitored through fundamental research.

Credit risk is mitigated by a focused target market approach on institutional and experienced, sophisticated high net worth investors. New bank line credit limits were introduced in light of having significant cash in inter-bank markets. Investments in debt instruments were restricted to sovereign or high investment grade banks and institutions. This risk is monitored and controlled by means of exposure limits approved in accordance with well defined policies and procedures, by ALICO, Executive Committee, or the Board. Additionally, SICO strictly adheres to the large exposure norms prescribed by the Central Bank of Bahrain.

Fixed Income instruments

It is the policy that Investments in debt have to be strictly in investment grade instruments that provide safety of capital as well as attractive yields. These are also approved through new investment memorandum as applicable for any investment.

Treasury placements

Credit Line Applications (CLAs) supported by financial and other analysis reports from the Research Unit are used to approve limits for treasury and money market placements with banks. These CLAs are recommended by the Treasurer, and approved by Senior Management. Final approval of any new exposure is in accordance with the approved

Investments Authority Limits. Bank positions and limits are monitored by Senior Management on a daily basis.

Settlement Risk

Settlement risk is the risk that a settlement in a transfer system does not take place as expected. Generally, this happens because one party defaults on its obligations to one or more counterparties. As such, settlement risk comprises both credit and liquidity risks. Credit risk is the risk that the counterparty will not at all, either pay money or deliver securities on the settlement date. Liquidity risk is the risk that the counterparty will not settle its obligation on due date, but on some unspecified date thereafter.

There are limits in place to control and monitor brokerage customer receivables. Timely reconciliations also help mitigate this risk.

Counterparty brokers

Counterparty brokers in stock markets outside Bahrain give rise to settlement risk as well as custodial risk. Custodial risk arises because of the brokers' ability to control the securities purchased by SICO as well as its customers, which are held under the custody of such brokers. All the counterparty brokers need to be approved by Senior Management, based on various criteria including sound reputation as a registered stock broker in the respective stock exchange, and superior operational service delivery capabilities.

Brokerage clients

Brokerage clients give rise to settlement risk. This risk is mitigated by structured due diligence mechanism for new client approvals. SICO targets mainly sophisticated institutions and high net worth individuals as clients. There are structured agreements setting the various legal terms and conditions for opening new brokerage accounts. All new applications are subject to a credit and anti-money laundering evaluation process to mitigate this risk. Pre-funding the account mitigates settlement risk. There are overall limits by class of customers for accepting any unfunded buy orders. There is a daily exception report to monitor clients who have not settled by due dates. Shares in the client's portfolio serve as collateral. SICO has the right to force-liquidate the customer's position if there is any protracted delay in settlement of dues by such client. A clause to this effect in the brokerage account opening agreement ensures its enforceability.

Margin Trading

Margin trading lending service is provided in accordance with the related terms and conditions imposed by the Central Bank of Bahrain. Adequate credit evaluation is undertaken on such customers before approval of facility by the Senior Management. However, the current exposure to this line of business is minimal.

External Credit Assessment Institutions (ECAI)

SICO uses ratings issued by Standard & Poor's, Moody's and Fitch, to derive the risk weightings under the CBB's Basel 2 capital adequacy framework, mainly for banks and where available, for other exposures such as debt instruments. Where ratings vary between rating agencies, the more conservative measure is adopted.

Concentrations of credit risk

The Group strictly complies with the single counterparty exposure norms prescribed by the CBB. As at 31 December 2008, the following exposures of the Bank are in excess of the 15% individual counterparty limit as prescribed by the Central Bank of Bahrain.

Counterparty	Country	Amount BHD '000s	Exposure as a % to eligible capital base
Counterparty A	Bahrain	19,494	41%
Counterparty B	Bahrain	12,373	26%
Counterparty C	Bahrain	10,724	22%
Counterparty D	USA	9,961	21%
Counterparty E	Bahrain	9,515	20%
Counterparty F	Saudi Arabia	8,703	18%

Risk Management

All these exposures are inter-bank placements with a maturity of less than 180 days and therefore classify as exempt exposures as per CBB's large exposure norms.

The geographical and sectoral distribution of the Bank's investments are disclosed in the Financial Statements under Note 3 (b). The other exposures of the Bank consist mainly of cash and bank balances and receivables from clients. These are concentrated predominantly in the GCC.

External Custodians and Administrators

The custodians and administrators of the collective investment schemes promoted by SICO and managed by the Asset Management department are independent of the Group, as required by the CBB regulations. Such external service providers are selected based on an evaluation of their sound internal controls and market reputation and service delivery capabilities. There are structured contracts to provide clarity of terms, conditions and obligations of the parties.

OPERATIONAL RISK

Operational risk is the risk of loss due to inadequate or failed internal processes, systems, 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 SICO. These risks could arise from a broad spectrum of causes such as deficient transaction processing, business practices, workplace practices, system failures and damage to physical assets. It also includes internal and external fraud.

Sound internal control measures, consisting of operating policies and procedures framework, compliance initiatives, adequate and skilled personnel, are the key to successful operational risk management. SICO has a very conservative control philosophy, and adopts a number of mechanisms to manage this risk. These include a well defined organisational structure, approved policies and procedures guidelines, segregation of duties, approval authorities, periodical reconciliations, and various limits. Internal Audit and Compliance functions support this activity.

COMPLIANCE RISK

Compliance risk is risk of current and prospective risk to earnings or capital arising from violation of, or non-compliance with, laws, regulations, rules, prescribed practices, contractual agreements or ethical standards. A major source of this risk in the present context of Regulatory regime and as a licensed market operator would be the regulatory sanctions due to non-compliance with the regulatory directives. Compliance risk can lead to diminished reputation, limited business opportunities, reduced expansion potential, and even to cessation of the operations. Hence compliance has to ensure adherence with primary legislation, rules and standards issued by the Central Bank of Bahrain, the Bahrain Stock Exchange, market conventions, and internal codes of conduct applicable to Directors, Management and Staff.

SICO adopts a top-down approach to compliance, with Board and Senior Management leading by example. A Compliance & Legal unit was created during 2008, segregating it from other functions to ensure its independence and avoid any conflicts of interest.

FIDUCIARY RISKS

The Asset Management department of SICO and the custody and fund administration services provided by the subsidiary unit (SFS) give rise to fiduciary risks:

- **Asset Management**

Assets under management have a range of controls to support the quality of the investment process, supervised by the Asset Management Committee. There are operating policies and procedures coupled with dedicated buy-side research and other guidelines to support this activity. There are strict operational controls to protect clients' assets and Chinese Walls to avoid any conflicts of interest. The Compliance unit regularly monitors this department's activity, and reports its findings and observation to the Asset Management Committee.

- **Custody and Fund Administration**

The Firm's custody and fund administration activities are handled by SICO Funds Services Company (SFS), which operates as a standalone subsidiary. SFS has a put in place a number of operating controls including the monitoring and reporting of reconciliations.

Corporate Finance

This activity is subject to legal and reputation risk. Such risks are mitigated by obtaining the necessary legal and regulatory approvals. Advisory and underwriting matters are monitored and controlled by the ALICO Committee.

INTERNAL AUDIT

Internal Audit provides an additional line of defence in risk management and internal controls. The role of Internal Audit is to provide independent and objective assurance that the process of identifying, evaluating and managing significant risks faced by the Company is appropriate and effectively applied.

The specific role of Internal Audit is to:

- Report on a quarterly basis to the Board, through the Audit Committee, on the operation of the control processes and Management's progress in addressing identified issues;
- Report the results of individual audits in the period to the Audit Committee;
- Report issues emerging from, and findings of, each audit to relevant management, obtaining their commitment to undertake appropriate remedial action; and
- Continually review the effectiveness of the Group's risk profile, placing appropriate reliance on the risk management process to optimise audit work.

Corporate Governance

SICO is committed to upholding the highest standards of corporate governance. This comprises complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value, and achieving organisational efficiency. The Firm has developed Board-approved policies for corporate governance, risk management, compliance, and internal controls in accordance with the latest rules and guidelines from the Central Bank of Bahrain (CBB).

During 2008, as deemed appropriate, the policies were duly reviewed by the Management and approved by the Board. Resulting corporate governance initiatives include the establishment of two new management committees: Assets, Liabilities and Investments Committee (ALICO); and Internal Control Committee.

RESPONSIBILITIES

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Firm's shareholders.

The Board has appointed two committees to assist it in carrying out its responsibilities: the Executive Committee and the Audit Committee. The Internal Audit function reports directly to the Board through the Audit Committee. The Board delegates the authority for the day-to-day management of the business to the Chief Executive Officer, who is supported by a qualified senior management team, and five management committees: Restricted Management Committee; Asset Management Committee; Assets, Liabilities and Investments Committee (ALICO); Internal Control Committee; and IT Development Committee.

Corporate Governance

BOARD MEMBERS AND STRUCTURE

Profiles of Board Members

Shaikh Mohammed bin Isa Al Khalifa
Chairman
Chairman since 1999 and Director since 1995

CEO: Social Insurance Organisation
First Deputy Chairman: Batelco
Deputy Chairman: National Motor Company, Bahrain International Golf Course Company, Bank of Bahrain and Kuwait
Board Member: Bahrain Commercial Facilities Company

Hussain Al Hussaini
Vice Chairman
Vice Chairman of Executive Committee
Director since 1997

Executive AGM: National Bank of Bahrain
Treasury and Investment Group

Anwar Abdulla Ghuloom
Director - Chairman of Audit Committee
Director since 2002

Director: Contribution & Revenues Directorate, Social Insurance Organisation (Pension Fund Commission)
Board Member: Bahrain Tourism Company, Royal Women's University

Mahmoud Al Zewam Al-Amari
Director - Member of Audit Committee
Director since 2004

First VP & Head: Portfolio Department, Arab Banking Corporation

Abdul Karim Bucheery
Director - Chairman of Executive Committee
Director since 2004

Chief Executive Officer: Bank of Bahrain and Kuwait
Chairman: CrediMax, Capinnova Investment Bank
Vice Chairman: Bahrain Commercial Facilities Company
Board Member, Director: Bahrain Association of Banks

Sawsan Abulhassan
Director - Member of Audit Committee
Director since 2008

Deputy Group CEO: Private Banking & Wealth Management, Ahli United Bank B. S. C.
Director: Ahli United Bank UK, AUB Nominees Ltd, AUB (CASA II) USA Inc., National Social Work Fund

Khalid Al Rumaihi
Director - Member of Executive Committee
Director since 2005

Member: Management Committee, Investcorp

Abdulaziz I. Al-Mulla
Director - Member of Executive Committee
Director since 2003

Head of Debt Capital Markets Division, Head of Treasury Division: Gulf Investment Corporation

Changes in the Board during the year

During the year Mr. Albert Kittaneh representing Minority Shareholders, and Mr. Ali Rahimi representing GIB, resigned from the Board. A new director, Ms. Sawsan Abulhassan representing AUB, joined the Boar.

BOARD COMMITTEES

Executive Committee

Objective
To exercise the powers of the Board of Directors on matters of an important or urgent nature, which arise between scheduled Board meetings.

Members

Abdul Karim Bucheery	Chairman
Hussain Al Hussaini	Vice Chairman
Khalid Al Rumaihi	Member
Abdulaziz Al Mulla	Member

Audit Committee

Objective
To review the Firm's financial reporting process, internal controls, risk management systems, and process for monitoring compliance with policies, procedures, laws, and regulations, and the Bank's own Code of Business Conduct.

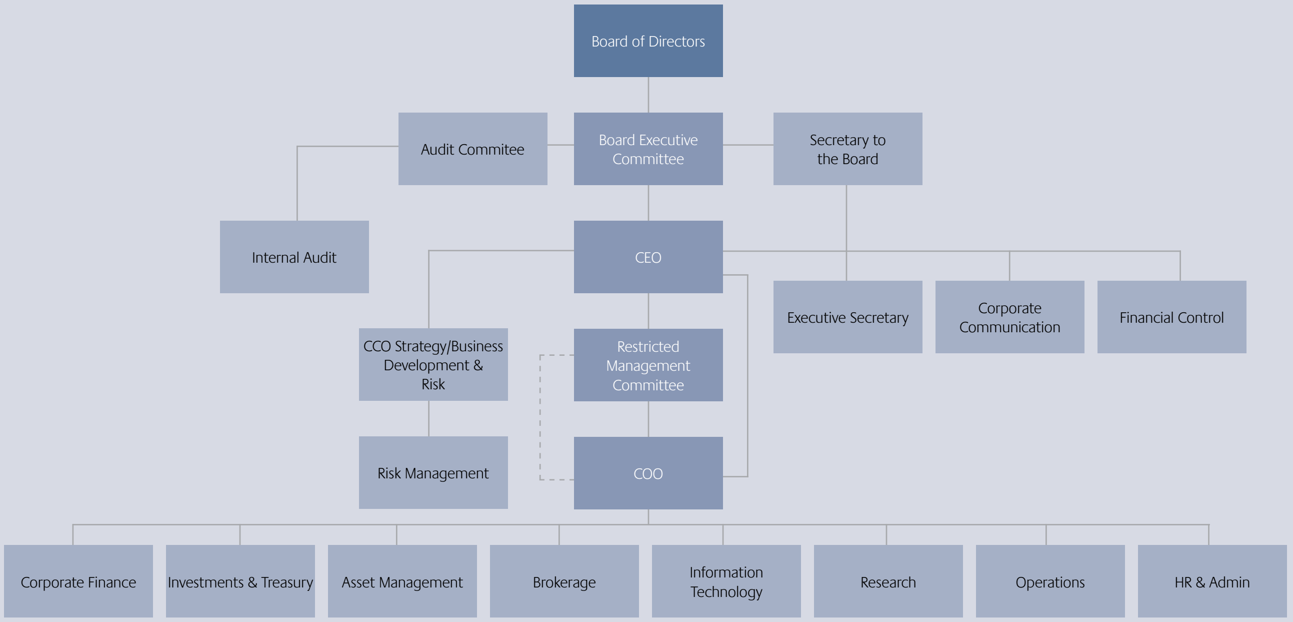
Members

Anwar Abdulla Ghuloom	Chairman
Mahmoud Zewam Al Amai	Member
Sawsan Abulhassan	Member

Changes in the Board Committees

During the year, consequent to the change in the Board Members, the Board Committees were reconstituted. After the exit of Mr. Albert Kittaneh from the Board, Mr. Abdul Karim Bucheery replaced him on the Executive Committee, while Ms. Sawsan Abulhassan came in as a new member of the Audit Committee.

MANAGEMENT AND ORGANISATIONAL STRUCTURE



MANAGEMENT PROFILES

Anthony C. Mallis
Chief Executive Officer - Joined SICO in 2000

Anthony has over 30 years' international banking experience. Prior to joining SICO he was a Partner in a London-based private equity firm focusing on the Middle East. Previously he worked for Credit Suisse Asset Management, Bankers Trust Company, Gulf International Bank, and Citibank. He is Board member of ABQ Zawya, and until recently was a Board member of the Bahrain Bankers Association. Anthony holds a Bachelor's degree in Business Administration from the American University of Beirut, and attended the Senior Executive Program at Stanford Business School, USA.

Najla Al Shirawi
Chief Operating Officer - Joined SICO in 1997

Najla has more than 12 years' investment banking experience. Prior to her appointment as COO in 2006, Najla was Head of Asset Management, and then Head of Investments & Treasury, at SICO. She was previously a lecturer in the Engineering College at the University of Bahrain. Before that, she worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust, where she was responsible for establishing private banking operations for the Group in the Gulf region. Najla holds an MBA and a Bachelor's degree in Civil Engineering and attended the management acceleration program at INSEAD, France.

Samir Sami
Chief Corporate Officer - Joined SICO in 2008

Samir has over 29 years' international experience in areas covering banking, strategic planning and risk management, spanning the UK and the Middle East. He started his banking career in Bahrain with GIB as a corporate officer in 1980. He then moved to Citibank, where he spent the next 17 years managing the Bank's corporate portfolio and risk management in Saudi Arabia and the UAE. He later joined Credit Suisse private banking, and subsequently worked with Ghobash Trading & Investment as Group Vice President. Samir has a joint Biochemistry and Zoology major from the University of London, UK; and has served as Board member for various non-profit organisations.

Hanan Y. Sater
Financial Controller - Joined SICO in 1997

With a career spanning more than 30 years, Hanan has worked in the accounts departments for institutions such as Manufacturers Hanover Trust Bank, Chemical Bank, and Chase Manhattan Bank. A graduate of the University of Bahrain, Hanan also holds the Certified Diploma from the UK-based Association of Chartered Certified Accountants (ACCA), and is a certified anti-money laundering specialist by the US-based Association of Certified Anti-Money Laundering Specialists (ACAMS). During her years of service, Hanan has undertaken training in Internal Control and Risk Management with reputed institutions such as INSEAD.

Nadia Khalil
Head of HR & Administration - Joined SICO 1995

Nadia has been with SICO for around 14 years, during which she established the HR & Administration Department with additional responsibilities for Board Meetings administration. Prior to joining SICO, she provided administrative support for the Private Banking Unit at Chase Manhattan Bank. Nadia holds a Diploma in Office Management from Bahrain University.

Shakeel Sarwar
Head of Asset Management - Joined SICO in 2004

Shakeel has around 14 years of investment industry experience in the UK, Pakistan and the Middle East. Prior to joining SICO, he worked with the asset management division of Riyadh Bank, and was part of team that managed over US$ 3 billion in Saudi equities. Previous experience includes working with ABN Amro Asia Securities in the UK and Pakistan. Shakeel holds an MBA in Banking and Finance from IBA, Karachi, Pakistan.

Bassam Khoury
Head of Brokerage - Joined SICO in 2008

Bassam has over 20 years' international experience in various aspects of the financial and investments markets. Prior to joining to SICO, he was CEO of ABC Securities. Previously, he worked with Banque Saudi Fransi in Saudi Arabia; BMB Investment Bank and Lehman Brothers in Bahrain; a private family office in Paris; and M. Sternburg & Company in the USA. Bassam holds a BSc in Business Administration & Economics from Kings College, New York, USA.

Fadhel Makhlouq
Head of Investments & Treasury - Joined SICO in 2004

Prior to his appointment as Head of Investments & Treasury in 2008, Fadhel was Head of Brokerage at SICO for five years, during which time he managed a number of record-breaking transactions on the Bahrain Stock Exchange. Before this, he worked for a number of financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase). Fadhel holds an MBA from Glamorgan University, UK.

Ramy Echo
Head of Corporate Finance - Joined SICO in 2006

Ramy has over 12 years' experience in management consulting, and corporate and investment banking. He has managed several major debt and equity capital markets offering, and advised on mergers and acquisitions, private equity deals, and privatisation programmes. Prior to joining SICO, he worked with the global financial services industry team at Deloitte Consulting; and managed a multi-industry corporate loan portfolio at Bank Audi. Ramy holds a Master's degree in Finance from the European School of Management.

T. Rajagopalan
Head of Risk Management - Joined SICO in 2000

Rajagopalan has over 19 years of professional experience. Before appointment to his current position in 2005, he was Internal Auditor at SICO. Previously, he worked with Ernst & Young Bahrain. Prior to this, he held the positions of Audit Executive and Accounts Executive for a large FMCG company in India. A Chartered Accountant and Cost Accountant (India), he is also a certified anti-money laundering specialist.

Ismail Sabbagh
Head of Information Technology - Joined SICO in 2007

Ismail has over 12 years' experience in the field of business consulting and information technology. Prior to joining SICO, he worked with BDO Jawad Habib Consulting as Business Consulting Manager; Microsoft Consulting Services as Technical Consultant for ERP and CRM, and project Manager; and New Horizons as a Business Consultant and IT Trainer. Ismail holds a BSc in Computer Science from the Lebanese American University, Beirut, and is a Microsoft Certified Professional.

David Halstead
Head of Operations - Joined SICO in 2007

David's diverse business and banking career has spanned the UK, Middle East, Hong Kong, India, Hungary, Slovenia, Bulgaria, Serbia, Bosnia and Herzegovina. Prior to joining SICO, he worked with Raiffeisen Zentralbank Group; Deloitte and Touche Tohmatsu International; and Standard Chartered Bank. David is an Associate of the UK-based Chartered Institute of Bankers.

Nadeen Oweis
Head of Corporate Communications - Joined SICO in 2008

Prior to joining SICO, Nadeen was in charge of corporate communications and public relations for Microsoft in Bahrain. Before this, she handled seven regional accounts for Lowe Contexture, a regional branding and communications consultancy based in Bahrain. Previous experience includes working for Proctor & Gamble Jordan and managing the advertising and promotions account for Radio Fann FM in Jordan. Nadeen holds a Master's degree in Diplomatic Studies from the Jordan Institute of Diplomacy, and a Bachelor's degree in Law from University of Jordan.

Jithesh Gopi
Head of Research - Joined SICO in 2006

Jithesh has over 10 years' experience, including six years in the energy sector in India. Prior to joining SICO, he worked with Irevna Research Services (an S&P subsidiary) tracking Indian and international equities; and was briefly with the International Finance Corporation (Manila), where he tracked the power sector. A CFA Charter holder, Jithesh has an MBA from the Asian Institute of Management in Manila, Philippines. He also attended the Tuck School of Business, Dartmouth, USA, as part of the International Student Exchange Program.

Anantha Narayanan
Head of Internal Audit - Joined SICO in 2008

Anantha has more than 18 years' experience in the areas of audit and risk management in the banking industry. Prior to joining SICO, he worked for Calyon Corporate & Investment Bank; Bank of Bahrain & Kuwait; Commercial Bank of Oman / Bank Muscat; and PriceWaterhouseCoopers. Anantha is a Chartered Accountant and Cost Accountant (India); a Certified Information Systems Auditor (USA); a Financial Risk Manager (USA); and an Associate Member of the Institute of Financial Studies (UK). He holds a B.Sc. Honours degree from the University of Manchester, UK.

Amal Al Nasser
General Manager - SICO Funds Services Company (SFS)
Joined SICO in 1997

Amal has more than 20 years' banking experience. Prior to her appointment in 2006 as General Manager of SFS, a wholly-owned subsidiary of SICO providing custody and fund administration services, Amal was Head of Operations at SICO for 10 years. Prior to this, she spent 10 years with ALUBAF Arab International Bank in Bahrain. During this time, she worked in the areas of credit, investment and banking operations. Amal holds a BA degree in Economics from Poona University, India.

MANAGEMENT COMMITTEES

Restricted Management Committee

Objective
To review the overall performance of each division against targets; review and decide on the implementation implications of new initiatives and products; and contribute to developing an ongoing strategy for the Firm.

Members

Chief Executive Officer	Chairman
Chief Operating Officer	Vice Chairman
Chief Corporate Officer	Member
Head of Treasury	Member
Head of Brokerage	Member
Head of Asset Management	Member
Financial Controller	Member
Head of Operations	Member

Asset Management Committee

Objective
To review and approve the investment and asset allocation strategy of the Firm's funds and portfolios; ensure that the funds and portfolios are in compliance with internal and the external guidelines (regulatory or client imposed); review and approve new product ideas; and recommend policy changes for approval of the SICO Funds Company's Board among others.

Members

Chief Executive Officer	Chairman
Chief Operating Officer	Vice Chairman
Chief Corporate Officer	Member
Head of Asset Management	Member
Head of Risk Management	Member
Head of Internal Audit	Member

Assets, Liabilities and Investments Committee (ALICO)

Objective
To act as the principal policy making body responsible for overseeing the Company's capital and financial resources, and managing the balance sheet and all proprietary investments activities, taking into consideration the changes in the balance sheet and the dynamics of the markets.

Members

Chief Executive Officer	Chairman
Chief Operating Officer	Vice Chairman
Chief Corporate Officer	Voting Member
Financial Controller	Voting Member
Head of Investment & Treasury	Voting Member
Head of Risk Management	Voting Member
Head of Internal Audit	Non-voting Member
Head of Investments	Non-voting Member

Internal Control Committee

Objective
To assess the overall impact on the internal control system due to the various risks encountered, and to monitor the functioning of the internal control mechanism of SICO.

Members

Chief Executive Officer	Chairman
Chief Corporate Officer	Vice Chairman
Chief Operating Officer	Member
Financial Controller	Member
Head of Internal Audit	Member
Head of Risk Management	Member

IT Development Committee

Objective
To act as the principal policy-making body responsible for the planning, implementation and future development of Information Technology & Communications within SICO.

Members

Head of Operations	Chairman
Financial Controller	Member
Head of IT	Member
Head of Risk Management	Member
Head of Internal Audit	Member
Business Unit Heads as required	

GOVERNANCE FRAMEWORK

SICO's corporate governance framework comprises a code of business conduct; operational policies and procedures; internal controls and risk management systems; compliance procedures; internal and external audit; effective communications and transparent disclosure; and measurement and accountability.

Code of Business Conduct

SICO conducts itself in accordance with the highest standards of ethical behaviour. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders.

Compliance

As a licensed wholesale bank and a closed listed company, SICO has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Stock Exchange.

Corporate Communications

SICO conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate website, and regular announcements in the appropriate local media. To ensure up to date disclosure of all relevant information to the shareholders .the Bank maintains a website on which, in addition to the timely disclosure of all relevant information, the Bank also discloses its financial results data for at least the last three years.

Remuneration policy

Board of Directors- The remuneration of the Board of Directors is approved by the share holders. In addition, directors are paid nominal fees for attending meetings of the Board and its Committees.

Employees - The Bank's remuneration policies, which are approved by the Board of Directors is applicable for all employees including the Chief Executive Officer. The remuneration primarily consists of monthly salary, performance bonuses, and an employee share ownership scheme, for which the firm partly contributes to.

Corporate Social Responsibility

As a leading Bahrain-based financial institution, SICO has long recognised its responsibility to support the social and economic well-being of the Kingdom. Accordingly, the Firm implements a corporate social responsibility programme that aims to contribute to the betterment of the local community; the enhancement of Bahrain's reputation as the financial centre of the Middle East; and the development of the region's capital markets.

SUPPORTING THE BETTERMENT OF THE LOCAL COMMUNITY

Education, healthcare and social welfare are the fundamental building blocks of an emerging nation. This is especially the case for the Kingdom of Bahrain, whose key resource is its people. Through its annual programme of donations and events sponsorship during 2008, SICO partnered with institutions and charities in these sectors, working with them towards the betterment of society.

Education

- The Royal University for Women's Conference on Inclusive and Special Education
- His Highness the Crown Prince's International Scholarship Programme
- Ibn Khuldoon National School Career Day
- Sacred Heart School

Healthcare and Social Welfare

- AMH Island Classic Charity Golf Tournament held on His Majesty the King's private golf course in Sakhir. The proceeds of this well-established annual fundraising event are used by the American Mission Hospital for the purchase and upgrading of medical equipment.

- Be-Free Centre
- The Friendship Kindergarten for Blind Children
- Bahrain Down Syndrome Society
- Child Care Home
- Al Noor Charity Welfare
- Bahrain Association for Mental Retardation
- UCO Parents Care Center

SUPPORTING THE GROWTH OF THE FINANCIAL SECTOR

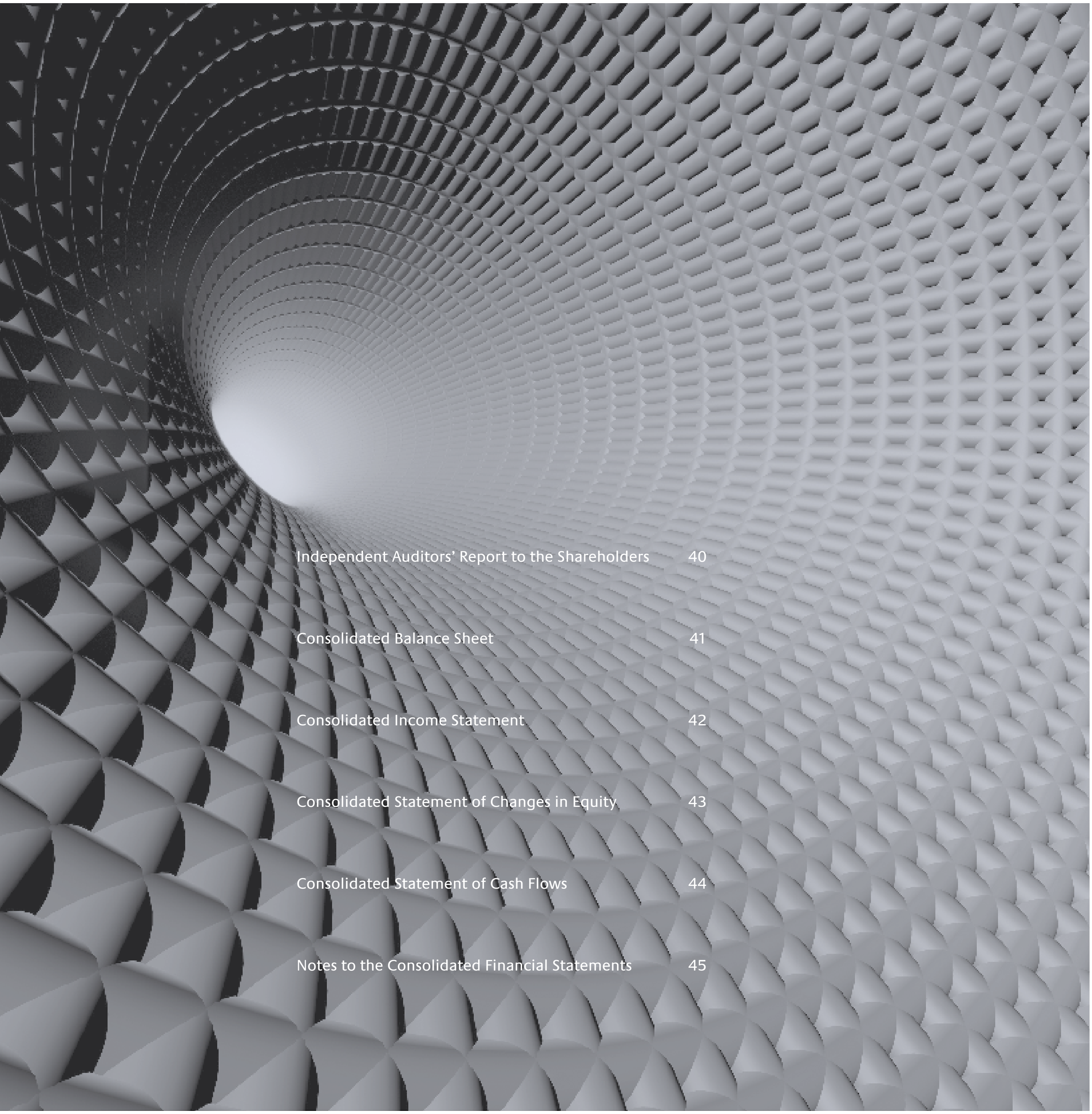
Bahrain's status as the financial centre of the Middle East is a key factor in the Kingdom's growing attractiveness as a destination for foreign investment. As such, SICO is committed to supporting the growth of the Kingdom's banking and financial services sector, and contributing to the development of the region's capital markets.

Sponsorships, partnerships and participation

- World Bank and IMF annual meeting in Washington DC: welcome reception organised by the Bahrain Bankers' Association for delegates from the Arab World.
- New York Society of Security Analysts (NYSSA) second annual Middle East Investment Conference
- Bahrain & Singapore Asset Management Networking Event organised by the Bahrain Bankers' Association and Singapore Economic Development Board
- Fund Forum Middle East

Businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate.

بنك استثماري
Investment Bank



Independent Auditors' Report

to the Shareholders

Securities and Investment Company BSC(c)
Manama, Kingdom of Bahrain
26 January 2009

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 balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. Included in these consolidated financial statements are the financial statements of subsidiaries of the Bank, with net assets of BD 1,555,437 (2007: BD 725,854) and profit of BD 229,582 (2007: BD 195,433) for the year ended 31 December 2008, which have been audited by other auditors and whose report is unqualified and has been furnished to us, and our conclusion, insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors of the subsidiary companies.

Responsibility of the Board of Directors for the 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 2008, 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 legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying Board of Directors' report and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Consolidated Balance Sheet

as at 31 December 2008

Bahraini Dinars '000

	Note	2008	2007
ASSETS			
Cash and bank balances	5	78,013	63,174
Treasury bills	6	8,050	-
Investments at fair value through profit or loss	7	5,008	20,392
Available-for-sale investments	8	13,483	13,776
Furniture and equipment	9	168	128
Fees receivable	10	1,130	5,096
Other assets	11	2,913	2,266
Total assets		**108,765**	104,832
LIABILITIES			
Short-term bank borrowings	12	-	566
Payables to customers	13	35,908	53,661
Deposits from customers	14	20,926	-
Other liabilities	15	2,072	8,499
Total liabilities		**58,906**	62,726
Equity			
Share capital	16	42,346	13,921
Statutory reserve	17	3,832	3,415
General reserve	18	1,028	2,071
Available-for-sale investments fair value reserve		(576)	3,384
Retained earnings		3,229	19,315
Total equity (page 43)		**49,859**	42,106
Total liabilities and equity		**108,765**	104,832

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

The Board of Directors approved the consolidated financial statements consisting of pages 41 to 75 on 26 January 2009.

Consolidated Income Statement

for the year ended 31 December 2008

Bahraini Dinars '000

	Note	2008	2007
Interest income	19	1,313	1,563
Interest expense	19	(165)	(659)
Net interest income		**1,148**	904
Net fee and commission income	20	2,845	6,586
Net investment (loss)/ income	21	(2,975)	5,944
Brokerage and other income	22	3,659	2,547
Operating income		**4,677**	15,981
Impairment provision on investments	8	(2,173)	-
Staff and related expenses	23	(2,886)	(3,157)
General, administration and other operating expenses	24	(1,017)	(918)
(Loss)/ profit for the year		**(1, 399)**	11,906
Basic and diluted earnings per share (fils)	29	**(4)**	38

Shaikh Mohammed Bin Isa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman of the Board and the Executive Committee

Anthony C. Mallis
Chief Executive Officer

The consolidated financial statements consist of pages 41 to 75.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

Bahraini Dinars '000

	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
2008						
As at 1 January 2008	13,921	3,415	2,071	3,384	19,315	42,106
Available-for-sale investments						
Net changes in fair value	-	-	-	(4,487)	-	(4,487)
Impairment loss on AFS securities transferred to income statement	-	-	-	2,173	-	2,173
Net profit on disposal of AFS securities transferred to income statement	-	-	-	(1,646)	-	(1,646)
Total recognised income and expense directly in equity	**-**	**-**	**-**	**(3,960)**	**-**	**(3,960)**
Loss for the year	-	-	-	-	(1,399)	(1,399)
Total recognised income and expense for the year	**-**	**-**	**-**	**(3,960)**	**(1,399)**	**(5,359)**
Dividends for 2007	-	-	-	-	(1,392)	(1,392)
Transfer to general reserve for 2007	-	-	1,191	-	(1,191)	-
Remuneration paid to directors for 2007	-	-	-	-	(200)	(200)
Bonus shares issued	14,115	-	(2,234)	-	(11,881)	-
Rights issue	14,116	-	-	-	-	14,116
Issue of shares to employees scheme	194	394	-	-	-	588
Transfer to statutory reserve for 2008	-	23	-	-	(23)	-
Balance at 31 December 2008	**42,346**	**3,832**	**1,028**	**(576)**	**3,229**	**49,859**
2007						
As at 1 January 2007	13,910	2,212	1,666	648	10,233	28,669
Retained earnings adjustment of subsidiary	-	-	-	-	10	10
Available-for-sale investments						
Net changes in fair value	-	-	-	3,688	-	3,688
Net profit on disposal of AFS securities transferred to income statement	-	-	-	(952)	-	(952)
Total recognised income and expense directly in equity	-	-	-	2,736	-	2,736
Profit for the year	-	-	-	-	11,906	11,906
Total recognised income and expense for the year	-	-	-	2,736	11,906	14,642
Dividends for 2006	-	-	-	-	(1,113)	(1,113)
Transfer to general reserve for 2006	-	-	405	-	(405)	-
Remuneration paid to directors for 2006	-	-	-	-	(125)	(125)
Issue of shares to employees scheme	11	12	-	-	-	23
Transfer to statutory reserve for 2007	-	1,191	-	-	(1,191)	-
Balance at 31 December 2007	13,921	3,415	2,071	3,384	19,315	42,106

The consolidated financial statements consist of pages 41 to 75.

Consolidated Statement of Cash Flows

for the year ended 31 December 2008

Bahraini Dinars '000

	Note	2008	2007
Operating activities			
Net interest received		1,039	960
Sale of investments at fair value through profit or loss		113,934	33,823
Purchase of investments at fair value through profit or loss		(103,964)	(37,905)
Sale of available-for-sale investments		12,183	6,099
Purchase of available-for-sale investments		(16,377)	(4,818)
Net (decrease)/ increase in payables to customers		(17,706)	31,392
Deposit taken from customers		20,926	-
Subscription money received for units of own funds not yet allotted		-	3,345
Application of subscription money for allotment of units of own funds		(3,345)	-
Dividends received		793	693
Brokerage and other fees received		7,638	4,274
Payments for staff and related expenses		(3,187)	(1,991)
Payments for general and administrative expenses		(911)	(744)
Deposit with BSE Guarantee Contribution Fund		-	(450)
Cash flows from operating activities		**11,023**	34,678
Investing activities			
Net capital expenditure on furniture and equipment		(139)	(79)
Cash flows utilised in investing activities		**(139)**	(79)
Financing activities			
Proceeds from rights issue		14,163	-
Repayment of short-term bank borrowings		(566)	(1,127)
Dividends paid		(1,392)	(1,113)
Remuneration paid to Directors		(200)	(125)
Cash flow from/ (utilised in) financing activities		**12,005**	(2,365)
Net increase in cash and cash equivalents		**22,889**	32,234
Cash and cash equivalents at the beginning of the year		63,174	30,940
Cash and cash equivalents at the end of the year		**86,063**	63,174
Cash and cash equivalents comprise:			
Cash and bank balances	5	78,013	63,174
Treasury bills	6	8,050	-
		86,063	63,174

The consolidated financial statements consist of pages 41 to 75.

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 licence 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 privatisation programmes, 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 three wholly owned subsidiaries authorised and approved by the Central Bank of Bahrain to carry on the business of collective investment schemes:

- SICO Funds Company BSC (c) ("Funds Company"). The Funds Company has launched SICO Selected Securities Fund ("SSSF") and the 'Khaleej Equity Fund';
- SICO Funds Company II BSC (c) launched SICO Arab Financial Fund; and
- SICO Funds Company III BSC (c) launched SICO Gulf Equity Fund.

The Bank has also another wholly owned subsidiary company SICO Fund Services Company BSC (c) which provides custody and administration services.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (continued)

The investments in subsidiaries are carried at cost in the financial statements of the parent.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(c) 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 unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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.

(d) 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. Realised and unrealised foreign exchange profits and losses are included in other income except with regards to available-for-sale securities which are taken to equity.

(e) 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 derecognition

Investment securities are recognised when the Group becomes a party to the contractual provisions of the instrument. Investment securities are derecognised 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 measured at cost, being their fair value, with transaction costs recognised directly in the income statement. Trading securities are subsequently re-measured to fair value at each reporting date with any resultant gain or loss recognised in the income statement.

Available-for-sale securities (AFS securities) are initially measured at cost, being their fair value, including transaction costs. Unrealised gains and losses arising from changes in the fair values of AFS securities are recognised in a reserve as a separate component of equity. In the event of sale, disposal, collection or impairment, the cumulative gains and losses recognised in equity 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 measured at cost. They are subsequently carried at amortised cost using the effective interest method.

(iv) Measurement principles

- Amortised cost measurement

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised 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. The determination of fair value of financial assets and liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For financial assets not traded on an active market, fair value is determined based on recent transactions or brokers' quotes.

(f) 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 amortised cost

For financial assets carried at amortised 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 recognised 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 recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of assets (continued)

(ii) Available-for-sale investments (continued)

income statement. 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 recognised 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 recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised 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.

(g) Cash and cash equivalents

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

(h) 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.

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.

(i) Borrowings

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

(j) Deposits from customers

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

(k) Employee benefits

(i) Bahraini Employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation 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 Labour 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) Share-based compensation

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.

(l) Dividends and board remuneration

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

(m) Provisions

A provision is recognised 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.

(n) 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 recognised as the services are provided.

(o) Trade date accounting

All “regular way” purchases and sales of financial assets are recognised 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.

(p) Offsetting

Financial assets and liabilities are set off and the net amount reported in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

(q) 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.

(r) Interest income and expense

Interest income and expense is recognised 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.

(s) 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 recognised as the related services are performed.

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

(t) Net investment (loss)/ income

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Brokerage and other income

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

3. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

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

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is assisted in this function by the 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 maximising 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 is undertaken, 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 (ALICO), 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:

	2008	2007
Cash and bank balances	78,013	63,174
Treasury bills	8,050	-
Investments at fair value through profit or loss	3,470	10,007
Available for sale investments	11,640	6,789
Fee receivable	1,130	5,096
Receivables and other assets	1,874	1,843
	104,177	86,909

Currently only the Margin Trading Lending on the Bahrain 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 honour 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 equity 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.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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	
	2008	2007	**2008**	2007
Commercial banks	385	1,366	186	1,863
Other banks	671	2,615	773	1,086
Insurance	-	34	-	-
Services	538	3,517	898	1,167
Managed funds	1,872	8,248	10,399	6,016
Others	1,542	4,612	1,227	3,644
Total carrying amount	**5,008**	20,392	**13,483**	13,776

Geographical distribution	Investments at fair value through profit or loss		Available for sale investments	
	2008	2007	**2008**	2007
GCC countries	3,774	13,034	5,623	9,589
USA	-	1,889	5,613	4,138
Europe	1,234	2,639	1,492	49
Middle East and North Africa	-	2,830	755	-
Total carrying amount	**5,008**	20,392	**13,483**	13,776

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

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 honour its obligations to deliver cash, securities or other assets as contractually agreed.

(c) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity Risk is managed for all the three risk originating departments - Asset Management, Brokerage and Investments and Treasury.

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 crystallisation 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:

2008	**Carrying value**	**Gross outflow**	**Less than 1 year**	**1 to 5 years**	**Above 5 years**
Short term borrowings	-	-	-	-	-
Payables to customers	35,908	35,908	35,908	-	-
Deposits from customers	20,926	21,507	21,507	-	-
Other liabilities	831	831	831	-	-
	57,665	**58,246**	**58,246**	**-**	**-**

2007	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short term borrowings	566	600	600	-	-
Payables to customers	53,661	53,661	53,661	-	-
Deposits from customers	-	-	-	-	-
Other liabilities	7,536	7,536	7,536	-	-
	61,763	61,797	61,797	-	-

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 in the trading book 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 lossess 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.

The mechanism for managing Equities Price Risk is explained below:

Limit Management

Limits are broadly of two types – Nominal Limits and Risk Based Limits. Initially, the Bank has adopted nominal limits and has a plan to introduce risk based limits and parameters in the future. Nominal Limits include counterparty credit / exposure limits, stop loss limits, concentration limits etc., which are monitored by adopting an approved Asset Allocation Matrix. This matrix also includes the Available for Sale portfolio.

Sensitivity Analysis of a 1% change in market prices on the un-realised 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	
	2008	2007	**2008**	2007
Increase of 1%	50,080	203,894	134,830	137,848
Decrease of 1%	(50,080)	(203,894)	(134,830)	(137,848)

(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 minimises 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 that bear interest at prevailing market rates.

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 these instruments and can only be traded Over-The-Counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. All debt instruments are unrated.

The Bank follows the Standardised 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.

Interest rate re-pricing profile

2008	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	5,438	5,438
Call deposits*		167	-	-	167
Placements with banks	1.29%	72,408	-	-	72,408
Treasury bills	2.85%	8,050	-	-	8,050
Investments at fair value through profit or loss	5.83%	860	394	3,754	5,008
Available-for-sale securities	5.41%	377	5,850	7,256	13,483
Furniture and equipment	-	-	-	168	168
Fees receivable	-	-	-	1,130	1,130
Other assets	-	-	-	2,913	2,913
Total assets		**81,862**	**6,244**	**20,659**	**108,765**
Bank overdrafts	-	-	-	-	-
Short term borrowings	-	-	-	-	-
Payables to customers	-	-	-	35,908	35,908
Deposits from customers	0.25%	20,926	-	-	20,926
Other liabilities		-	-	2,072	2,072
Total liabilities		**20,926**	**-**	**37,980**	**58,906**
Equity		**-**	**-**	**49,859**	**49,859**
Total liabilities and equity		**20,926**	**-**	**87,839**	**108,765**
Interest rate sensitivity gap		60,936	6,244	67,180	-
Cumulative interest rate sensitivity gap		60,936	67,180	-	-

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Interest rate risk (continued)

2007	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	15,230	15,230
Call deposits*		850	-	-	850
Placements with banks	3.77%	47,101	-	-	47,101
Investments at fair value through profit or loss	6.30%	860	469	19,063	20,392
Available-for-sale securities	6.59%	-	400	13,376	13,776
Furniture and equipment	-	-	-	128	128
Fees receivable	-	-	-	5,096	5,096
Other assets	-	-	-	2,266	2,266
Total assets		48,811	869	55,159	104,839
Bank overdrafts	9.75%	7	-	-	7
Short term borrowings	5.91%	566	-	-	566
Payables to customers	2.13%	13,334	-	40,327	53,661
Deposits from customers	-	-	-	-	-
Other liabilities	-	-	-	8,499	8,499
Total liabilities		13,907	-	48,826	62,733
Equity		-	-	42,106	42,106
Total liabilities and equity		13,907	-	90,932	104,839
Interest rate sensitivity gap		34,904	869	(35,773)	-
Cumulative interest rate sensitivity gap		34,904	35,773	-	-

* At 31 December 2008 the effective interest rate on Bahraini Dinar call deposits was 0.70% p.a (2007: 2.875% - 3.125% p.a.) and on USD call deposits was 0.95% p.a. (2007: 3.50% – 3.75% 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 is effectively pegged to the US Dollar, currency risk is minimal. The Bank does not hedge its currency risk.

(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, 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.

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 commence in 2009.

Assets under management activity has a range of controls to support the quality of the investment process and is 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 (ALICO).

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 recognised and the Bank recognises 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 standardised approach to credit and market risk management and the basic indicator approach for the operational risk management under the revised framework.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital Management (continued)

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

Based on year end balances

	2008 (Basel II)	2007 (Basel I)
Risk weighted exposure		
Credit risk	37,067	33,853
Market risk	35,875	72,313
Operational risk	17,978	-
Total risk weighted assets	**90,920**	106,166
Tier 1 Capital	49,291	38,273
Tier 2 Capital	255	1,726
Total regulatory capital	49,546	39,999
Capital adequacy ratio	54.49%	37.68%

Based on full year average balances

	2008 (Basel II)	2007 (Basel I)
Risk weighted exposure		
Credit risk	42,022	24,376
Market risk	52,420	64,644
Operational risk	17,978	-
Total risk weighted assets	**112,420**	89,020
Tier 1 Capital	46,942	28,273
Tier 2 Capital	4,439	3,388
Total regulatory capital	**51,381**	31,661
Capital adequacy ratio	**45.70%**	35.57%

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 maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS 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 recognised in the period in which the estimate is revised and in any future periods affected.

Judgements

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.

5. CASH AND BANK BALANCES

	2008	2007
Cash and bank balances	5,438	15,230
Call deposits	167	850
Short term placements with Banks	72,408	47,101
	78,013	63,181
Bank overdraft	-	(7)
As 31 December	**78,013**	63,174

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.

The bank overdraft bears interest at prevailing market rates.

6. TREASURY BILLS

Treasury bills comprise unquoted short-term treasury bills issued by the Central Bank of Bahrain, and are held to maturity.

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7. INVESTMENTS AS FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
Held for trading		
Equity securities	1,537	10,385
Managed funds	2,217	8,678
Debt securities	1,254	1,329
As 31 December	**5,008**	20,392

8. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
Equity securities	3,404	6,987
Managed funds	6,025	6,389
Debt securities	6,227	400
	15,656	13,776
Less:		
Impairment provision on equity securities	1,561	-
Impairment provision on managed funds	612	-
As 31 December	**13,483**	13,776

9. FURNITURE AND EQUIPMENT

	2008	2007
Cost as at 1 January	584	520
Additions	139	81
Disposals	(8)	(17)
Cost at 31 December	**715**	584
Depreciation as at 1 January	456	380
Charge for the year	99	91
Disposals	(8)	(15)
Depreciation as at 31 December	**547**	456
Net book value at 31 December	**168**	128
Cost of fully depreciated assets in use	**380**	327

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

10. FEE RECEIVABLE

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

	2008	2007
Management fee	275	366
Performance fee	759	4,568
Custody fee	96	162
As 31 December	**1,130**	5,096

11. OTHER ASSETS

	2008	2007
Receivables from clients and brokers	1,220	1,244
Guarantee deposit with the Bahrain Stock Exchange	500	500
ESOP share advance account	912	323
Prepaid expenses	127	100
Interest receivable	131	53
Other receivables	23	46
As 31 December	**2,913**	2,266

12. SHORT-TERM BANK BORROWINGS

	2008	2007
Bank borrowings	-	566
As 31 December	**-**	566

These Borrowings are unsecured with interest at prevailing market rates.

13. PAYABLES TO CUSTOMERS

Payable to customers include settlement amounts for trades executed on behalf of customers and margin deposits for the brokerage and DPMA services offered by the Bank. Interest on certain deposit accounts is paid as per the arrangement with the customers subject to a minimum balance. Interest expense on these deposits for the year amounted to BD 90 (2007: 503).

14. DEPOSIT FROM CUSTOMERS

Deposit from customers represents the excess funds of DPMA clients placed with the Bank. Interest at commercial terms is offered by the Bank on these deposits.

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15. OTHER LIABILITIES

	2008	2007
Subscription money for units of own funds not yet allotted	-	3,345
Brokerage payable to counterparty	55	2,840
Accrued expenses	742	1,312
Provision for employee indemnities	179	94
ESOP liability	1,062	869
Other payables	34	39
As 31 December	**2,072**	8,499

16. SHARE CAPITAL

	2008	2007
Authorised share capital		
1,000,000,000 (2007: 500,000,000) shares of 100 fils each	**100,000**	50,000

As approved at the Extraordinary General Meeting held on 24 March 2008, the Bank's authorised share capital was increased from BD 50 million to BD 100 million.

	2008	2007
Issued and fully paid		
At 1 January	13,921	13,910
Issue of shares to ESOP trustees during the year	194	11
Bonus shares issued during the year	14,115	-
Rights issue during the year	14,116	-
At 31 December	**42,346**	13,921

During the current year, the Bank issued 1,947,564 shares of BD 100 fils each under the employee share option for the year 2007 to HSBC Trustee (C.I) Limited at the 31 December 2007 NAV of 302 fils per share (2007: 107,837 shares of 100 fils each for the year 2006 at the 31 December 2006 NAV of 206 fils per share). Accordingly the share capital was increased by BD 194 (2007: BD 11) to the extent of the nominal value of the shares of 100 fils each. The share premium of BD 394 (2007: BD 12) relating to the issue of these shares at a premium of 202 fils per share (2007: 106 fils per share) has been credited to the statutory reserve.

On 29 May 2008, a bonus issue of 141,152,662 shares amounting to BD 14,115 in the ratio of 1:1 (on the capital after the issue of shares to trustees) was effected by capitalising retained earnings.

On 22 June 2008, a rights issue of 1:2 (on the capital after the bonus issue and issue of shares to trustees) was effected at an exercise price of 103 fils per share (including 3 fils towards issue expenses). Out of the total proceeds of BD 413 received from shareholders towards issue expenses of 3 fils per share, BD 365 has been used to fund the 3,652,662 shares allotted to employees as part of the rights issue exercise.

For the year 2008, no appropriations for dividend and Directors remuneration were proposed by the Board. For the year 2007, the Board of Directors proposed a cash dividend 10 fils per share of 100 fils nominal value, a 10% dividend and Directors remuneration of BD 200,000. The proposed appropriations are in accordance with the Bank's Articles of association and are subject to approval by the shareholders at the Annual General Meeting.

	2008	2007
Directors' remuneration	-	200
Proposed dividend	-	1,392
General reserve	-	1,191

The shareholders are:	Nationality	**2008**		2007	
		Capital	**% holding**	Capital	% holding
Pension Fund Commission	Bahrain	9,322.5	22.0	3,107.5	22.3
General Organisation for Social Insurance	Bahrain	6,600.0	15.6	2,200.0	15.8
National Bank of Bahrain BSC	Bahrain	5,362.5	12.7	1,375.0	9.9
Ahli United Bank (Bahrain) BSC	Bahrain	5,115.0	12.1	605.0	4.3
Bank of Bahrain and Kuwait BSC	Bahrain	4,125.0	9.7	1,375.0	9.9
Arab Investment Resources Company EC	Bahrain	3,300.0	7.8	1,100.0	7.9
Arab Banking Corporation BSC	Bahrain	3,300.0	7.8	1,100.0	7.9
Gulf Investment Corporation GSC	Kuwaiti	3,300.0	7.8	1,100.0	7.9
HSBC Trustee (C.I) Limited	Bahrain	1,095.8	2.6	171.0	1.2
Bahraini Saudi Bank BSC	Bahrain	825.0	1.9	275.0	2
Bahrain Middle East Bank EC	Bahrain	-	-	412.5	3
Gulf International Bank BSC	Bahrain	-	-	1,100.0	7.9
		42,345.8	**100.0**	13,921.0	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.118 (2007: BD 0.302)

17. STATUTORY RESERVE

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 23 (2007: 1,191).

The share premium of BD 394 (2007: BD 12) arising from the issue of shares under employee share option plan has been adjusted to statutory reserve.

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18. 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. No appropriations were proposed for the year 2008 (2007: BD 1,191). The appropriations are subject to the approval of the shareholders at the Annual General Meeting.

19. INTEREST INCOME/ EXPENSE

	2008	2007
Interest income		
Placements and call deposits	1,184	1,353
Treasury bills	25	-
Investments carried at fair value through profit or loss	16	25
Available for sale investments	58	90
Margin lending	30	95
	1,313	1,563
Interest expense		
Borrowings and customer deposits	75	156
Customer accounts	90	503
	165	659

20. FEE AND COMMISSION INCOME/ EXPENSE

	2008	2007
Fee and commission income from trust or other fiduciary activities		
- Management fee	2,389	1,722
- Performance fee	339	4,657
- Custody fee	465	356
	3,193	6,735
Fee and commission expense		
- Custody fee	(187)	(149)
- Collection fee	(161)	-
Net fee and commission income	**2,845**	6,586

21. NET INVESTMENT (LOSS)/ INCOME

	2008	2007
Net (loss)/ gain on investments carried at fair value through profit or loss	(5,414)	4,299
Realised gain on sale of available-for-sale investments	1,646	952
Dividend income on investments carried at fair value through profit or loss	348	237
Dividend income on available for sale investments	445	456
	(2,975)	5,944

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

	2008	2007
Realised (loss)/ gain on sale	(4,220)	1,372
Unrealised (loss)/ gain representing fair value adjustments	(1,194)	2,927
	(5,414)	4,299

22. BROKERAGE AND OTHER INCOME

	2008	2007
Brokerage income	2,692	1,445
Investment banking income	400	639
Marketing income	19	69
Foreign exchange gain	459	348
Other income	89	46
	3,659	2,547

23. STAFF AND RELATED EXPENSES

	2008	2007
Salaries and allowances	2,588	2,950
Social security costs	186	108
Other costs	112	99
	2,886	3,157

As at 31 December 2008, the Group employed 53 (2007: 49) Bahrainis and 29 (2007: 18) expatriates.

The Group's contributions for the year to the General Organisation for Social Insurance in respect of its employees amounted to BD 104 (2007: BD 82).

Other liabilities include a provision of BD 179 (2007: 94) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

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24. GENERAL, ADMINISTRATION AND OTHER OPERATING EXPENSES

	2008	2007
Rent	152	128
Communication expenses	141	144
Marketing expenses	289	261
Professional fees	148	156
Other operating expenses	188	138
Depreciation	99	91
	1,017	918

25. RELATED PARTY TRANSACTIONS

Transactions with funds owned by the Subsidiary Companies

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

	2008	2007
Fee and commission income	**1,146**	1,986
Fee receivable	**291**	1,633
Investments:		
Available for sale investments		
- Khaleej Equity Fund	**531**	910
- SICO Selected Securities Fund	**480**	670
Investments carried at fair value through profit or loss		
- Khaleej Equity Fund	**-**	245
- SICO Arab Financial Fund	**638**	930

The details of the own funds under management are in Note 27.

Transactions with shareholders

The Group obtains short term borrowings from its non-bank shareholders. The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutlised 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.

	2008	2007
Fee and commission income	341	1,902
Funds under management	38,009	76,746
Payables	-	2,577
Deposits	13,235	-
Borrowings as at 31 December	-	-
Borrowings obtained during the year	-	5,416
Borrowings repaid during the year	-	(6,543)

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 and head of departments.

Compensation paid/ payable to key management personnel are as follows:

	2008	2007
Short term benefits	696	425
Post employment benefits	28	15
Equity compensation benefits	370	838
	1,094	1,278

General and administrative expenses include BD 34 (2007: BD 33) towards attendance fees and other related expenses for members of the Board and Executive Committee.

26. EMPLOYEE SHARE OPTION PLAN

The Group has established an Employee Share Option Plan ("the Plan") 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 Plan.

Under the Plan, 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 Plan is treated as a cash-settled share based payment transaction due to the restrictions imposed under the Plan whereby the employees have to sell back the shares to the Group on resignation/ retirement based on the vesting conditions mentioned in the Plan.

On issue of shares under the Plan, the share capital is increased with a corresponding increase in ESOP share advance account classified under other assets. The ESOP share advance account as at 31 December 2008 amounted to BD 912 (2007: 323).

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26. EMPLOYEE SHARE OPTION PLAN (CONTINUED)

The Group has recognised an employee liability of BD 1,062 (2007: 869) 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 2008 in accordance with the rules of the Plan.

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

	2008		2007	
	No. of shares issued	Value	No. of shares issued	Value
As at 1 January	1,705,098	323	1,597,261	301
Shares issued during the year *	1,947,564	588	107,837	22
	3,652,662	911	1,705,098	323
Bonus shares **	3,652,662	-	-	-
Rights issue allotment **	3,652,662	-	-	-
	10,957,986	**911**	1,705,098	323

* During the year, the Bank issued 1,947,564 new shares under the Plan for the year 2007 as approved by the Board of Directors (2,149,112 eligible shares net of 201,548 shares pertaining to employees who left the Group during the year whose obligation was cash settled).

In 2007, the Bank issued 107,837 new shares under the Plan for the year 2006 as approved by the Board of Directors (636,789 eligible shares net of 528,952 shares pertaining to employees who left the Group during the year whose obligation was cash settled).

** As part of the capital increase exercise undertaken during the year, a bonus issue of 1:1 on the shares held at the time of the bonus issue and a rights issue of 1:2 on the shares held after the bonus issue was allotted to the employees.

The rights issue allotment was funded from the amount collected towards issue expenses from the other shareholders.

27. CONTINGENCIES, COMMITMENTS AND MEMORANDUM ACCOUNTS

Investment commitment

The Bank 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.

	2008	2007
Funds under management (net asset value)		
SICO Selected Securities Fund	**3,371**	7,514
Khaleej Equity Fund	**26,436**	24,017
SICO Gulf Equity Fund	**13,154**	16,821
SICO Arab Financial Fund	**6,123**	8,388
Discretionary Portfolio Management Account	**103,397**	173,108

The Bank is the fund manager for "SICO Selected Securities Fund" launched in April-May 1998, "Khaleej Equity Fund" launched in March 2004, "SICO Gulf Equity Fund" launched in March 2006 and "SICO Arab Financial Fund" launched in August 2007. The net asset value of these funds are based on audited accounts.

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.

	2008	2007
Securities under management custody	**1,344,333**	1,464,413

The Group provides custodianship and nominee services in respect of marketable securities. At 31 December 2008, marketable securities amounting to BD 1,344,333 (2007: BD 1,464,413) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 116,298 (2007: BD 276,440) were registered in the name of the Bank.

28. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

	2008	2007
US Dollar	**10,673**	11,011
KWD	**5,724**	4,490
SAR	**7,948**	9,034

The Bahraini Dinar is effectively pegged to the US Dollar at USD 1 = BD 0.377

29. BASIC AND DILUTED EARNINGS PER SHARE

	2008	2007
(Loss)/ profit for the year	**(1,399)**	11,906
Weighted average number of equity shares (In 000's)	**372,949**	314,533
Earnings per share (in fils)	**(4)**	38

As per IAS 33, in the case of bonus issue and rights issue, the number of ordinary shares used for the computation of earning per share for the current year, and previous year has been adjusted.

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

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30. MATURITY PROFILE OF ASSETS AND LIABILITIES

As at 31 December 2008	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	78,013	-	-	78,013
Treasury bills	8,050	-	-	8,050
Investments at fair value through profit or loss	860	394	3,754	5,008
Available-for-sale securities	377	5,850	7,256	13,483
Furniture and equipment	-	168	-	168
Fees receivable	1,130	-	-	1,130
Other assets	2,913	-	-	2,913
Total assets	**91,343**	**6,412**	**11,010**	**108,765**
Liabilities				
Short term borrowings	-	-	-	-
Payables to customers	35,908	-	-	35,908
Deposits from customer	20,926	-	-	20,926
Other liabilities	2,072	-	-	2,072
Total liabilities	**58,906**	**-**	**-**	**58,906**
Liquidity gap	**32,437**	**6,412**	**11,010**	**49,859**
Cumulative liquidity gap	**32,437**	**38,849**	**49,859**	**49,859**

As at 31 December 2007	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	63,174	-	-	63,174
Treasury bills	-	-	-	-
Investments at fair value through profit or loss	19,063	1,329		20,392
Available-for-sale securities	-	400	13,376	13,776
Furniture and equipment	-	128	-	128
Fees receivable	5,096	-	-	5,096
Other assets	2,266	-	-	2,266
Total assets	89,599	1,857	13,376	104,832
Liabilities				
Short term borrowings	566	-	-	566
Payables to customers	53,661	-	-	53,661
Deposits from customers	-	-	-	-
Other liabilities	8,499	-	-	8,499
Total liabilities	62,726	-	-	62,726
Liquidity gap	26,873	1,857	13,376	42,106
Cumulative liquidity gap	26,873	28,730	42,106	42,106

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31. ACCOUNTING CLASSIFICATION AND FAIR VALUES

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

31 December 2008	Fair value through profit or loss – held for trading	Available for sale	Held to maturity	Loans and receivables	Others at amortised cost	Total carrying value	Fair value
Cash and bank balances	-	-	-	78,013	-	78,013	78,013
Treasury bills	-	-	8,050	-	-	8,050	8,050
Investments at fair value through profit or loss	5,008	-	-	-	-	5,008	5,008
Available-for-sale investments	-	13,483	-	-	-	13,483	13,483
Fees receivable	-	-	-	1,130	-	1,130	1,130
Other assets	-	-	-	1,874	-	1,874	1,874
	5,008	**13,483**	**8,050**	**81,017**	**-**	**107,558**	**107,558**
Short-term bank borrowings	-	-	-	-	-	-	-
Payables to customers	-	-	-	-	35,908	35,908	35,908
Deposits from customers	-	-	-	-	20,926	20,926	20,926
Other liabilities	-	-	-	-	831	831	831
	-	**-**	**-**	**-**	**57,665**	**57,665**	**57,665**

31 December 2007	Fair value through profit or loss – held for trading	Available for sale	Held to maturity	Loans and receivables	Others at amortised cost	Total carrying value	Fair value
Cash and bank balances	-	-	-	63,174	-	63,174	63,174
Treasury bills	-	-	-	-	-	-	-
Investments at fair value through profit or loss	20,392	-	-	-	-	20,392	20,392
Available-for-sale investments	-	13,776	-	-	-	13,776	13,776
Fees receivable	-	-	-	5,096	-	5,096	5,096
Other assets	-	-	-	1,843	-	1,843	1,843
	20,392	13,776	-	70,113	-	104,281	104,281
Short-term bank borrowings	-	-	-	-	566	566	566
Payables to customers	-	-	-	-	53,661	53,661	53,661
Deposits from customers	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	7,536	7,536	7,536
	-	-	-	-	61,763	61,763	61,763

Included in AFS category are investments amounting to BD 740 (2007: BD 364) that are carried at cost in the absence of a reliable measure of fair value.

32. 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 December 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

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32. GROUP INFORMATION (CONTINUED)

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

Parent balance sheet as at 31 December:

As at 31 December	2008	2007
Assets		
Cash and bank	5,414	13,864
Call deposits	167	850
Placements with banks	70,991	46,597
Treasury bills	8,050	-
Investments at fair value through profit or loss	5,008	20,392
Available-for-sale investments	13,483	13,776
Investment in subsidiaries	1,052	452
Furniture and equipment	163	124
Fees receivable	1,034	4,934
Other assets	2,894	2,252
Total assets	**108,256**	103,241
Liabilities		
Bank overdraft	-	7
Short term borrowings	-	566
Payables to customers	35,908	53,661
Deposits from customers	20,926	-
Other liabilities	2,066	7,172
Total liabilities	**58,900**	61,406
Equity		
Share capital	42,346	13,921
Statutory reserve	3,781	2,216
General reserve	1,000	2,063
Available-for-sale securities fair value reserve	(576)	3,384
Retained earnings	2,805	20,251
Total equity	**49,356**	41,835
Total liabilities and equity	**108,256**	103,241

Parent income statement for the year ended 31 December:

Year ended 31 December	2008	2007
Income		
Interest income	1,286	1,534
Interest expense	(165)	(659)
Net interest income	**1,121**	875
Net fee and commission income	2,518	6,285
Net investment (loss)/ income	(2,975)	5,944
Brokerage and other income	3,596	2,513
Operating income	**4,260**	15,617
Impairment provision on investments	(2,173)	-
Staff and related expenses	(2,735)	(3,027)
General, administrative and other operating expenses	(981)	(879)
(Loss)/ profit for the year	**(1,629)**	11,711

33. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

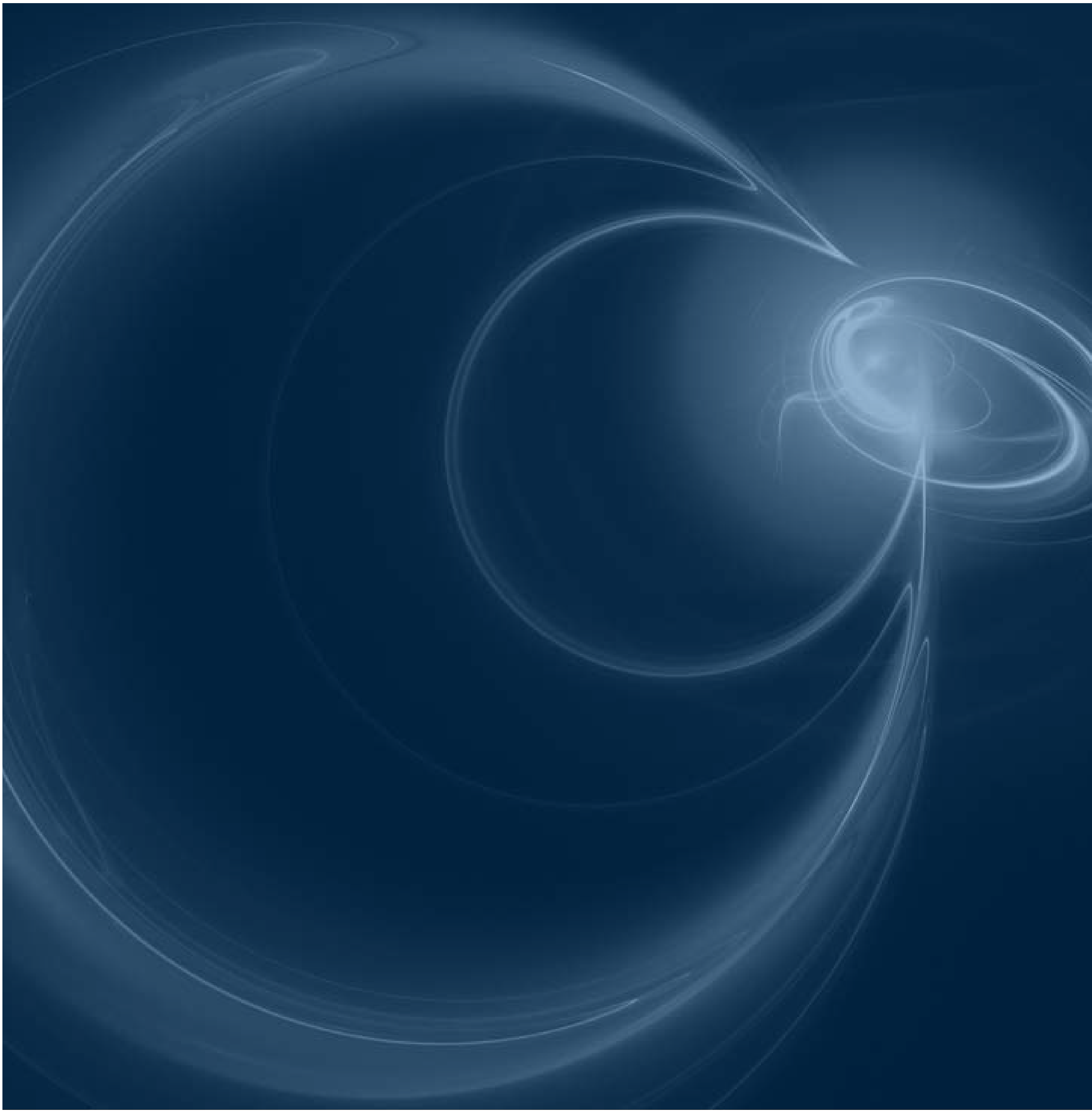
During the year the following new/amended IFRS's and interpretations have been issued which are not yet mandatory for adoption by the Group:

- Revised IAS 1 "Presentation of Financial Instruments": effective for financial periods beginning on or after 1 January 2009.
- Amended IAS 27 – "Consolidated and Separate Financial Statements": effective for financial periods beginning on or after 1 January 2009.
- Amendments to IFRS 2 "Share Based Payment – Vesting Conditions and Cancellations": effective for financial periods beginning on or after 1 January 2009.
- Amendments to existing standards made by the International Accounting Standards Board as part of its first annual improvements project. The effective date for these amendments varies by standard and most will be applicable for financial periods beginning on or after 1 January 2009.

The adoption of these standards and interpretations and other amendments to existing standards made by the International Accounting Standards Board as part of its first annual improvements project are not expected to have a material impact on the consolidated financial statements of the Group.

34. COMPARATIVE FIGURES

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



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1. OVERVIEW

Effective January 2008, the Central Bank of Bahrain (CBB) introduced a new Public Disclosure (PD) module in accordance with the Basel-II Pillar 3 guidelines.

This report sets out to outline the qualitative and quantitative public disclosure requirements that SICO adheres to in order to enhance corporate governance and financial transparency through better public disclosure.

Basel II framework is composed of the following 3 pillars:

- Pillar 1: Describes the minimum capital requirements which includes the calculation of the capital adequacy ratio
- Pillar 2: Describes supervisory review processes which includes the Internal Capital Adequacy Process
- Pillar 3: Describes Market discipline which includes disclosure of risk management process and capital adequacy information

The information presented herein pertain to Securities and Investment Company BSC (c) ("SICO", or the "Bank") consolidated with its subsidiaries, and in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2008.

This report outlines the description of the Bank's risk management framework, and capital adequacy policies and practices, including detailed information on the capital adequacy measurement process.

SICO's disclosed tier-1 and total capital adequacy ratios are in full compliance and well within the minimum capital requirements under the CBB's Basel-II framework.

1.1 Basis and Frequency of Disclosures

This disclosure document has been prepared by SICO in accordance with the CBB's requirements of Pillar 3 as set out in its Rulebook Volume 1, PD Module. Unless otherwise stated, all figures are as at 31 December 2008, the financial year-end. Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Audited Financial Statements and certain prescribed quantitative disclosures will be made semi-annually on the website.

1.2 Scope

SICO is a wholesale bank incorporated in Bahrain and is regulated by the CBB. The Basel II Framework therefore applies to the Bank and its subsidiary companies (together "the Group"). There is a regulatory requirement to calculate and maintain minimum regulatory capital ratios on both a solo as well as consolidated basis.

The principal subsidiary that is fully consolidated into the financial statements of SICO is SICO Funds Services Company BSC (c) ("SFS"), also incorporated in Bahrain, which provides custody and administration services. There is no restriction on the transfer of funds or regulatory capital within the Group.

1.3 Changes to Capital Structure

As a prerequisite to granting a wholesale banking license, SICO was required to increase its paid up capital to the equivalent of US$ 100 million. Accordingly, the Extraordinary General Meeting held on 24 March 2008, approved to increase the Bank's authorised share capital from BD 50 million to BD 100 million. The Bank has complied with all externally imposed capital requirements throughout the year. The movement in the issued and fully paid up capital during the year is set out below:

	2008	2007
Issued and fully paid:		
At 1 january	13,921	13,910
Bonus shares issued during the year	14,115	-
Rights issue during the year	14,116	-
Issue of shares to ESOP trustees during the year	194	11
At 31 December	**42,346**	**13,921**

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2. APPROACH FOR CAPITAL REQUIREMENT

Effective 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.

Despite the potential impact on shareholder return, the bank upheld its policy to maintain a strong and stable capital base in order to protect investor, creditor and market confidence and to sustain future development of the business. However, the Bank also recognizes the need to strike a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

2.1 Capital Adequacy (consolidated capital structure)

Tier 1 and Tier 2 Capital as at 31 December 2008 were as follows:

tier 1 Capital	
Issued and fully paid ordinary shares	42,346
Statutory Reserve	3,286
General Reserve	1,028
Share Premium	546
Retained Earnings brought forward	3,229
Gross unrealised loss arising from fair valuing equity securities	(1,144)
TOTAL TIER 1 capital	**49,291**
Tier 2 Capital	
45% of gross unrealised gains arising from fair valuing equity securities	255
TOTAL TIER 2 CAPITAL	**255**

The Bank's regulatory capital position was as follows:

Based on year end balances:

	2008 (Basel II)
Risk weighted exposure	
Credit risk	37,067
Market risk	35,875
Operational risk	17,978
Total risk weighted assets	**90,920**
Tier 1 Capital	49,291
Tier 2 Capital	255
Total regulatory capital	**49,546**
Tier 1 Capital Adequacy Ratio	54.21%
Total Capital adequacy ratio	**54.49%**

2.2 Regulatory Capital requirements for Market Risk

Asset Categories for Market Risk	Period		Year end	
	Minimum	**Maximum**	**Actual Risk Weighted Assets**	Requirement @ 12%
Interest Rate Position Risk	135	786	786	94
Equities Position Risk	246	1,160	246	30
Foreign Exchange Risk	1,838	3,847	1,838	220
Total minimum capital for market risk			2,870	**344**
Multiplier			12.5	12.5
Total market risk weighted exposures under the STA			**35,875**	**4,305**

• Equity Positions in the Banking Book

Asset Category	Gross exposure	Provision for impairment	Net Risk Weighted assets (RWA)	Regulatory capital requirement @ 12% on RWA
Listed Equities	3,404	(1,561)	1,843	221
Investment in Rated Funds: (ECAI A+ to A-)	531	-	266	32
Investment in unrated funds:				
- Listed	363	-	363	44
- Unlisted	5,131	(612)	6,779	813
- Unlisted funds in Trading portfolio reclassified as banking book	2,217	-	3,326	399
Total	**11,646**	**(2,173)**	**12,577**	**1,509**

Realized net gains on sale of available for sale securities	1,646
Dividend income on available-for-sale securities	445

• Movements in the provision for impairment during the year 2008 is as follows:

Balance at the beginning of the year	-
Charge for the year	2,173
Balance at end of the year	**2,173**

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• The sectoral and geographical distribution of provision for impairment as at 31 December 2008 is as follows:

Distribution by Sector	
Commercial Banks	84
Other Banks	144
Services	669
Managed Funds	612
Others	664
Total Provision for Impairment	**2,173**

Geographical Distribution	
GCC Countries	1,425
USA	612
Europe	136
Total Provision for Impairment	**2,173**

2.3 Regulatory Capital requirement for Credit risk

Standardized Approach

Asset Categories for Credit Risk	Gross exposure	Credit Risk Weighted Assets (RWA)	Capital Requirement (@ 12% of RWA)	Average gross exposure for the year*
Claims on Bahraini Public Sector Entities	500	-	-	500
Treasury Bills	8,050	-	-	-
Claims on banks	78,782	15,757	1,891	62,354
Claims on Corporates	6,227	6,227	747	1,857
Investments in Securities	9,473	12,575	1,509	18,664
Delivery-versus-payment transactions	434	-	-	1,464
Other Assets	2,508	2,508	301	3,270
TOTAL credit risk weighted exposures under STA	**105,974**	**37,067**	**4,448**	88,109

* Computed based on quarterly average

The Bank does not have any unfunded exposures.

2.4 Regulatory Capital requirement for Operational risk

	Actual Risk weighted Assets
Gross Income for the last three years:	
2005	8,707
2006	5,029
2007	15,029
Average of the three years	9,588
Alpha coefficient	15%
K-BIA (3 year average multiplied by alpha)	1,438
Operational Risk weighted exposure under BIA	**17,978**
(K-BIA * 12.5)	
Requirement @ 12% of RWA	**2,157**

2.5 Internal Capital Adequacy Assessment Process (ICAAP)

SICO has a capital management framework in place that is intended to ensure that there is adequate capital to support the financial stability vis-à-vis the risks associated with the various business activities and its capital adequacy ratio is well above the regulatory requirements. There is a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the pillar 2 risks alongside the planned business strategies. The key pillar 2 risks covered under the ICAAP process include settlement risk, concentration risk, liquidity risk, interest rate risk in the banking book and also other risks that are generally intangible nevertheless significant, such as strategic, reputational, legal and compliance risk, etc., The ICAAP process also includes stress testing on the Bank's capital adequacy to determine capital requirement under extraordinary circumstances and planning to ensure that the Bank is adequately capitalized in line with the overall risk profile.

Bahraini Dinars '000

2.6 Interest Rate Risk in the banking book

The Fixed Income book has increased in the last quarter of 2008 due to adverse shocks in the equity markets and therefore the interest rate risk has become more relevant and management monitors this closely as stated above. Investment decisions are driven by careful picks to identify potential opportunities to provide reasonable returns apart from safe deployment of capital. The conservative investment banking business philosophy drives SICO not to deploy customer funds for proprietary investments or lending. Customer funds are deposited back to back as bank placements. Liabilities are always in the shortest maturity bucket to avoid any negative maturity gaps. Consequently, Interest Rate Risk in the banking book and liquidity risk are not significant from the asset-liability mismatch perspective. Safeguarding liquidity is a paramount concern for SICO.

A 200 bp increase or decrease in market interest rates would affect the value of the corporate bonds in the available for sale portfolio as follows:

	200bp increase	200 bp decrease
As at 31 December 2008	(188)	202

2.7 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 maximise return on a risk adjusted basis while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

The contents of these Basel II Pillar 3 disclosures have been reviewed by SICO's external auditors KPMG in accordance with an Agreed Upon Procedures engagement as required under Para PD-A.2.4 of the PD Module of the CBB Rulebook Volume 1.