


Annual Report **2005**

Consistent focus
Reliable performance
Dynamic result



The successful outcome of our various financial activities throughout the year are often measured by the issue of a commemorative acrylic. These take pride of place in SICO's boardroom.



**H.H. Shaikh Khalifa Bin
Salman Al Khalifa**

The Prime Minister



**H.M. King Hamad
Bin Isa Al Khalifa**

The King of Bahrain



**H.H. Shaikh Salman
Bin Hamad Al Khalifa**

The Crown Prince and
Commander-in-Chief of the
Bahrain Defence Force

Securities & Investment Company BSC (c) is a closed joint stock company registered in Bahrain on February 1995. The Company commenced its operations in July 1995. In September 1997, the Company obtained an investment banking license from the Bahrain Monetary Agency.

The Company's activities comprise asset management, corporate finance, brokerage and market making.

The Company's major shareholders are from the GCC and are large financial investors including two of the Bahrain government-owned pension funds, along with commercial and investment banks.

Securities & Investment Company's strategy is to provide a diverse range of specialist financial services in Bahrain and our neighbouring GCC states. We are dedicated to developing continuity in our relationship with clients through excellence service, objective advice and uncompromising professionalism.

We have concentrated on building up a balanced and diversified expertise in the financial sector and our aim is to deliver value to our shareholders, over time, through increased profitability and dividends.

Securities & Investment Company BSC (c)

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Contents

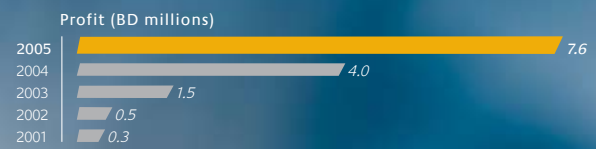
Vision Statement	3
Financial Highlights	4
Chairman's Report	6
Board of Directors	10
Management review of Operations	13
Operational Review	17
Auditors Report	20
Financial Results	21

Vision Statement

SICO will be one of the leading GCC focused investment banks, with a presence in the major regional markets and with a dominant position in the brokerage, asset management, and selective areas of investment banking and custody. We strive to complement our core shareholders with their activities. SICO's offerings are technically advanced, innovative and offer clear-cut advantages and improvements over our competitors'. We will continue to primarily expand through organic growth and acquisitions in GCC markets. SICO will generate to its shareholders a return that is at least equal to its peers.

Financial Highlights

4

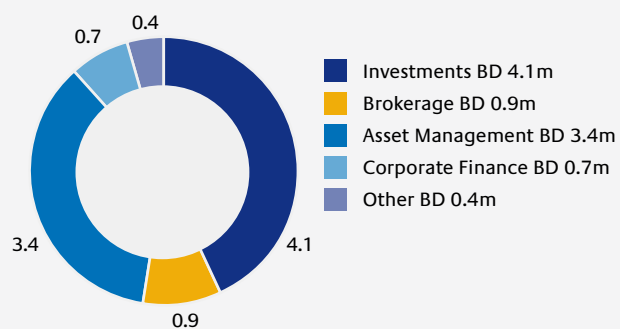


At a glance

(BD thousands except where indicated)	2005	2004	2003
Profit	7,639	4,136	1,567
Earnings per share	Fils 56	Fils 33	Fils 13
Dividends per share	Fils 10.0	Fils 7.0	Fils 5.0
Shareholders' funds	28,542	20,942	16,564
Total assets	42.713	27,456	28,499

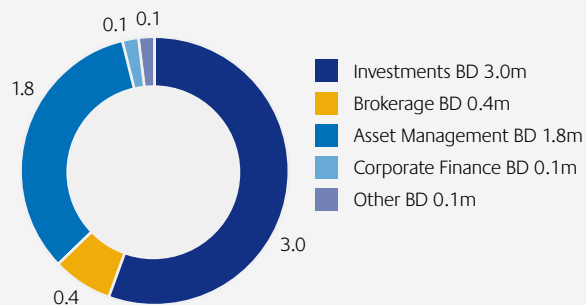
TOTAL REVENUE 2005

Year ended 31 December 2005 (BD millions)



TOTAL REVENUE 2004

Year ended 31 December 2004 (BD millions)



Dear Shareholders and Clients,

Over the ten years that Securities & Investment Company has been in existence, our performance in 2005 was by far our best. We recorded our highest levels of revenues, net income and earnings per share. We also realized record revenues in each of our business segments. We gained substantial market share in Bahrain originated investment banking and regional asset management products, a clear confirmation that our focused business model, particularly on the client, is working. By delivering expert advice, seamless execution and differentiated products and services, and by putting our clients at the centre of everything we do, we have enhanced the value of our Firm.

In 2005, we also continued to position the Firm for future growth by investing in both our people and infrastructure. Today, our Firm is a more diversified organisation, with the breadth of capabilities necessary to help our clients reach their objectives in the GCC region, and to achieve steady and consistent results for the Firm.

Economic Background

The international markets presented many challenges in 2005, including deterioration in the outlook for inflation, which unnerved investors around the world in September and October. Upward pressure on consumer prices, resulting in part from higher energy prices, prompted central bankers in the United States and the Euro area to signal that monetary policy might need to be tightened to contain inflationary expectations. Consequently, investors revised upwards their

expectations regarding future policy rates. This led to higher bond yields in the major markets. Nevertheless, long term yields remained low compared to their 2004 highs.

The prospect of a faster pace of monetary tightening contributed to a sharp drop in equity prices around the world in early October. But they rebounded strongly in November, boosted by signs of still robust growth in the United States as well as announcements of mergers, share buybacks and dividend increases. Japan outperformed most other equity markets throughout this period. There is an incipient recovery in domestic demand heightened by the prospect of an end to years of deflation.

Concurrently, GCC economies in 2005 maintained their positive trend from the previous four years, fuelled by high oil prices, public and private spending on infrastructure, industrial and real estate. According to the Economic and Social Commission for Western Asia (ESCWA), a UN agency, aggregate GCC gross domestic product (GDP) growth increased by 6.19 % during the year in review.

Furthermore ESCWA projects growth for 2006 reaching 6.39 % for the GCC region. Regional Government finances were also robust with all six Governments generating healthy surpluses. Officially published inflation numbers for the six countries, although trending up, also showed a benign position.

Stock markets in the GCC region responded positively to the robust underlying economic trends with some markets recording triple digit growth. The Bahrain market, although subdued by regional standards,

increased by 24 percent. We believe that after these rises the markets may revert to a more normal and restrained pattern in 2006.

Our Results

Our financial performance in 2005 included the following highlights:

- We reported record revenues of BD 9.7 million , a 78% increase over the previous year's record results;
- We delivered net income of BD 7.6 million, an all-time record for the Firm, that represented a 85% increase over the prior year's results;
- We increased our profit margin to 78.7%; and our adjusted return on common equity for the year was 30.8%; and
- We reported earnings per share of Fils 56, also a record for the Firm and a 70% increase over the prior year.

These results confirm that the Firm's strategy is working; to grow and diversify by business; to pursue a client-focused business model and to maintain discipline in how we manage our expenses, risk and capital.

Our Consistent Strategy

First and foremost, we are client-focused. Our value proposition is serving our clientele for their GCC, and prospectively, their Arab region needs. Our growth is fuelled by serving a broader set of clients with a wider set of products. Our approach to serving our clients is simple: partner with them and put them at the centre of everything we do. We do this by providing the best intellectual capital, by maximising the resources



Shaikh Mohammed bin Isa Al Khalifa
CHAIRMAN

available to our clients and by working together to help them achieve their objectives in the GCC, and progressively in the Arab world.

Equally important to the success of our strategy is our ability to maintain focus on a number of core disciplines. Risk management, expense discipline and capital management are strengths of the Firm. From a risk management perspective, we have maintained a conservative risk appetite that has remained consistent throughout the years. We have also continued our focus on expense discipline. For the year, we lowered our compensation and benefits to revenues ratio to 15.9% - our lowest ratio ever. Although non-compensation expenses increased on an absolute basis, they increased at a rate below our revenue growth rate, reflecting the scalability of the organisation. We continue to identify additional expense-saving opportunities, as we examine

the Firm's business processes and pushing for higher levels of productivity. We have also increased our capital efficiency as we continued to grow our balance sheet. All of these disciplines created value for our shareholders in 2005 and have allowed us to achieve a superb track record in our first decade since formation.

Over the past five years:

- Our revenues have increased by nearly 734%;
- Our net income has grown by 460 % per year on an annualised basis;
- Our ROE has increased more than 1220 %; and
- Our capital base has grown from BD 13.9 million to BD 28.5 million.

SICO has accomplished a lot over this period of time, but we continue to identify new and better ways to serve our clients and, ultimately, drive value for our shareholders.

Sustaining Our Momentum

As we have grown to a Firm of about 51 people, we have significantly enhanced the earnings capability of the Firm. While we have made tremendous progress, we have continued to raise the bar on our standard of performance. Through the strength of our culture, client service, teamwork and creativity have become the hallmarks of our success. We are fostering a culture of ownership: our employees will eventually hold a 10% stake in the Firm and, as a result, think and act like owners. Our success and our growth depend on the strength of our people. Our goal has been

to differentiate SICO as an employer of choice by attracting, retaining and developing the best people in the industry from every background. Our commitment to individual excellence and teamwork has created a culture that develops our employees' strengths and values their differences.

Our Commitment to the Community

We maintained our active support to our community through a targeted approach. We feel that this approach brings considerable benefit to schools and needy societies that support our health and educational systems. Among the projects we supported were purchasing a number of internet enabled computers and printers to the Safeya Bint Abdulmutalib Girls Primary School, supporting the American Mission Hospital with equipment purchases and supporting the Bahrain Association for Mental Retardation, Bahrain Mobility International, Al Noor Charity Welfare, Bahrain Down Syndrome Society and the Writers & Literature Association.

We enrolled a selective number of university students in our summer employment and training programme.

Board of Directors Changes

In April, Mr. Talal Al Zain was replaced by Mr. Khalid Al Rumaihi as board member representing Arab Investment Resources Company. I would like to warmly thank Mr. Al Zain for his support and commitment to the Firm during his tenure, while concurrently wish Mr. Al Rumaihi all the success on our board.

“Our results in 2005 again demonstrate the tremendous progress we have made. As we set our course for the future, we remain excited about the opportunities and challenges ahead and optimistic about our prospects for growth.”

Recommended Appropriations

Based on the results, the Board of Directors has recommended for approval by the shareholders of the following appropriations:

- 1. Transfer of BD 764 thousand to the General Reserve
- 2. Payment of BD 1,385 thousand cash dividend to shareholders representing 10 percent of paid-up capital and Employee share grants reserve
- 3. Directors remuneration of BD 150 thousand

After appropriations total shareholder equity will be BD 27.0 compared to BD 20.9 million for 2004.

The Board also recommends for the approval of the AGM that the Company be authorised to spend an amount of BD 30 thousand in the year 2006 for charitable, cultural and educational activities.

Acknowledgements

Our results in 2005 again demonstrate the tremendous progress we have made. None of this would have been possible without the trust and partnership of our clients; the commitment, dedication and integrity of our people; and the long standing support of our shareholders.

As a final point, and on behalf of our shareholders, my fellow members of the board and management, I express my appreciation to His Majesty the King, the Prime Minister and His Highness the Crown Prince for their wisdom in guiding the nation’s policy. I would also like to thank the Ministry of Finance, the Ministry of Industry and Commerce, the Bahrain Monetary Agency and the Bahrain Stock Exchange for their continued support.

I thank all of you for helping to make this year our best so far. As we set our course for the future, we remain excited about the opportunities and challenges ahead and optimistic about our prospects for growth.

Sincerely,

Shaikh Mohammed bin Isa Al Khalifa
CHAIRMAN OF THE BOARD



BD 30,600,000 Initial Public Offering for Nass Corporation

US\$ 25,000,000 Floating Rate Bonds for Esterad Investment Company

Board of Directors

10

1. Shaikh Mohammed bin Isa Al Khalifa

CHAIRMAN

Represents the General Organisation for Social Insurance

2. Albert I. Kittaneh

VICE CHAIRMAN

Chairman of the Executive Committee
Represents the BMB Investment Bank and other shareholders

3. Hussain Al Hussaini

DIRECTOR

Vice Chairman of the Executive Committee
Represents the National Bank of Bahrain

4. Abbas Ameeri

DIRECTOR

Member of the Executive Committee
Represents the Gulf International Bank

5. Abdulaziz I. Al-Mulla

DIRECTOR

Member of the Executive Committee
Represents the Gulf Investment Corporation

6. Anwar Abdulla Ghuloom

DIRECTOR

Chairman of the Audit Committee
Represents the Pension Fund Commission

7. Mahmoud Al Zewam

DIRECTOR

Member of the Audit Committee
Represents the Arab Banking Corporation

8. Abdul Karim Bucheery

DIRECTOR

Member of the Audit Committee
Represents the Bank of Bahrain and Kuwait

9. Khalid Al Rumaihi

DIRECTOR

Arab Investment Resources Company

1	2	3
4	5	6
7	8	9



Overview

The international investment scene during 2005 was relatively benign, although global interest rates showed a bias to raise, a number of major equity markets showed renewed health, Japan and the USA coming to mind. In contrast the regional equity markets continued during 2005 their high-spirited predisposition. This optimistic regional setting contributed again to the best ever year for SICO. The Firm remained the leader in Bahrain for domestic brokerage and market making, domestic and regional asset management and corporate finance. The Firm's decision, taken five years ago, to centre the investment bank's business development efforts and product focus on the GCC has continued paying dividends in terms of growing revenues, transactions and an expanded client base. SICO's strategy remains based on servicing the GCC region, expanding and diversifying the Bank's sources of revenue and prudently broadening our balance sheet.

Our goal to increase fee based revenues to balance proprietary income, was to a large degree achieved in 2005. While the GCC region is going through



Antony C. Mallis
CHIEF EXECUTIVE OFFICER

an extraordinary period, and at some stage has to moderate growth to more sustainable levels, the market has also built a critical mass. We believe the next stage of the GCC markets' development, irrespective of how the indices perform, is for a deepening in these markets through more issues, hedging instruments and the development of a debt market.

Stock Market Index

	End December 2005	End Year 2005 (%)
KWSE (Kuwait)	11,445.10	78.6
TADAWUL (KSE)	16,712.64	103.7
BHSE (Bahrain)	2,195.80	23.8
QSI (Qatar)	11,053.06	70.2
NBAD (UAE)	17,108.50	101.7
MSM (Oman)	4,875.02	44.4

(in million BD's)	2005	2004	2003
Total Income	9.705	5.467	2.599
Total Expenses	2.066	1.406	0.992
Operating Income	7.636	4.136	1.607
Total expenses as a % of total income	21	26	38
Staff and related cost as a % of operating income	20	35	43
Number of staff at year end	51	41	31

Review of Activities

Strong results and growth in each of our business units created exceptional value for our shareholders in 2005.

Operating income for the year under review showed a robust growth. The continued theme for the year was greater profitability through diversification, with total income increasing by 78% and operating income by 85%. Management however continues to recognise that the GCC markets are going through an extraordinary period with the pace of future income growth having to moderate to more normal levels over the coming period, for the industry and us, as a Firm.

The spread of the Firm's operating income reflects the diversification of its activities. All divisions showed significant improvements compared to last year. Brokerage and Investment Banking revenues showed strong growth during the year, contributing substantially to increasing our income. Asset Management revenue, although increased very significantly, but as a proportion of the mix, stabilised its contribution. We continued a vigorous asset gathering drive, which was underpinned by an excellent track record and very healthy trading conditions.

(percent)	2005	2004	2003
Net Interest Income	2	2	8
Net dealing income	42	54	63
Net Fee Income:			
Asset Management	35	34	20
Other	21	10	9

Expenses continue to be tightly controlled and overall expense/income ratio improved during the year. In particular, our investment in management, systems and infrastructure in the asset management and brokerage division during the past three years is now bearing fruit. Although staff and related costs increased by 42% – much of the increase is performance based – as a proportion of operating income, the ratio has fallen to an extremely healthy level of 25%. In addition, the expense/income ratio has decreased from 38% to 26%.

The trading securities and available-for-sale securities portfolios are well diversified across both asset and geographical classes. These portfolios comprise of Bahrain and GCC listed securities, GCC country specific funds and internationally managed funds. Shareholders funds and short-term borrowings financed SICO's proprietary investments.

The Firm remains well capitalised and soundly financed. Shareholders' Equity, including proposed appropriations, has increased by BD 6.0 million, to BD 27.0 million. At year-end, Shareholders' Equity as a percentage of the total assets was 63 percent, compared to 76 percent at the end of the previous year. The Bank's capital adequacy ratio as of the balance sheet date was 37.39 percent compared to 40.64 percent the previous year.

Risk Management

Risk management is the process of identifying the principal business risks facing the Bank, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting



BD 1,498,692 Rights Offering for
Bahrain Cinema Company

BD 24,720,000 Private Placement for
Nass Corporation

processes are in place. The Firm's process is consistent with prudent management required of a large financial organisation but also balances cost against risk within the constraints of the Firm's risk appetite.

The Firm is exposed to a wide variety of risks such as reputational, market, credit, operational, legal and regulatory risks. The Board considers reputational risk as the most significant risk for a business operating in the financial services sector.

Awareness of the importance of the Firm's reputation underpins our control culture. This risk could emanate as a result of a failure of financial, operational or compliance controls.

The Risk Management strategy currently adopted is based on a simplified framework for active banks with non-complex transactions. It is a structured and disciplined approach aligning business strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the risks that SICO faces.

There is a well-established organisational structure to determine strategy, risk appetite, tolerance levels, planning and budgeting. Detailed budgets and plans which are reviewed in light of the Firm's strategy and financial plans, are flexed to take account of potential adverse conditions and are subject to rigorous testing at the management and board levels. Detailed monthly accounts are produced and variances and trends are closely monitored.

Management reports each month to the Board or Executive Committee on performance and key issues affecting the Firm.

As part of the Firm's continuous efforts to augment and upgrade its internal control framework, an independent risk management unit was formed during the year to provide 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 Firm to balance its key business risks and opportunities with the intent of maximising returns and shareholder value.

Market Risk

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

Equity Price Risk

The Firm's trading and available-for-sale portfolios are affected by equity price risk. This risk is mitigated by managing the portfolios within duly approved asset allocation matrix guidelines and other investment limits.

Interest Rate Risk

The 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. However, the Treasury does not actively trade in money market instruments and therefore, these exposures are not hedged; furthermore, we do not trade speculatively in derivatives.

BD 10,000,000 Floating Rate Bonds for Bahrain Commercial Facilities Company

BD 30,266,241 Program Trade for the Bahrain Pension Fund Commission



The Firm remains well capitalised and soundly financed. Shareholders' Equity, including proposed appropriations, has increased by BD 6.0 million, to BD 27.0 million.

Foreign Exchange Rate Risk

Our exposure to currency risk is minimal because a substantial portion of the firm's business is transacted in Bahraini Dinar, other GCC currencies and US Dollar. The Bahraini Dinar and other GCC currencies are pegged to the US Dollar.

Liquidity Risk and Funding

Liquidity Risk is the risk that the bank is unable to meet its financial obligations as they fall due. It may result from an inability to sell a financial asset quickly at close to its fair value, or from inability to raise funds quickly without undue cost. This risk arises principally from proprietary trading and investments, brokerage, asset management, underwriting obligation etc. The Treasury Unit manages this risk by monitoring settlement obligations and maintaining sufficient liquid assets including call deposits and short term placements. Liquidity position is monitored weekly by the SICC and during the meetings of the Firm's Executive Committee and Board.

Credit Risk

The Bank is subject to credit risk mainly in its brokerage activities and issuer price risk in proprietary portfolios. These risks are monitored and controlled by means of exposure limits approved in accordance with well defined policies and procedures, by the SICC, Executive Committee or Board as appropriate.

Additionally, SICO strictly adheres to the large exposure norms prescribed by the Bahrain Monetary Agency.

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 that are systemic in nature, operational risk is Firm specific and is inherent in the day-to-day operations of any Firm. 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, damage to physical assets. It also includes the risk of internal and external fraud.

The Firm has a very conservative control consciousness and adopts a number of mechanisms to manage this risk, including a well-defined organisational structure, policies and procedure guidelines, segregation of duties, approval authorities, reconciliations and tolerance limits for exposures. Internal Audit and Regulatory Compliance unit provides valuable support in this control activity.

Assets Under Management 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 SICC.

BD 24,000,000 Rights
Offering for Bahraini
Saudi Bank



Management Team

Anthony C. Mallis
CHIEF EXECUTIVE OFFICER

Shakeel Sarwar
ASSET MANAGEMENT

Hisham Al Saie
CORPORATE FINANCE

John Driscoll
OPERATIONS & IT

AR Srinivasan
INTERNAL AUDIT

Najla Al Shirawi
INVESTMENT & TREASURY

Yara Faraj
MARKETING

Zain Al-Zayani
CORPORATE RELATIONS

Nadia Khalil
HUMAN RESOURCES

Hanan Sater
FINANCIAL CONTROL

Fadhel Makhloq
BROKERAGE

T. Rajagopalan
RISK MANAGEMENT

Brian D'Augiar
RESEARCH



“Our success and growth depends on the strength of our people.”



“Our commitment to teamwork has created a culture that develops employees’ strengths and values their differences.”



“Our goal has been to differentiate SICO as an employer of choice by attracting and developing the best people.”

Operational Review

Our Firm is entering 2006 with an excellent pipeline of business. Supported by our investment in operational efficiency, we expect continued growth in profits.

Investments

Well into the advanced stages of the cycle for the domestic and regional equity markets, our proprietary business did well, participated in making FY2005 another particularly profitable year. Profit on trading securities for FY2005 amounted to BD 2.572 million as compared to a gain of BD1.586 million for the prior year. At the same time, profit on the sale of securities available-for-sale increased to BD 998 thousand against a gain of BD 796 thousand in FY2004. Concurrent to the increase in profits from trading operations was a 14.7 per cent fall in dividend income, which touched BD 505 thousand.

Brokerage

Net income for the division for the year increased by 162 per cent to BD 933 thousand and for the seventh year running maintained our leadership position on the Bahrain Stock Exchange. Our market share (by value of all trades on the BSE) dropped to 36.2 per cent in 2005 (2004: 47%), while the overall value of transactions on the BSE increased by 54 per cent on a year-by-year basis in terms of value of trades, to reach BD 536.2 million.

Complementing our Bahrain based brokerage activities, were our Pan-Gulf capabilities. During 2005, the coverage and service level were upgraded, which contributed to a substantial increase in activity on behalf of our institutional and individual clients in GCC markets.

Asset Management

In 2005, our Asset Management division also recorded significantly improved results: our revenues in this business were BD 3.439 million, an 87% increase over the prior year. Assets under management (AUM) increased by 74 per cent to BD 98.652 million. The increase in AUM was due to new inflows from clients and organic growth in existing portfolios. Performance

for discretionary funds and for our two flagship funds; the SICO Selected Securities Fund (SSSF) and the Khaleej Equity Fund (KEF) were well above the benchmarks set for these portfolios. During the year we were awarded a number of mandates in both the conventional and Shariah compliant space, and which are to be funded in the first quarter of 2006.

Our focus remains on the GCC, with a value proposition that increases in importance with our clients as we cater professionally to their individualised needs.

Investment Banking

This year, our progress in Corporate Finance and Equity/Debt origination resulted in record revenues of BD 703 thousand, a sevenfold increase over the prior year. We improved our overall Investment Banking fee share as we expanded our client base and deepened our partnerships with existing and new clients, strengthened leadership across products, increased senior banker productivity, and led more large transactions.

2005 saw a greater number of Corporate Finance closings for SICO in Bahrain and regionally. The Firm took a leading role as arrangers to two successful and significant public debt issues for corporate issuers in Bahrain. In the equity space we were lead managers for an initial public offering for a family group, a first for a non-Saudi GCC family.

Furthermore, we were joint lead managers for an Egyptian technology company, the first to come into the market after a three year hiatus. In addition we led a rights issue for a Bahrain publicly listed company. At year-end we had a number of IPO mandates, which would unfold through 2006.

With new issuers coming into the equity markets, we are seeing a renewed interest by issuers in utilising our high end and integrated services for their needs. Our corporate finance efforts remain focused on the regional mid-market companies and family groups.

Research

Our primary focus remains for Bahraini publicly listed companies, while increasing our selective coverage to other GCC markets. Research remains an independent value-added service by SICO for its clients and provides valuable support to our other units within the Firm.

Our intention is to further enhance our regional equity research capabilities, with a greater emphasis on a GCC sectoral approach. We believe that the GCC stock markets are becoming more integrated and complementary to each other, with growing regional and global institutional interest.

Custody & Administration

SICO Funds Services Company was established in December 2004. The Company, a wholly owned subsidiary, gives the Firm an access to the growing custody and administration market starting in the GCC region. During its short lifetime the Company was able to grow its business in a consistent and measured fashion. It closed the year with a marginal profit.

Information Technology

We have an ongoing programme that enhances our Firm's IT capability. Our core system is regularly upgraded to strengthen our customer service, increase efficiency and enhance our risk and control systems. The IT department has a high maintenance and development competence.

Staff

Staff strength increased to 51 employees, catering to business growth seen through the year. During the year we continued our training policy, utilising both external resources and the Bahrain Institute for Banking and Finance facilities, where all members are encouraged to participate within a designed programme with the aim to continuously upgrade the skill base of all of our human resources.

Outlook

Our results continue to confirm the benefits of a consistent strategy and strong business model. For 2005 this resulted in strengthened market position and growth in revenues, higher volumes, improved mix and strong operational performance enabling the Firm to increase profits and product diversification.

SICO is establishing a wider operational platform to take full advantage of the positive changes in the business environment in the GCC. FY2005 saw the further success of this diversification push, and as a Firm is better positioned today to cater for the growth of the GCC markets and any tempering corrections in our region.

Our challenge in 2006 is to maintain the momentum under the more difficult and challenging conditions that we expect. The Firm is entering 2006 with an excellent pipeline of business. These factors, supported by our investment in operational efficiency, underpin our expectation of continued growth in profits.

The GCC capital markets will continue to grow, albeit with a different emphasis and pace, which will have a positive effect on our core businesses. Over the past six years we have seen the establishment of the foundations of a vibrant capital market in the GCC. The next step in their development is for these markets to deepen in sophistication, particularly in the debt and hedging areas. The role that the regulators will also expand and become more demanding, which for a Firm like ours plays to our strengths.



“While we have made tremendous progress, we have continued to raise the bar on our standard of performance.”



“All staff are encouraged to participate within a designed programme, with the aim to continuously upgrade our skill base.”



“Our results in 2005 again demonstrate the tremendous progress we have made.”





**Report of the Auditors to the Shareholders
Securities and Investment Company BSC (c)
Manama, Kingdom of Bahrain**

10 February 2006

We have audited the consolidated financial statements of Securities and Investment Company BSC(c), ("the Company") and its subsidiaries (collectively "the Group") as at, and for the year ended, 31 December 2005 as set out on pages 21 to 26.

Respective responsibilities of directors and auditors

These consolidated financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the

results of its operations, the changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other regulatory matters

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying Chairman's 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 or the Bahrain Monetary Agency Law 1973 (as amended) or the terms of the Company's licence or its Memorandum and Articles of Association having occurred during the year which might have had a material effect on the business of the Group or its financial position as at 31 December 2005. Satisfactory explanations and information have been provided to us by management in response to all our requests.

A handwritten signature in black ink, appearing to read 'K. P. M. G.', with a horizontal line underneath it.

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C.R. No: 6220

Financial Results

Consolidated Balance Sheet	22
Consolidated Income Statement	23
Consolidated Statement of Changes in Equity	24
Consolidated Statement of Cash Flows	25
Notes to the Consolidated Financial Statements	26

Consolidated Balance Sheet

as at 31 December 2005

		<i>Bahraini Dinars '000</i>	
	Notes	2005	2004
Assets			
Cash and bank		1,236	2,802
Call deposits	3	4,375	630
Placements with banks	3	7,298	2,914
Trading securities	4	10,933	8,839
Available-for-sale securities	5	11,622	8,925
Plant and equipment	6	114	79
Fees receivable		2,689	1,519
Other assets	7	4,446	1,748
Total assets		42,713	27,456
Liabilities			
Bank overdraft	8	611	-
Short-term borrowings	9	2,500	1,500
Customer accounts	10	9,716	4,435
Other liabilities	11	1,344	572
Total liabilities		14,171	6,507
Equity			
Share capital	12	13,750	12,500
Statutory reserve	13	1,666	902
General reserve	14	902	488
Employee share grants reserve		104	-
Available-for-sale securities revaluation reserve		3,229	2,384
Retained earnings		8,891	4,675
Total equity		28,542	20,949
Total liabilities and equity		42,713	27,456



Shaikh Mohammed Bin Isa Al Khalifa
Chairman



Albert I. Kittaneh
Vice Chairman and Chairman
of the Executive Committee



Anthony C. Mallis
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 22 to 46 on 27 March 2006.

Consolidated Income Statement

for the year ended 31 December 2005

		Bahraini Dinars '000	
	Notes	2005	2004
Income			
Interest income		431	188
Interest expense		(265)	(63)
Net interest income		166	125
Gain on trading securities	15	2,572	1,586
Gain on sale of available-for-sale securities		998	796
Dividend income		505	592
Asset management income		3,439	1,837
Brokerage and other income	16	2,025	531
		9,539	5,342
Total income		9,705	5,467
Operating expenses			
Staff and related expenses	17	1,542	1,025
General and administrative expenses	18	470	347
Depreciation	6	54	34
Total expenses		2,066	1,406
Operating income		7,639	4,061
Share of net results of associated company		-	(10)
Profit on sale of investment in associated company		-	85
Net income for the year		7,639	4,136
Earnings per share (fils)		56	33



Shaikh Mohammed Bin Isa Al Khalifa
Chairman



Albert I. Kittaneh
Vice Chairman and Chairman
of the Executive Committee



Anthony C. Mallis
Chief Executive Officer

The consolidated financial statements consist of pages 22 to 46.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2005

Bahraini Dinars '000

	Notes	Share capital	Statutory reserve	General reserve	Available-for-sale securities revaluation reserve	Employee share grants earnings	Retained equity	Total
As at 1 January 2005		12,500	902	488	2,384	-	4,675	20,949
Dividends for 2004	12	-	-	-	-	-	(875)	(875)
Bonus shares issued during the year	12	1,250	-	-	-	-	(1,250)	
Remuneration paid to directors for 2004	12	-	-	-	-	-	(120)	(120)
Employee share grants for 2005						104		104
Transfer to net income on disposal of available-for-sale securities		-	-	-	(998)	-	-	(998)
Net fair value gains on available-for-sale securities		-	-	-	1,843	-	-	1,843
Net income for the year		-	-	-	-	-	7,639	7,639
Transfer to statutory reserve for the year 2005	13	-	764	-	-	-	(764)	-
Transfer to general reserve for the year 2004	14	-	-	414	-	-	(414)	-
Balance at 31 December 2005		13,750	1,666	902	3,229	104	8,891	28,542
As at 1 January 2004		12,500	488	331	1,460	-	1,785	16,564
Dividends for 2003		-	-	-	-	-	(625)	(625)
Remuneration paid to Directors for 2003		-	-	-	-	-	(50)	(50)
Transfer to net income on disposal of available-or-sale securities		-	-	-	(796)	-	-	(796)
Net fair value gains on available-for-sale securities		-	-	-	1,720	-	-	1,720
Net income for the year		-	-	-	-	-	4,136	4,136
Transfer to statutory reserve for the year 2004	13	-	414	-	-	-	(414)	-
Transfer to general reserve for the year 2003		-	-	157	-	-	(157)	-
Balance at 31 December 2004		12,500	902	488	2,384	-	4,675	20,949

The details of equity shares are explained in note 12 of the financial statements.

The consolidated financial statements consist of pages 22 to 46.

Consolidated Statement of Cash Flows

for the year ended 31 December 2005

	<i>Bahraini Dinars '000</i>	
	2005	2004
Operating activities		
Net interest received	156	125
Sale of trading securities	15,440	9,393
Purchase of trading securities	(14,902)	(9,135)
Sale of available-for-sale securities	1,966	2,175
Purchase of available-for-sale securities	(2,851)	(990)
Net increase/ (decrease) in customer accounts	5,281	(5,900)
Dividends received	505	592
Other receipts	2,383	(2)
Payments for staff and related expenses	(1,403)	(933)
Payments for general and administrative expenses	(538)	(130)
Cash flows from operating activities	6,037	(4,805)
Investing activities		
Proceeds from sale of shares in associated company	-	103
Net capital expenditure on property, plant and equipment	(90)	(59)
Cash flows from investing activities	(90)	44
Financing activities		
Short-term borrowings	1,000	500
Dividends paid	(875)	(625)
Directors' remuneration paid	(120)	(50)
Cash flow from financing activities	5	(175)
Net increase / (decrease) in cash and cash equivalents	5,952	(4,936)
Cash and cash equivalents at the beginning of the year	6,346	11,282
Cash and cash equivalents at the end of the year	12,298	6,346
Represented by:		
Cash and bank	1,236	2,802
Call deposits	4,375	630
Short-term placements (with original maturities of 3 months or less)	7,298	2,914
Bank overdraft	(611)	-
Total cash and cash equivalents as at 31 December	12,298	6,346

The consolidated financial statements consist of pages 22 to 46.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

1. Status and objectives

Securities and Investment Company BSC(c) ("the Company") is a closed joint stock company registered in Bahrain under commercial registration number 33469 on 11 February 1995. The Company commenced its operations in July 1995. In September 1997, the Company obtained an investment banking licence from the Bahrain Monetary Agency. On 7 May 2003, the Company was listed on the Bahrain Stock Exchange as a closed company.

The primary objectives of the Company 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.

The Company 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.

The Company has a wholly owned subsidiary, SICO Funds Company BSC (c) ("Funds Company") which is authorised and approved by the Bahrain Monetary Agency to carry on the business of collective investment schemes. The Funds Company has launched the SICO Selected Securities Fund ("SSSF"), the SICO Assured International Fund ("SAIF") and the 'Khaleej Equity Fund' and provides custody management and administrative services to these funds.

The Company has another wholly owned subsidiary, SICO Fund Services Company BSC (C) for catering to the administration and custodian services to the funds company.

2. Significant accounting policies

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 Bahrain Monetary Agency Law 1973 (as amended).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for trading securities and available-for-sale securities, which are stated at fair value in accordance with International Accounting Standard 39, Financial Instruments - Recognition and Measurement (IAS 39).

The revised International Financial Reporting Standards, which became effective as on 1 January 2005 have been adopted with no significant effect on the financial statements.

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

2. Significant accounting policies (continued)

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, (collectively “the Group”). All inter-company balances and transactions have been eliminated on consolidation.

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.

Associated companies

are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Use of estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the balance sheet date.

The use of estimates and assumptions is principally limited to the determination of impairment provisions for available-for-sale securities. The estimates and assumptions relating to provisions for impairment are described in more detail below in the accounting policy on provisions for impairment.

Foreign currencies

Items included in the financial statements of the company 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.

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.

Securities

Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost, including transaction costs, and subsequently remeasured to fair value based on quoted market prices or amounts derived from cash flow models as appropriate. Realised and unrealised gains and losses are included in the income statement. Interest earned on trading securities is included in interest income.

2. Significant accounting policies (continued)

Securities (continued)

Available-for-sale securities comprises listed shares, managed funds and debt securities that are intended to be held for other than short term. Available-for-sale securities are initially recognised at cost, including transaction costs and subsequently remeasured to fair value based on quoted market prices or amounts derived from discounted cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair values of available-for-sale securities are recognised in a separate revaluation reserve in the equity. The cumulative fair value adjustments on available-for-sale securities which are sold or otherwise disposed of, or become impaired, and which had previously been recognised in the equity, are transferred to the consolidated statement of income. Dividends received on trading and available-for-sale securities are included in other income.

Plant and equipment

Plant 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.

Provisions for Impairment

The carrying amounts of the Group's assets 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 when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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.

2. Significant accounting policies (continued)

Employee benefits (continued)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense with a corresponding increase in equity. The total amount to be expensed immediately, however the vesting period of five years is determined by reference to the fair value of the shares determined at the grant date. This is in accordance with the requirements of International Financial Reporting Standards (IFRS) 2 – Share Based Payments.

Income

Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

Asset Management income and Brokerage income are recognised when earned.

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

Dividends

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

Cash and cash equivalents

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

Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date, i.e., the date on which the Group commits to purchase or sell the financial asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

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.

3. Call deposits and placements with banks

Call deposits and placements are with banks of good credit standing and earn interest at prevailing rates.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

4. Trading securities

	<i>Bahraini Dinars '000</i>	
	2005	2004
Listed shares	3,195	2,809
Managed funds	5,519	3,805
Debt securities	2,219	2,225
Carrying value at 31 December	10,933	8,839

5. Available-for-sale securities

	<i>Bahraini Dinars '000</i>	
	2005	2004
Listed shares	7,288	5,434
Managed funds	3,368	2,621
Debt securities	966	870
Carrying value at 31 December	11,622	8,925

6. Plant and equipment

	<i>Bahraini Dinars '000</i>	
	2005	2004
Cost as at 1 January	363	338
Additions	90	59
Disposals	(16)	(34)
Cost at 31 December	437	363
Depreciation as at 1 January	284	283
Charge for the year	54	34
Disposals	(15)	(33)
Depreciation as at 31 December	323	284
Net book value at 31 December	114	79
Cost of fully depreciated assets in use	217	-

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

The amendment to IAS 16, which became effective on 1 January 2005, resulted in modification of the methodology for determining the periodic depreciation charge. There was no significant impact of this change on current period results, previous period's results or previous year's equity.

7. Other assets

	<i>Bahraini Dinars '000</i>	
	2005	2004
Other receivables	3,745	1,635
Subscription for securities	566	-
Prepaid expenses	52	26
Interest receivable	33	37
Guarantee deposit with the Bahrain Stock Exchange	50	50
At 31 December 2005	4,446	1,748

8. Bank overdraft

The bank overdraft bears interest at prevailing market rates.

	<i>Bahraini Dinars '000</i>	
	2005	2004
Bank overdrafts	611	-
At 31 December 2005	611	-

9. Short-term borrowings

	<i>Bahraini Dinars '000</i>	
	2005	2004
Borrowings from a local non-banking institution	2,500	1,500
Total as at 31 December	2,500	1,500

10. Customer accounts

This represents the net advances received from customers for trading in securities on their behalf on the Bahrain Stock Exchange and other GCC exchanges.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

32 **11. Other liabilities**

	<i>Bahraini Dinars '000</i>	
	2005	2004
Accrued expenses	93	420
Provision for employee indemnities	69	35
Other payables	1,182	117
Total as at 31 December	1,344	572

12. Share capital

	<i>Bahraini Dinars '000</i>	
	2005	2004
Authorised share capital		
500,000,000 shares of 100 fils each	50,000	50,000
Issued and fully paid		
At 1 January: 125,000,000 shares of 100 fils each	12,500	12,500
Bonus issue during the year	1,250	-
At 31 December: 137,500,000 (2004: 125,000,000) shares of 100 fils each	13,750	12,500

During 2005, a one for ten bonus issue was made comprising 12.5 million shares of 100 fils each by capitalisation of BD 1.25 million, from retained earnings. These shares rank pari passu with all other shares for future dividends and distribution.

The Board of Directors have proposed a cash dividend 10 fils per share of 100 fils nominal value, a 10% dividend (2004: 7 fils per share of 100 fils nominal value, a dividend of 7%). Directors remuneration of BD 150,000 (2004: BD 120,000) is also proposed. Proposed appropriations and the director's committee fees are in accordance with the Company's Articles of association and are subject to approval by the shareholders at the Annual General Meeting.

	<i>Bahraini Dinars '000</i>	
	2005	2004
Directors' remuneration	150	120
Directors Committee Fees	23	20
Proposed dividend	1,385	875
	1,558	1,015

12. Share capital (continued)

Bahraini Dinars '000

The shareholders are:	2005		2004	
	Capital	Percentage	Capital	Percentage
Pension Fund Commission	3,107.5	22.6	2,825	22.6
General Organisation for Social Insurance	2,200	16.0	2,000	16.0
Bank of Bahrain and Kuwait BSC	1,100	8.0	1,000	8.0
National Bank of Bahrain BSC	1,100	8.0	1,000	8.0
Arab Investment Resources Company EC	1,100	8.0	1,000	8.0
Gulf International Bank BSC	1,100	8.0	1,000	8.0
Arab Banking Corporation BSC	1,100	8.0	1,000	8.0
Gulf Investment Corporation GSC	1,100	8.0	1,000	8.0
Ahli United Bank (Bahrain) BSC	605	4.4	550	4.4
Bahrain Middle East Bank EC	412.5	3.0	375	3.0
Bahraini Saudi Bank BSC	275	2.0	250	2.0
Bahrain International Bank BSC(c)	275	2.0	250	2.0
TAIB Bank BSC	275	2.0	250	2.0
	13,750	100.0	12,500	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.208 (2004: BD 0.168)

13. 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 board of directors have proposed a transfer of BD 764K (2004: BD 414K) to the statutory reserve during the current year.

14. General Reserve

In accordance with the Company's Articles of Association and the recommendations of the Board of Directors, specific amounts are transferred to the general reserve in the current year. The reserve carries no restriction in its distribution. The Board of Directors have proposed a transfer of BD 764K (2004: BD 414K) to the general reserve in the current year. This is subject to the approval of the shareholders at the Annual General Meeting. In the current year, the transfer to the general reserve is made in the year of approval by the shareholders at the Annual General Meeting. Comparatives have been restated accordingly to account for the transfer to the general reserve in the year of approval by the shareholders.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

15. Gain on trading securities

	<i>Bahraini Dinars '000</i>	
	2005	2004
Realised gain from sales of trading securities	1,695	780
Unrealised gain representing fair value adjustments	877	806
	2,572	1,586

16. Brokerage and other income

	<i>Bahraini Dinars '000</i>	
	2005	2004
Brokerage income	933	355
Investment banking income	703	82
Marketing income	168	64
Other income	221	30
	2,025	531

17. Staff and related expenses

As at 31 December 2005, the Group employed 39 (2004: 33) Bahrainis and 12 (2004: 8) expatriates.

The Group's contributions for the year to the General Organisation for Social Insurance in respect of its employees amounted to 44 (2004: 38).

Other liabilities include a provision of 69 (2004: 35) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

18. General and administrative expenses

	<i>Bahraini Dinars '000</i>	
	2005	2004
Rent	89	73
Marketing	145	100
Other operating expenses	236	174
	470	347

19. Related parties

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 and the Chief Executive Officer.

Compensation paid/ payable to Key Management Personnel are as follows:

	<i>Bahraini Dinars '000</i>	
	2005	2004
Short term benefits	529	446
Post employment benefits	13	10
Equity compensation benefits	65	-

General and administrative expenses include 23 (2004: 20) towards attendance fees and other related expenses for members of the Board and Executive Committee.

Asset Management income includes 1,461 (2004: 973) being fees charged to discretionary portfolio management clients who are the shareholders of the Company. Fees receivable includes 1,212 (2004: 855) being fees receivable from two shareholders.

Asset Management income includes 1,637 (2004: 723) being fees income from own Funds. As at 31 December 2005 other assets include 1,299 (2004: 558) representing amounts receivable from own Funds.

The Company has invested in the SICO Selected Securities Fund an amount of 531 (2004: 464), in the Khaleej Equity Fund 751 (2004: 479) and in the SICO Assured International Fund 567 (2004: 544) at market value under available-for-sale securities category.

The Group has invested in the Khaleej Equity Fund an amount of 198 (2004: 479) at market value under trading category.

The Group has obtained short term borrowing amounting to BD 2,500 (2004: 1,500) from a non-bank shareholder of the Company and also has unutilized short term credit facilities from other bank shareholders.

The Group has banking relationships and makes deposits and placements 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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

20. Concentration of investments and industry profile

(a) Distribution by sector

Bahraini Dinars '000

As at 31 December 2005	Trading securities	Available-for-sale securities	2005 Total
Commercial banks	840	2,199	3,039
Other banks	222	1,879	2,101
Insurance	58	-	58
Services	718	1,238	1,956
Managed funds	5,518	3,369	8,887
Government bonds	377	284	661
Others	3,200	2,653	5,853
Total	10,933	11,622	22,555

As at 31 December 2004	Trading securities	Available-for-sale securities	2004 Total
Commercial banks	770	1,318	2,088
Other banks	296	1,965	2,261
Insurance	175	-	175
Services	3,792	2,636	6,428
Managed funds	3,806	2,621	6,427
Government bonds	-	385	385
Total	8,839	8,925	17,764

(b) Geographical distribution

As at 31 December 2005	Trading securities	Available-for-sale securities	2005 Total
GCC countries	6,096	11,622	17,718
USA	1,329	-	1,329
Europe	2,242	-	2,242
Middle East and North Africa	1,266	-	1,266
Total	10,933	11,622	22,555

20. Concentration of investments and industry profile (continued)

Bahraini Dinars '000

As at 31 December 2004	Trading securities	Available-for-sale securities	2004 Total
GCC countries	5,512	8,381	13,893
USA	1,696	544	2,240
Europe	1,631	-	1,631
Total	8,839	8,925	17,764

21. Maturity profile of assets, liabilities and equity

Bahraini Dinars '000

As at 31 December 2005	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank	1,236	-	-	1,236
Call deposits	4,375	-	-	4,375
Placements with banks	7,298	-	-	7,298
Trading securities	8,892	1,181	860	10,933
Available-for-sale securities	150	723	10,749	11,622
Plant and equipment	-	114	-	114
Fees receivable	2,689	-	-	2,689
Other assets	4,446	-	-	4,446
Total assets	29,086	2,018	11,609	42,713
Liabilities				
Bank overdrafts	611	-	-	611
Short term borrowings	2,500	-	-	2,500
Customer accounts	9,716	-	-	9,716
Other liabilities	1,344	-	-	1,344
Total liabilities	14,171	-	-	14,171
Equity	-	-	28,542	28,542
Total liabilities and equity	14,171	-	28,542	42,713
Liquidity gap	14,915	2,018	(16,933)	
Cumulative liquidity gap	14,915	16,933	-	

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

21. Maturity profile of assets, liabilities and equity (continued)

Bahraini Dinars '000

As at 31 December 2004	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank	2,802	-	-	2,802
Call deposits	630	-	-	630
Placements with banks	2,914	-	-	2,914
Trading securities	6,841	803	1,195	8,839
Available-for-sale securities	145	725	8,055	8,925
Plant and equipment	-	79	-	79
Fees receivable	1,519	-	-	1,519
Other assets	1,698	-	50	1,748
Total assets	16,549	1,607	9,300	27,456
Liabilities				
Short term borrowings	1,500	-	-	1,500
Customer accounts	4,435	-	-	4,435
Other liabilities	572	-	-	572
Total liabilities	6,507	-	-	6,507
Equity	-	-	20,949	20,949
Total liabilities and equity	6,507	-	20,949	27,456
Liquidity gap	10,042	1,607	(11,649)	
Cumulative liquidity gap	10,042	11,649	-	

22. Contingencies, commitments and memorandum accounts

Investment commitment

The Company 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.

	<i>Bahraini Dinars '000</i>	
	2005	2004
Funds under management (net asset value)		
SICO Selected Securities Fund	7,350	6,149
Khaleej Equity Fund	21,591	13,251
Discretionary Portfolio Management Account	69,711	37,255

The Company is the fund manager for "SICO Selected Securities Fund" launched in April-May 1998 and for the Khaleej Equity Fund launched in March 2004 by SICO Funds Company EC, which is a wholly owned subsidiary of the Company. The net asset value of the SICO Selected Securities Fund and Khaleej Equity Fund are based on audited accounts as at 31 December 2005.

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.

	<i>Bahraini Dinars '000</i>	
	2005	2004
Securities under management custody	257,526	99,951

The Company provides custodianship and nominee services in respect of marketable securities. At 31 December 2005, marketable securities amounting to 257,526 (2004: 99,951) were held by the Company as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to 147,403 (2004: 40,460) were registered in the name of the Company.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

23. Group information

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

Bahraini Dinars '000

	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)	400	29 December 2004	Custody and administration services
SICO Funds Company II BSC (c)	1	26 September 2005	Umbrella company for SICO mutual funds

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

Parent company balance sheet as at 31 December 2005

Bahraini Dinars '000

As at 31 December	2005	2004
Assets		
Cash and bank	1,183	2,354
Call deposits	3,574	595
Placements with banks	7,272	2,908
Trading securities	10,933	8,839
Available-for-sale securities	11,622	8,925
Investment in subsidiaries	452	420
Plant and equipment	102	79
Fees receivable	2,689	1,519
Other assets	4,375	1,748
Total assets	42,201	27,387
Liabilities		
Bank overdraft	611	-
Short term borrowings	2,500	1,500
Customer accounts	9,716	4,435
Other liabilities	823	496
Total liabilities	13,650	6,431

23. Group information (continued)

Parent company balance sheet as at 31 December 2005 (continued)

	<i>Bahraini Dinars '000</i>	
As at 31 December	2005	2004
Equity		
Share capital	13,750	12,500
Statutory reserve	1,666	902
General reserve	902	488
Available-for-sale securities revaluation reserve	3,229	2,384
Retained earnings	8,900	4,682
Employee share grant reserves	104	-
Total equity	28,551	20,956
Total liabilities and equity	42,201	27,387

Parent company income statement for the year ended 31 December 2005

	<i>Bahraini Dinars '000</i>	
Year ended 31 December	2005	2004
Income		
Interest income	422	187
Interest expense	(265)	(63)
Net interest income	157	124
Gain on trading securities	2,572	1,586
Gain on sale of available-for-sale securities	998	796
Dividend income	505	592
Asset management income	3,410	1,837
Other income	1,960	531
Total income	9,602	5,466
Operating expenses		
Staff and related expenses	1,492	1,025
General and administrative expenses	421	345
Depreciation	49	34
Total expenses	1,962	1,404
Operating profit	7,640	4,062

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

23. Group information (continued)

Parent company income statement for the year ended 31 December 2005 (continued)

Year ended 31 December	Bahraini Dinars '000	
	2005	2004
Share of net results of associate company	-	(10)
Profit on sale of investment in associate	-	85
Net profit for the year	7,640	4,137

24. Financial instruments and management of risk

Financial assets of the Group include cash and cash equivalents, placements, trading securities, available-for-sale securities and other assets.

Financial liabilities of the Group include due to banks, short term borrowings, accounts payable, customer accounts and accrued expenses.

Accounting policies for financial assets and liabilities are set out in note 2.

These financial instruments expose the Group to varying degrees of risk including credit risk, interest rate risk, liquidity risk, market risk and currency risk.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group limits its credit risk by applying well-defined credit policies and procedures laid down by the Board of Directors and Executive Committee.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group 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 one year. Total liabilities include customer advances that bear interest at prevailing market rates.

24. Financial instruments and management of risk (continued)

Interest rate reprising profile

Bahraini Dinars '000

2005	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank		-	-	1,236	1,236
Call deposits	*	4,375	-	-	4,375
Placements with banks	4.46	7,298	-	-	7,298
Trading securities	3.28	99	2,038	8,796	10,933
Available-for-sale securities	4.39	150	725	10,747	11,622
Plant and equipment		-	-	114	114
Fees receivable		-	-	2,689	2,689
Other assets		-	-	4,446	4,446
Total assets		11,922	2,763	28,028	42,713
Bank overdrafts	8.50	611	-	-	611
Short term borrowings	4.72	2,500	-	-	2,500
Customer accounts	3.25	4,269	-	5,447	9,716
Other liabilities		-	-	1,344	1,344
Total liabilities		7,380	-	6,791	14,171
Equity		-	-	28,542	28,542
Total liabilities and equity		7,380	-	35,333	42,713
Interest rate sensitivity gap		4,542	2,763	(7,305)	-
Cumulative interest rate sensitivity gap		4,542	7,305	-	-

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

24. Financial instruments and management of risk (continued)

Bahraini Dinars '000

2004	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank		-	-	2,802	2,802
Call deposits	*	630	-	-	630
Placements with banks	2.20	2,914	-	-	2,914
Trading securities	3.05	2,026	199	6,614	8,839
Available-for-sale securities	4.24	334	536	8,055	8,925
Plant and equipment		-	-	79	79
Fees receivable		-	-	1,519	1,519
Other Assets		-	-	1,748	1,748
Total assets		5,904	735	20,817	27,456
Bank overdrafts		-	-	-	-
Short term borrowings	2.615	1,500	-	-	1,500
Customer accounts	1.875	2,830	-	1,605	4,435
Other liabilities		-	-	572	572
Total liabilities		4,330	-	2,177	6,507
Equity		-	-	20,949	20,949
Total liabilities and equity		4,330	-	23,126	27,456
Interest rate sensitivity gap		1,539	735	(2,274)	-
Cumulative interest rate sensitivity gap		1,539	2,274	-	-

* At 31 December 2005 the effective interest rate on Bahraini Dinar call deposits was 3.125 – 3.375% p.a. (2004: 1.75 - 2.00% p.a.) and on USD call deposits was 3.25 – 3.50 % p.a. (2004: 1.875 - 2.125 % p.a.).

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.

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.

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.

24. Financial instruments and management of risk (continued)

The Group, 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.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group has short-term fixed deposits and investments in securities in United States Dollars. Since the Bahraini Dinar is effectively pegged to the US Dollar, currency risk is minimal.

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. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair values of the assets are shown in the following notes:

Trading securities (note 4), available-for-sale securities (note 5).

The fair value of the Group's other assets and liabilities are not materially different from their carrying values.

25. Capital adequacy

The capital adequacy ratio has been calculated in accordance with the guidelines of the Bahrain Monetary Agency, incorporating both credit risk and market risk.

The market risk is computed as per the guidelines of the BMA. The measure of market risk so computed is multiplied by 12.5, the reciprocal of the 8 percent minimum capital ratio, to arrive at the market risk weighted exposure. The market risk-weighted assets are then added to the credit risk-weighted assets to arrive at the Group's total risk-weighted exposure, which is used for the purpose of computing the capital adequacy ratio.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2005

46 **25. Capital adequacy (continued)**

Details of the Group's calculations as at 31 December are shown below.

	<i>Bahraini Dinars '000</i>	
	2005	2004
Based on year end balances		
Tier 1 Capital	18,574	13,892
Tier 2 Capital	6,124	5,346
Total capital base (tier 1 + tier 2)	24,698	19,238
Credit risk-weighted assets	20,326	13,552
Market risk-weighted assets	45,725	33,788
Total risk-weighted assets	66,051	47,340
Capital adequacy ratio	37.39	40.64

The details of the Group's capital adequacy ratio computations on the basis of annual average tier 1 and tier 2 capital and annual average credit risk weighted assets are shown below.

	<i>Bahraini Dinars '000</i>	
	2005	2004
Based on full year average balances		
Average tier 1 Capital	17,494	14,396
Average tier 2 Capital	5,107	2,875
Total capital base (tier 1 + tier 2)	22,601	17,271
Average credit risk-weighted assets	17,236	11,393
Average market risk-weighted assets	49,644	30,379
Total risk-weighted assets	66,880	41,772
Capital adequacy ratio (%)	33.79	41.37

26. Significant net open foreign currency positions

	<i>Bahraini Dinars '000</i>	
	2005	2004
US Dollar (long position) – unhedged	13,200	12,671
KWD (long position) – unhedged	6,295	1,083
SAR	2,041	1,024

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

27. Reclassification

Certain prior year amounts have been reclassified to conform to the classifications used in the current year. These reclassifications do not affect previously reported net income, total assets, liabilities or equity.