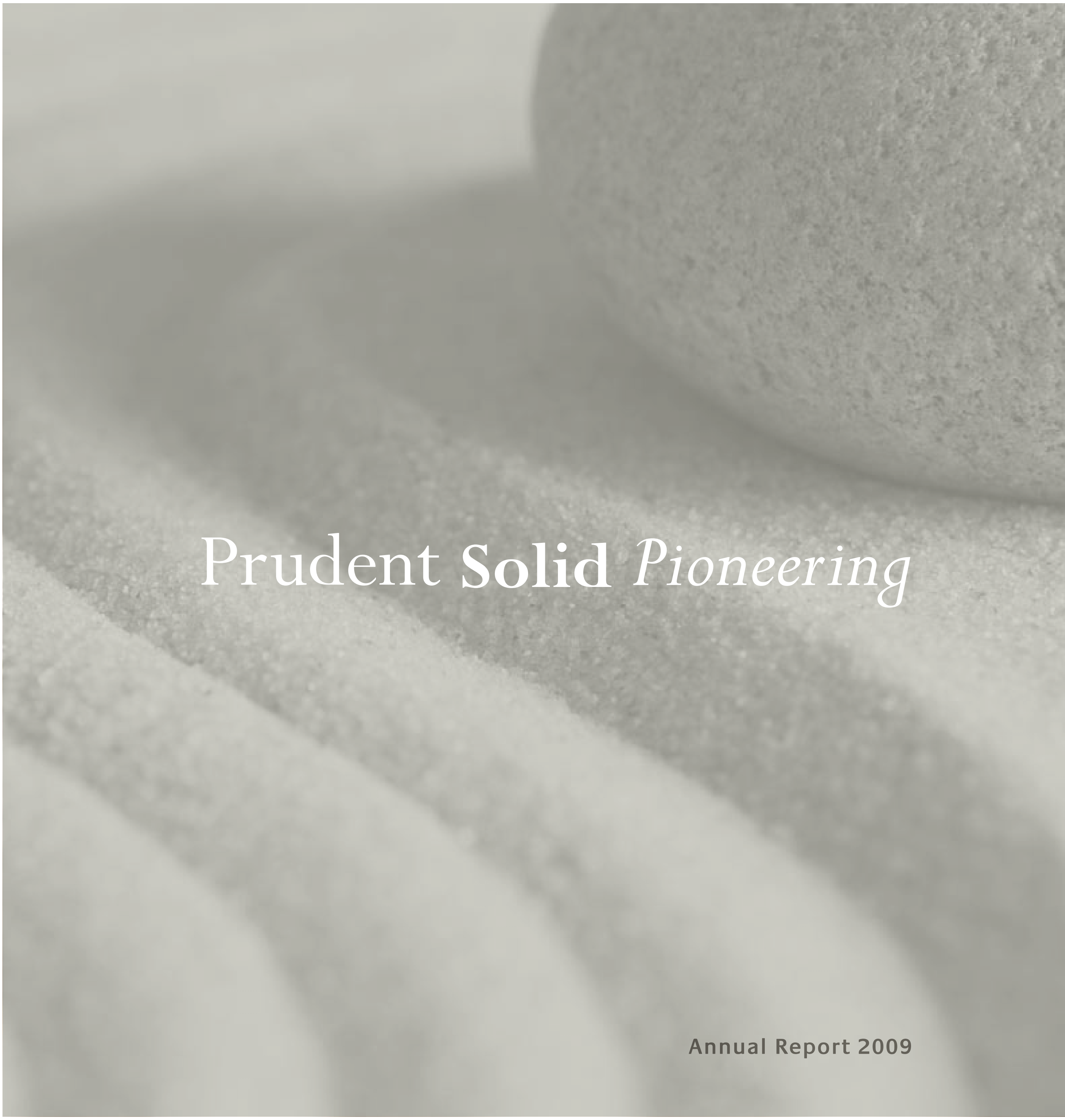
بنك استثماري
Investment Bank sico



Prudent **Solid** *Pioneering*

Annual Report 2009

Securities & Investment Company BSC (c)

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HIS ROYAL HIGHNESS PRINCE 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 ROYAL HIGHNESS PRINCE SALMAN BIN HAMAD AL KHALIFA

The Crown Prince and Deputy Supreme Commander

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A prudent, solid and pioneering institution

Headquartered in the Kingdom of Bahrain, and with a growing regional and international footprint, Securities & Investment Company (SICO) is one of the GCC's premier investment banks.

PROFILE

Headquartered in the Kingdom of Bahrain, and with a growing regional and international footprint, Securities & Investment Company (SICO) is one of the GCC's premier investment banks. SICO provides a select range of specialist solutions, including brokerage, market making, treasury, asset management, corporate finance, and custody and fund administration, which are underpinned by an independent, value-added research capability.

Established in 1995, and listed on the Bahrain Stock Exchange in 2003 as a closed company, SICO operates under a wholesale banking licence from the Central Bank of Bahrain. The Firm has a wholly-owned subsidiary – SICO Funds Services Company (SFS) – which is a specialised regional custody house. SICO's strong shareholding base consists of pre-eminent regional financial institutions – Arab Banking Corporation, Ahli United Bank, BBK, Gulf Investment Corporation, Arab Investment Resources Company and National Bank of Bahrain – together with the Social Insurance Organisation and the Firm's Employees through the Employee Stock Ownership Plan.

SICO is the premier market maker and broker on the Bahrain Stock Exchange; a highly reputed GCC equity fund manager; and a leading regional provider of corporate finance services. A solid, financially-strong institution, the Firm adopts a consistent strategy that is underscored by prudent management principles and a track record as a pioneer of innovative investment banking services.

MISSION

Our mission is to emerge as a leading securities house, offering a selective range of investment banking services, including brokerage, asset management and corporate finance. We aim to continuously provide innovative products and services that cater to the changing investment needs of our clients, while abiding to the highest ethical and professional standards of conduct. In doing so, we are committed to maximising shareholders' value.

VALUES

SICO's business operations and corporate relationships, together with the professional and personal conduct of our team members, are strictly governed by the following values:

- Prudence
- Consistency
- Transparency
- Integrity
- Trust
- Professionalism
- Confidentiality
- Innovation

Financial Highlights

This year at a glance, operating income increased by 36 percent to BD 6.4 million and net profit stood at BD 3.078 million compared to a loss of BD 1.4 million at the end of 2008.

TOTAL REVENUE BD Million	**2009**	2008
Investments	**0.795**	-2.975
Brokerage	**0.987**	2.692
Asset Management	**2.234**	2.728
Corporate Finance	**0.12**	0.4
Other	**0.5**	0.684

RETURN ON AVERAGE ASSETS
Annual Ratio

2005	20%
2006	7%
2007	17%
2008	-2%
2009	**4%**

EARNINGS PER SHARE (FILS)
Annual Ratio

2005	56
2006	29
2007	38
2008	(4)
2009	**7**

COST-TO-INCOME
Annual Ratio

2005	20%
2006	38%
2007	25%
2008	87%
2009	**50%**

RETURN ON AVERAGE EQUITY
Annual Ratio

2005	31%
2006	14%
2007	36%
2008	-3%
2009	**6%**

DIVIDENDS PER SHARE (FILS)
Annual Ratio

2005	10
2006	8
2007	10
2008	-
2009	**5**

NET INTEREST MARGIN
Annual Ratio

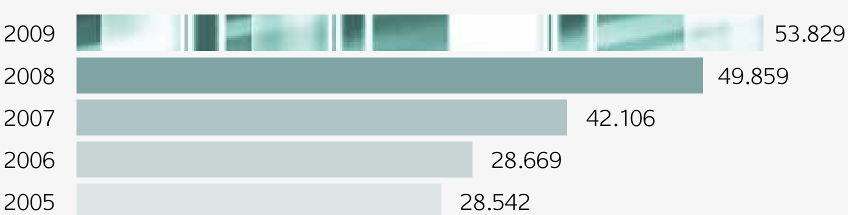
2005	1%
2006	3%
2007	3%
2008	4%
2009	**7%**

TOTAL ASSETS BD Millions

82m

Total Assets for 2009 is 82.6 million.

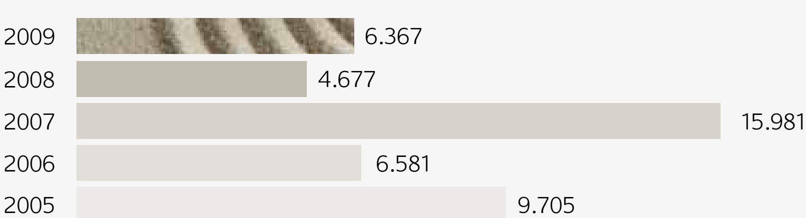
SHAREHOLDERS' EQUITY BD Millions



+7.9%

Total Shareholders' equity rising by 7.9 percent.

TOTAL REVENUE BD Millions



+36%

Total revenue rising by 36 percent.

Chairman's Statement

Shaikh Mohammed bin Isa Al Khalifa
Chairman of the Board

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2009. I am delighted to report that despite difficult market conditions, 2009 proved to be a positive year for SICO, during which we continued to protect our shareholders' and clients' assets.

The global financial meltdown and its subsequent effect on the GCC, which started in September 2008, carried through into 2009 with increasing intensity. However, as a result of the concerted fiscal measures by governments around the world – including the support of GCC governments – the situation began to improve towards the end of the first quarter of the year. Since then, we have seen a modest revival in global and regional economic growth, accompanied by improved business confidence and renewed investor interest. The recovery and ongoing stability of oil prices during 2009 has strengthened the robust underlying macroeconomic fundamentals of the GCC, and will help support future economic growth. With growing confidence in the regional market's ability to provide better returns than developed markets, the GCC is strongly positioned as one of the future 'engines of growth' for foreign investment.

I am pleased to report that SICO posted a solid financial performance for 2009, with a net profit of BD 3.1 million compared to a loss of BD 1.4 million for the previous year. It is important to stress that the Firm's return to profitability was the result of the combined contributions of all business divisions to the bottom line. This achievement underscores the continued effectiveness of SICO's consistent strategy and prudent management principles based on product and asset diversification. It also highlights the dedicated commitment of the Firm's team to deliver high quality and innovative services with the utmost integrity and confidentiality, and to retain the confidence and loyalty of our clients. In these turbulent times, trust is an essential factor in maintaining the sound reputation of a financial institution.

I would like to acknowledge the outstanding job done by the Firm's management during the year. Without their prudent decisions, SICO's results for 2009 would not have been so positive. The positioning of the Firm to protect shareholders' and clients' assets, and the steps taken to minimise the effects of the global financial crisis, have put SICO in a strong position to capitalise on the first signs of revival and growth of the regional markets.

Accordingly, the Board has mandated management to take advantage of improved market conditions and new business opportunities as they arise, and consider expanding SICO's presence outside Bahrain into other appropriate GCC countries. This is in line with our overall strategy: 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.

During 2009, SICO performed well across all areas of the business: proprietary investments and treasury; market making; asset management; brokerage; corporate finance; research; and custody and fund administration. The Firm's business achievements were underscored by new pioneering initiatives and further industry recognition. Such a successful performance would not have been possible without the dedicated support of our corporate and shared services divisions: strategic and business development; risk management; compliance; internal audit; financial control; operations; information technology; human resources; corporate communications; and client relations.

The detailed achievements of the Firm during 2009 are reported separately in this annual report, but there are three particular developments that I would like to highlight. First, we spent considerable time and resources throughout the year to ensure that SICO has a comprehensive, robust and flexible risk management framework and culture in place. Second, we signed with a leading international vendor for a new core banking system to support the strategic growth and development of the Firm. And third, we successfully reduced our total operating expenses without affecting the job security, salaries and benefits of SICO's most important asset – our people. Through our enduring social responsibility programme, we also continued to support the community and the development of the Kingdom's financial sector.

Based on the Firm's 2009 financial results, the Board is recommending the following appropriations for approval by the shareholders:

1. Transfer of BD 308 thousand to the General Reserve.
2. Payment of a cash dividend of BD 2,121 thousand to shareholders, representing 5 percent of paid-up capital.
3. Directors' remuneration of BD 135 thousand.
4. BD 30 thousand to be spent on supporting charitable, cultural and educational activities.

After appropriations, total shareholders' equity will be BD 51.5 million compared to BD 49.8 million in 2008.

During the year, there were two changes to the composition of the Board of Directors. Mr Mohammed Abdulla Isa, representing BBK, replaced Mr Abdul Karim Bucheery; and Mr Meshary Al-Judaimi took over from Mr Abdulaziz Al Mulla as the representative of Gulf Investment Corporation. I would like to thank the outgoing directors for their valuable contributions and, in turn, welcome the new directors, whose diverse knowledge and experience will be of great benefit to SICO.

I take this opportunity to pay tribute to the continued confidence and encouragement of our shareholders; the trust and loyalty of our clients and business partners; and the commitment and professionalism of our management and staff. I also express my appreciation 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.

Finally, on behalf of the shareholders, my fellow board members, and management and staff of SICO, I convey my gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership, visionary reform programme, and support of the Kingdom's financial sector.

Shaikh Mohammed bin Isa Al Khalifa
Chairman of the Board

Board of Directors


1


2


3


4

1. Shaikh Mohammed bin Isa Al Khalifa
Chairman since 1999
Director since 1995
Represents Social Insurance Organisation (Bahrain)

Chief Executive Officer: Social Insurance Organisation. Chairman: Oasis Capital Bank. Vice Chairman: Batelco, Umniah Communications (Jordan), Bahrain International Golf Course Company, National Motor Co., BBK. Director: Bahrain Commercial Facilities Co., Bahrain Stock Exchange

2. Hussain Al Hussaini
Vice Chairman
Chairman of SICO Executive Committee
Director since 1997
Represents National Bank of Bahrain
Deputy General Manager: Treasury & Investment Group: National Bank of Bahrain

3. Anwar Abdulla Ghuloom
Director since 2002
Member of SICO Audit Committee
Represents Social Insurance Organisation (Pension Fund Commission) (Bahrain)
Director - Contribution & Revenues Directorate: Social Insurance Organisation (Pension Fund Commission). Board Member: Bahrain Tourism Company; Royal Women's University

4. Mahmoud Al Zewam Al Amari
Director since 2004
Member of SICO Audit Committee
Represents Arab Banking Corporation (Bahrain)
First VP & Head - Portfolio Management Department: Arab Banking Corporation

5. Khalid Al Rumaihi

Director since 2005
Member of SICO Executive Committee
Represents Arab Investment Resources Company (Bahrain)
Managing Director and Head of the Institutional Team - Placement Relationship Management: Investcorp.
Board Member: Gulf Air

6. Sawsan Abulhassan

Director since 2008
Chairperson of SICO Audit Committee
Represents Ahli United Bank (Bahrain)
Deputy Group CEO - Private Banking & Wealth Management, Ahli United Bank B.S.C.
Director: Ahli United Bank U.K, The Family Bank
Director: National Social Work Fund

7. Meshary Al-Judaimi, CFA

Director since 2009
Member of SICO Executive Committee
Represents Gulf Investment Corporation (Kuwait)
Investment Manager - Principal Investments Division of Gulf Investment Corporation.
Board Member: Gulf Reinsurance Limited, Rasameel Structured Finance Co., Ras Laffan Power Company, Al-Ezzel Power Company, and Al-Dur Power & Water Company

8. Mohammed Abdulla Isa

Director since 2009
Member of SICO Executive Committee
Represents BBK
Chief Financial Officer: BBK

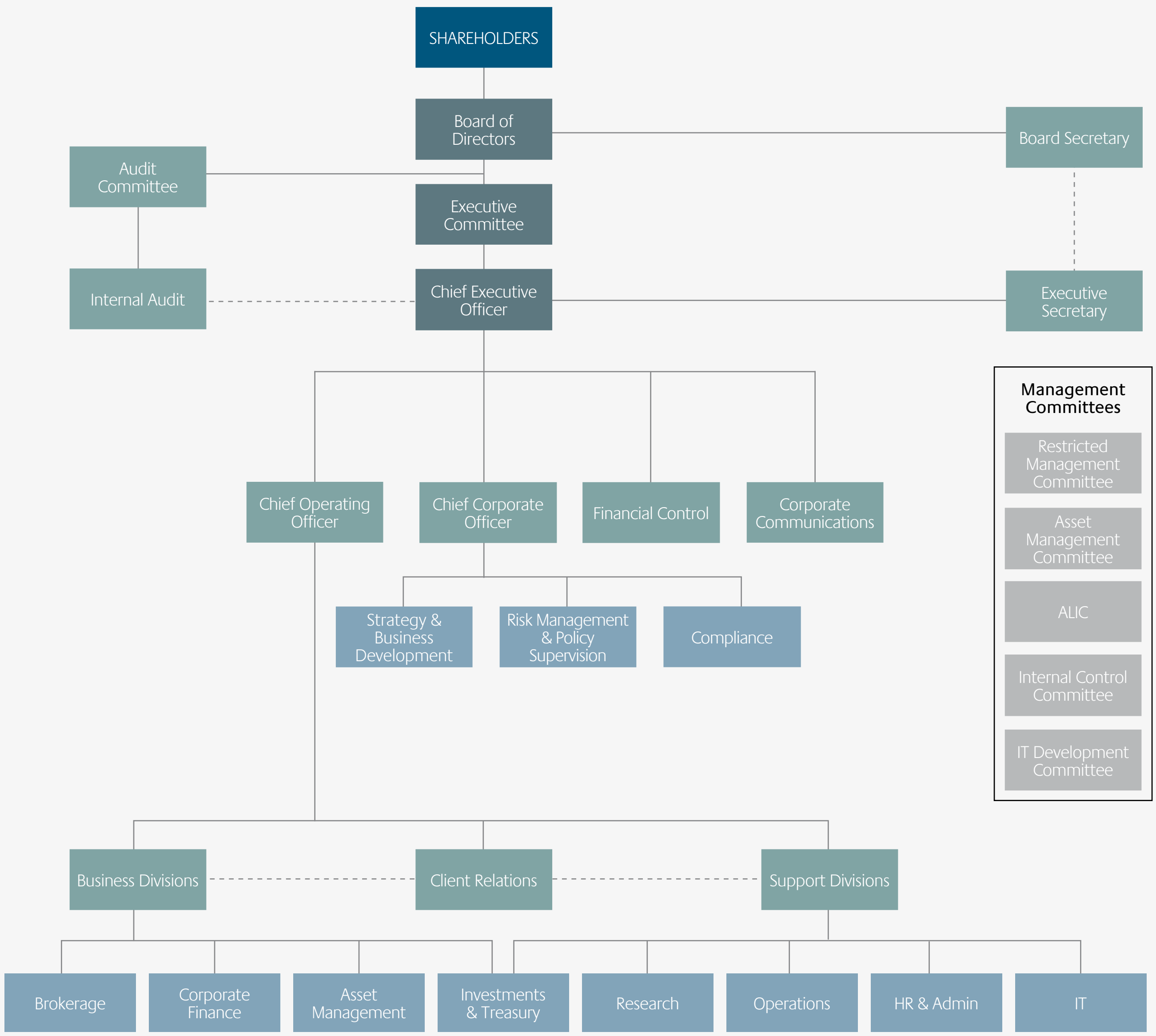
Hussain A. Al Shehabi

Secretary to the Board

Changes in the Board during the year

During the year, Mr. Abdul Karim Bucheery, the representative for BBK, was replaced by Mr. Mohammed Abdulla Isa; and Mr. Meshary Al-Judaimi replaced Mr. Abdulaziz Al Mulla as the representative for Gulf Investment Corporation

Governance & Organisation Structure




Solid
Strong · Stable · Consistent ·Trustworthy

Highlights

US$ 219

Total Assets US$ millions

112.5m

Capital US$

142.6m

Total Equity US$

399m

Assets Under Management US$

Chief Executive's Report

Anthony C. Mallis
Chief Executive Officer

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

CHALLENGING

The global financial and economic meltdown, and its subsequent adverse effect on the GCC, which started in September 2008, carried through into 2009, reaching its peak in the early months of the year. The second quarter of the year, however, witnessed a mild revival in the worldwide macroeconomic environment and an improvement in global business confidence, as fiscal and monetary measures by governments and central banks across the world began to take effect. This triggered reductions in bank borrowing costs, an improvement in liquidity levels, and signs of renewed investor confidence. With most major economies beginning to register modest growth, oil prices recovered strongly from their lows of US$ 33 per barrel at the begining of 2009.

This increase helped to alleviate concerns across the GCC about budget deficits, liquidity, government support, and major slow-downs in development activities by regional governments. While international and GCC markets have regained their composure to some extent and the future outlook has improved, we believe that there is still a great amount of uncertainty in the global economic system. There are concerns that the markets may be over-reaching themselves, and a considerable number of economic and banking challenges still remain on the international and regional horizons, which do not seem to have been factored in.

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

Nevertheless, 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 of over 4 per cent. With the price of crude reaching US$ 75 at the end of the year, most Gulf States are predicting posting budget surpluses for 2009 after projecting deficits by assuming low oil prices in their budgetary calculations of oil revenues.

EVENTFUL

In what can best be described as an arid business environment and volatile market conditions – which made new business difficult to come by – SICO performed well across all areas of the business during the year. The Firm maintained its reputation as a premier market maker and broker; successful fund manager; leading

Chief Executive's Report (Continued)

provider of corporate finance solutions; reputed custodian and fund administrator; well-recognised source of high quality independent research; and a pioneer of innovative products and services.

We also continued our focus on enhancing the institutional capability and organisational strength of the Firm. In turbulent and uncertain times, risk management has taken on a greater importance than ever before. Accordingly, we initiated a major review and revision of our risk management policies, processes and procedures across the entire organisation. As a result, SICO now has in place a far more comprehensive and robust risk management framework, and which far exceeds regulatory requirements.

Of equal importance is the effective utilisation of the latest information and communications technology. During 2009, we signed an agreement with a leading provider for an international banking system as a replacement core banking system (CBS) for SICO. With a total cost exceeding BD 1.5 million, the new CBS represents the largest capital expenditure to date by the Firm. This new system is a critical business enabler and strategic driver that will support the future growth and development of SICO.

Also during the year, we continued to invest in developing our people – who are our real assets – and who ensure that SICO continues to offer clients a 'best of class' service. We kept the headcount at year-end 2008 levels. At the same time, in order to attract new staff, SICO introduced its new Executive Training Programme for very high-calibre university graduates.

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

SUCCESSFUL

SICO's focused and consistent strategy, and the concerted efforts of our team, enabled the Firm to benefit from the modest revival in global and regional markets seen during the year. I am pleased to report that SICO achieved a solid financial performance in 2009.

Net profit was BD 3.1 million compared to loss of BD 1.4 million in 2008. Total assets at the end of the year were BD 82.6 million (2008: BD 108.8 million), while liabilities were BD 28.8 million (2008: BD 58.9 million). The Firm's strong balance sheet further strengthened during the year. At the end of 2009, SICO had 58 percent (BD 48.1 million) of its balance sheet in cash and deposits, compared to 79 percent at the end of 2008. Investments at fair value increased by 25 percent to BD 6.3 million (2008: BD 5 million) while available-for-sale securities amounted to BD 19.9 million (2008: BD 13.5 million). Held-to-maturity investments totalled BD 4.7 million and understate their mark to market value considerably. Their Fair Value is BD 5.1 million. Total income increased to BD 6.4 million (2008: BD 4.7 million) while earnings per share grew to 7 Bahraini fils (2008: Loss of 4 Bahraini fils). Net interest income accounted for 27 percent of total income, while asset management and brokerage and other income contributed 35 percent and 23 percent respectively. Assets under management marginally decreased by 1.3 percent to BD 150.5 million from BD 152.5 million in 2008. Total expenses, which include staff, general, administration and other expenses, decreased by 15.4 percent in 2009 to BD 3.3 million (2008: BD 3.9 million) due to our prudent management of costs.

SICO remains well capitalised and soundly financed. Shareholder's equity, after proposed appropriations, was BD 51.5 million compared to BD 49.8 million in the previous year. At the year-end, shareholders' equity as a percentage of total assets was 65 percent, compared with 45.8 per cent at the end of 2008. The Firm's capital adequacy ratio as of the balance sheet date was 82.4 per cent compared to 54.5 per cent the previous year.

FUTURE CHALLENGES

Without doubt, 2010 will prove to be another highly challenging year, marked by continued uncertainty and lack of clarity. While the worst of the financial crisis and economic downturn may be over globally, the GCC has a number of particular challenges to face. These include continued market volatility, a real estate bubble that has imploded, a banking environment that is stressed, and a private sector that is impacted by reduced economic growth and liquidity.

Net profit for the year 2009

3.1 million

versus 2008 loss of BD 1.4 million

+25%

Increase in investments at fair value

6.4 million

Total income increased to BD 6.4 million in 2009

A positive development is that oil prices, having picked up well from their lows at the end of 2008 have remained relatively stable for most of 2009, and look likely to remain stable in the foreseeable future.

This will give GCC governments the ability to withstand a slowed world economy. However, key challenges regarding regulatory and legal frameworks, corporate governance, minority shareholders' rights, and development of capital markets still need to be resolved. Banking consolidation is also long overdue – it has been on the agenda for the last ten years – but may now begin to happen. In addition, banks need to ensure that their business models are differentiated from other institutions, with greater niche focus and specialisation.

I firmly believe that the region will emerge from this crisis all the stronger for it. The GCC, like many other emerging markets, has undertaken courageous and long-lasting reforms when the economies are under most pressure; and we are now already seeing economic reforms and initiatives being put in place. The regional economies will be among the few that that will grow during 2010, albeit at a slower pace than recent years. Clearly, risks remain in the form of fluctuating oil prices, the future value and yield of real estate, credit availability, deflation, liquidity, geopolitical tensions, and the regulatory environment; but the fundamentals of the GCC economy mean it will continue to deliver strong growth, and benefit SICO's business.

ACKNOWLEDGEMENTS

Many people are responsible for SICO's successful performance in 2009. I would like to thank our board of directors for their encouragement and guidance; our clients for their trust and confidence; our business partners for their positive collaboration; and our management and staff for their professionalism and commitment. Collectively, they have not only contributed to Firm's improved success in 2009, but also helped to lay firm foundations for SICO'S future progress, and the prosperity of all our stakeholders.

Anthony C. Mallis
Chief Executive Officer

Management Team

SICO has a high-calibre, well-qualified management team, with both regional and international experience.

Individually, members have specific expertise in the following areas: strategic planning; investment, corporate and private banking; brokerage; asset management; treasury and investments; internal and external audit; financial control and credit; risk management and compliance; research; operations; human resources and administration; information technology; public relations and corporate communications; business and industry; and academia.

Anthony C. Mallis
Chief Executive Officer

Najla Al Shirawi
Chief Operating Officer

Samir Sami
Chief Corporate Officer

Hanan Y. Sater
Financial Controller

Anantha Narayanan
Internal Audit

T. Rajagopalan
Risk Management

Bassam Khoury
Brokerage

Shakeel Sarwar
Asset Management

Samer Taleb
Corporate Finance

Fadhel Makhlouq
Investments & Treasury

David Halstead
Operations

Nadia Khalil
HR & Administration

Ismail Sabbagh
Information Technology

Nadeen Oweis
Corporate Communications

Jithesh Gopi
Research

Subsidiary

Amal Al Nasser
General Manager
SICO Funds Services Company

Review of Operations

MARKET MAKING

SICO continues since 1997 to be the sole market maker on the Bahrain Stock Exchange (BSE), which has provided greater depth and liquidity to the stock market, and helped to reduce short-term price fluctuations and narrowing of spreads. During 2009, SICO maintained its status as the leading market maker on the BSE and also consolidated its position as one of the region's premier market makers. The Firm continued to serve clients on the equity side, as well as offering regional fixed income to investors.

INVESTMENTS

Taking advantage of the moderate revival in global and regional markets, SICO adopted a more aggressive risk approach from the second quarter of the year onwards. As a result, the Firm's proprietary book is now more balanced than at the end of 2008, when 79 per cent of the balance sheet was in cash and deposits. At the end of 2009, the investment portfolio consisted approximately of fixed income (38.9%), equities (13.7%), Funds (25.2%) and cash (22.2%). SICO has direct exposure to GCC and MENA blue-chip equities, and indirect exposure to emerging and developed market equities through fund managers.

During 2009, SICO established a new Held-to-Maturity portfolio. Composed entirely of quality GCC names, the portfolio (which is reported at cost) is valued at BD 4.470 million. If reported at market value, the Firm's held-to-maturity investments would total BD 5.125 million.

TREASURY

SICO's treasury business posted another profitable year in 2009, despite the difficult market conditions. The Firm adopted a cautious approach, with prudent balance sheet management, and a focus on cash management and liquidity. SICO's network of counterparty relationships was substantially extended outside Bahrain to the GCC region in order to achieve a better spread of risk. Customer deposits were down on the previous year, as clients began to move their money back to the markets to take advantage of improved conditions. SICO remained highly liquid and largely unleveraged at the end of 2009, with 58 percent of its balance sheet in cash and deposits, and a strong capital adequacy ratio of 82.4 per cent, which is substantially higher than Central Bank of Bahrain requirements.

BROKERAGE

For the 11th consecutive year, SICO maintained its position as the leading broker on the Bahrain Stock Exchange (BSE), and continued to be the preferred choice for larger trades. During 2009, the Firm completed a total of 12,517 transactions, equating to 20.64 percent of all transactions on the BSE. This represented a total trade volume of 672 million shares (39.4% of total market volume) with a total value of BD 121.7 million, giving SICO a 34.138 percent market share by value of shares traded. The Firm managed three of the largest transactions on the BSE in 2009.

SICO continued to expand its cross-border activities in 2009. This enabled clients to trade listed investment opportunities available throughout the GCC and MENA, including Jordan and Egypt, together with access to the fixed income market. The Firm also increased its business with non-GCC clients, further enhancing its status as the 'broker of choice' on the BSE for international fund managers, prime brokers and financial institutions. Over 50 per cent of the BSE's turnover is generated by foreign investors, with most of the trading being executed by SICO.

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

ASSET MANAGEMENT

The Firm continued to grow its asset management business during 2009, winning new mandates with prestigious regional and international financial institutions. Among these mandates was one to manage the Saudi Arabian component of a Kuwaiti bank's GCC fund. This was followed by a mandate by a Japanese institution to manage a new Bahrain-domiciled GCC fund. SICO also started investing for the 'Arabia Inside Fund', a Luxembourg-domiciled UCITS III compliant fund. This mandate was awarded to the Firm in 2008 by Aquila Capital, a German-based alternative investment institution.

SICO is currently discussing partnership agreements with US-based institutions for the marketing and distribution of the Firm's

Review of Operations (Continued)

funds in the USA, which are expected to be signed in early 2010. Together with existing partnerships in Germany for Europe, and Japan for East Asia, this will provide SICO with a strong pan-global marketing and distribution footprint.

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

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

CORPORATE FINANCE

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

RESEARCH

During 2009, SICO continued to enhance its provision of in-depth proprietary research, which provides clients with an independent, value-added service. The Firm's database, which is regularly updated, now covers over 90 per cent of major listed GCC companies, of which approximately half are blue-chip, top-tier entities. During 2009, SICO published a total of 414 reports (4,328 pages) of which 326 reports were periodical, while 88 were detailed company/sector reports and strategy notes.

The Firm's diverse and comprehensive research output comprises a daily GCC market watch; a weekly coverage of the Bahrain market; a quarterly review of GCC markets; quarterly and half-yearly strategic outlooks for the GCC economy; and periodic reports of GCC listed companies and major regional sectors. A new development in 2009 was the introduction of 'Economic Reports' that analyse data from regional central banks and track trends.

Based on feedback from recipients during the year, SICO's reports are well received – locally, regionally, and internationally – and recognised for their analytical quality and topicality. Also during 2009, the Firm was reappointed for the fifth consecutive year as the Official Research Partner to the Oxford Business Group for their annual publication 'The Report – Bahrain'.

CUSTODY AND FUND ADMINISTRATION

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

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

SFS enjoys growing recognition in the region, resulting from focused marketing activities and word-of-mouth referrals. The company has earned a reputation as a leading local niche player with an in-depth knowledge and understanding of the regional markets. Key differentiators of SFS include offering a truly personalised service with one point of contact, and proven punctuality in delivery and reporting. The company has also played an important role in making custody better understood and accepted in the GCC, and becoming a precondition for investors entering the region.

CLIENT RELATIONS

The Firm's newly-established client relations unit (CRU) completed a successful first full year of operations in 2009. This totally independent unit reinforces SICO's commitment to providing the highest standards of customer service and satisfaction. CRU acts as the first point of contact for SICO clients, dealing promptly and responsively with queries and complaints in all non-trading issues. In addition, it is responsible for handling anti-money laundering and compliance issues.

OPERATIONS

SICO's operating policies, processes and procedures were exhaustively reviewed and revised during 2009 in line with CBB requirements. This exercise, complemented by the further streamlining of systems, also served to meet clients' needs as well as the internal requirements of the Firm, in particular those of the business divisions. From a strategic point of view, these measures will provide critical mid/back-office support for SICO's organisational growth and new business activities.

INFORMATION TECHNOLOGY

The major IT development in 2009 was the signing with Temenos for their T24 international banking system as a replacement core banking system (CBS) for the Firm. With a total cost exceeding BD 1.5 million, the new CBS introduction is the largest capital expenditure to date by SICO. A two-phase implementation is planned, with the first phase due to be completed by the fourth quarter of 2010, and the second by early 2011.

Key benefits of the new core banking system include: enhanced overall effectiveness, efficiency and productivity; facilitating the expansion of business activities, for example, Sharia-compliant transactions and Internet banking; a radical MIS improvement – providing critical support to decision-making and managing the business; and the ability to conduct real time transactions and straight through processing (STP) to minimise human error.

In addition, SICO is talking to a number of potential suppliers regarding the introduction of a fully automated system to cover anti-money laundering and know-your-customer (AML/KYC) processes, which will be linked to the new core banking system.

HUMAN RESOURCES

Despite difficult market conditions, SICO maintained headcount during 2009. In addition, staff salaries and benefits (including the Employee Stock Ownership Plan) were not affected by the Firm's initiatives to reduce total operating expenses.

Also during the year, the Firm continued its investment in training and development, including specialised courses in key areas such as risk management, and sponsoring staff to achieve professional qualifications and pursue post-graduate studies. At the end of the year, 24 per cent of SICO staff were undertaking or had completed the CFA programme.

Although the firm has a policy of freeze on recruitment, it did not affect the planned introduction of a new Executive Training Programme in 2009, which involves university graduates participating in a rotation plan throughout SICO to build their expertise in investment banking.

SICO's unique 'partnership' corporate culture was a major factor in the Firm's successful performance during 2009. An entrepreneurial but self-disciplined style of operating, which gets things done faster without excessive bureaucracy and red tape, continues to set SICO apart from other financial institutions.

Corporate Social Responsibility

At SICO, we strongly believe that businesses should not only create value through their economic activity, but also play an active role in the societies in which they operate.

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 an annual corporate social responsibility programme that has three primary objectives. First, to improve the quality of life of the local community, with a particular focus on education. Second, to provide Bahrainis with promising careers in the Kingdom's banking sector. Third, on a wider note, to support Bahrain's ongoing contribution to the development of the GCC region's capital markets.

IMPROVING THE QUALITY OF LIFE OF THE LOCAL COMMUNITY

- Provided financial and practical support for charities engaged in healthcare, social welfare and education, with a particular focus on specialist education for disadvantaged children
- Sponsored international conference on 'Effective Strategies for the Prevention of Child Online Pornography, Trafficking and Abuse' organised by the Be-Free Centre, in association with the Bahrain Women's Association for Human Development and under the patronage of the United Nations
- Sponsored a team of students from the American Studies Centre at the University of Bahrain to take part in the annual Bahrain Marathon Relay fund-raising event
- Sponsored the annual American Mission Hospital Island Classic Charity Golf Tournament fund-raising event in Bahrain

PROVIDING BAHRAINIS WITH PROMISING CAREERS IN THE KINGDOM'S BANKING SECTOR

- Launched new SICO Executive Training Programme for high calibre Bahraini graduates
- Hosted Bahraini students at overseas universities in their 'practical experience' year
- Provided summer training for students from the University of Bahrain
- Supported initiatives by the Bahrain Association of Banks

SUPPORTING BAHRAIN'S CONTRIBUTION TO THE GROWTH OF THE GCC REGION'S CAPITAL MARKETS

- Sponsor and speaker at Annual Forecast Dinner organised by the CFA Society of Bahrain
- Sponsor and speaker at 1st Investor Relations Conference organised by the Middle East Investor Relations Society
- Sponsor and speaker at the annual Fund Forum Middle East 2009
- Panel discussion member at the 9th GCC Banking Conference
- Speaker and panel discussion member at Middle East Investment Summit
- Official Research Partner for Oxford Business Group's 'The Report: Bahrain 2009'

Pioneering

Leading · Innovating · Anticipating · Benchmarking

Highlights

No.1
Leading market maker

11th
Consecutive year as leading broker on BSE

1st
Agency Brokerage Desk in Bahrain

34%
SICO share of the trading value on the BSE

414
Total number of research reports issued by SICO

SICO Funds Update 2009

KHALEEJ EQUITY FUND

Launch date:
March 2004

Principal investment focus:
Equity securities listed on stock markets of GCC countries

Standard & Poor's rating: AA
Re-affirmed in December 2009

Benchmark
MSCI GCC Index

Peer group
GCC

Return: January - December 2009
16.9% versus benchmark of 17.8%

Return: since inception
90.6% versus benchmark 4.3%

'AA'

Rating: Re-affirmed 'A A' by Standard & Poor's in December 2009

SICO GULF EQUITY FUND

Launch date:
March 2006

Principal investment focus:
Equity securities listed on stock markets of GCC countries, excluding Saudi Arabia

Standard & Poor's rating: AA
Re-affirmed in December 2009

Benchmark
MSCI GCC Ex-Saudi Arabia Index

Peer group
GCC

Return: January - December 2009
12.9% versus benchmark of 0.0%

Return: since inception
-0.4% versus benchmark of -49.4%

'AA'

Rating: Re-affirmed 'A A' by Standard & Poor's in December 2009

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.

Standard & Poor's rating: A
Re-affirmed in December 2009

Benchmark
S&P GCC Financial

Peer group
MENA

Return: January - December 2009
14.8% versus benchmark of 3.4%

Return: since inception
-2.9% versus benchmark of -36.7%

'A'

Rating: Re-affirmed 'A' by Standard & Poor's in December 2009

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

Standard & Poor's rating: A
Re-affirmed in December 2009

Benchmark
BSE All Share Index

Peer group
Equity Bahrain

Return: January - December 2009
-9.9% versus benchmark of -19.2%

Return: since inception
103.2% versus benchmark 15.5%

'A'

Rating: Re-affirmed 'A' by Standard & Poor's in December 2009

SICO Research Reports 2009

During 2009, SICO published a total of 414 reports (4,328 pages) of which 326 (3,248 pages) were periodical reports, while 88 were detailed company/sector reports and strategy notes.

GCC MARKET WATCH

Published daily

Provides and interprets latest market-related information pertaining to the six GCC equity markets. Also includes performance comparisons of leading companies in key sectors such banking, telecommunications, oil and gas, petrochemicals, real estate, construction and cement. This report is published within a few hours after the last market closes on the very same day of trading. SICO published more than 245 reports comprising 2,700 pages of market reviews and statistics in 2009.

BAHRAIN MARKET WATCH

Published weekly

Provides and interprets up-to-date information on the Bahrain equity market. Also includes other relevant economic and business information that has a direct bearing on BSE-listed companies. SICO published 104 pages of Bahrain market reviews in 2009.

GCC ECONOMICS – THE NUMBERS

Published monthly

A new research product introduced in 2009, this report analyses data from the region's central banks and tracks economic trends. SICO published six reports (54 pages) analysing economic indicators of GCC countries in 2009 and their impact on the banking sector.

PETROCHEMICALS ROUND UP

Published fortnightly

These are bi-weekly research reports providing insights into one of the GCC region's fastest growing and key industrial sectors- Petrochemicals. The purpose of this new initiative is to provide investors with a tool to understand the sector dynamics and make better-informed investment decisions. SICO published 21 reports, totalling 377 pages, analysing the dynamics of GCC's petrochemical sector and its impact on listed petrochemical stocks in the region, in 2009.

GCC STRATEGIC OUTLOOK REPORTS

Published quarterly

Provides SICO's views and outlook (both macro and micro) on the overall GCC markets. Covers regional, country, sector, company and economic developments and issues, and analyses these in the context of global trends and outlook. SICO published three reports (105 pages) discussing strategies and outlook on GCC markets in 2009.

COMPANY & SECTOR REPORTS

Published on a regular basis

These reports are published on a regular basis and track actively traded companies and major sectors in the GCC. They include initiation coverage reports, followed by updates on quarterly / annual results / developments, and topical event flashes. SICO published 85 reports, totalling 975 pages, of company/sector reports in 2009.

4,328

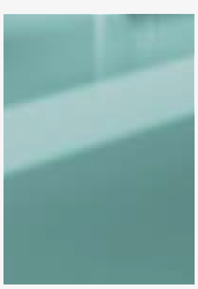
The total number of pages
published by research team at SICO in 2009

414

The total number
of reports issued by SICO in 2009

41

The total number of GCC companies
covered by SICO at the end of 2009



25

The number of new GCC companies added to
SICO's research coverage in 2009

Corporate Finance

With a successful track record spanning more than 10 years, SICO is the leading provider of corporate finance solutions in Bahrain.

SICO has managed and advised on the majority of equity capital raising exercises and conventional bond issues on the Bahrain Stock Exchange (BSE). These include rights issues for Bahrain Islamic Bank (US$ 225 million) and BBK (US$ 133 million). The Firm is also one of a select group of regional investment banks that cover the entire spectrum of corporate finance-related products and services. SICO provides innovative solutions for blue-chip clients in key GCC sectors.

One of SICO's most notable transactions entailed acting as the exclusive financial advisor, lead manager and underwriter for the successful privatisation of Seef Properties by the Government of Bahrain in 2007. The Firm developed a pioneering IPO structure that introduced a number of innovative features, including two separate institutional and retail offerings. The success of this IPO set a new benchmark for privatisation in the GCC, with many of the unique structuring aspects of the offering having been adopted by subsequent IPOs in the Gulf region.

KEY SECTOR COVERAGE

Construction
Engineering
Financial Services
Leisure
Entertainment
Hospitality
Logistics
Heavy Industrial
Manufacturing
Media
Real Estate
Retail
Telecommunications
Wholesale & Distribution

COMPREHENSIVE SERVICES

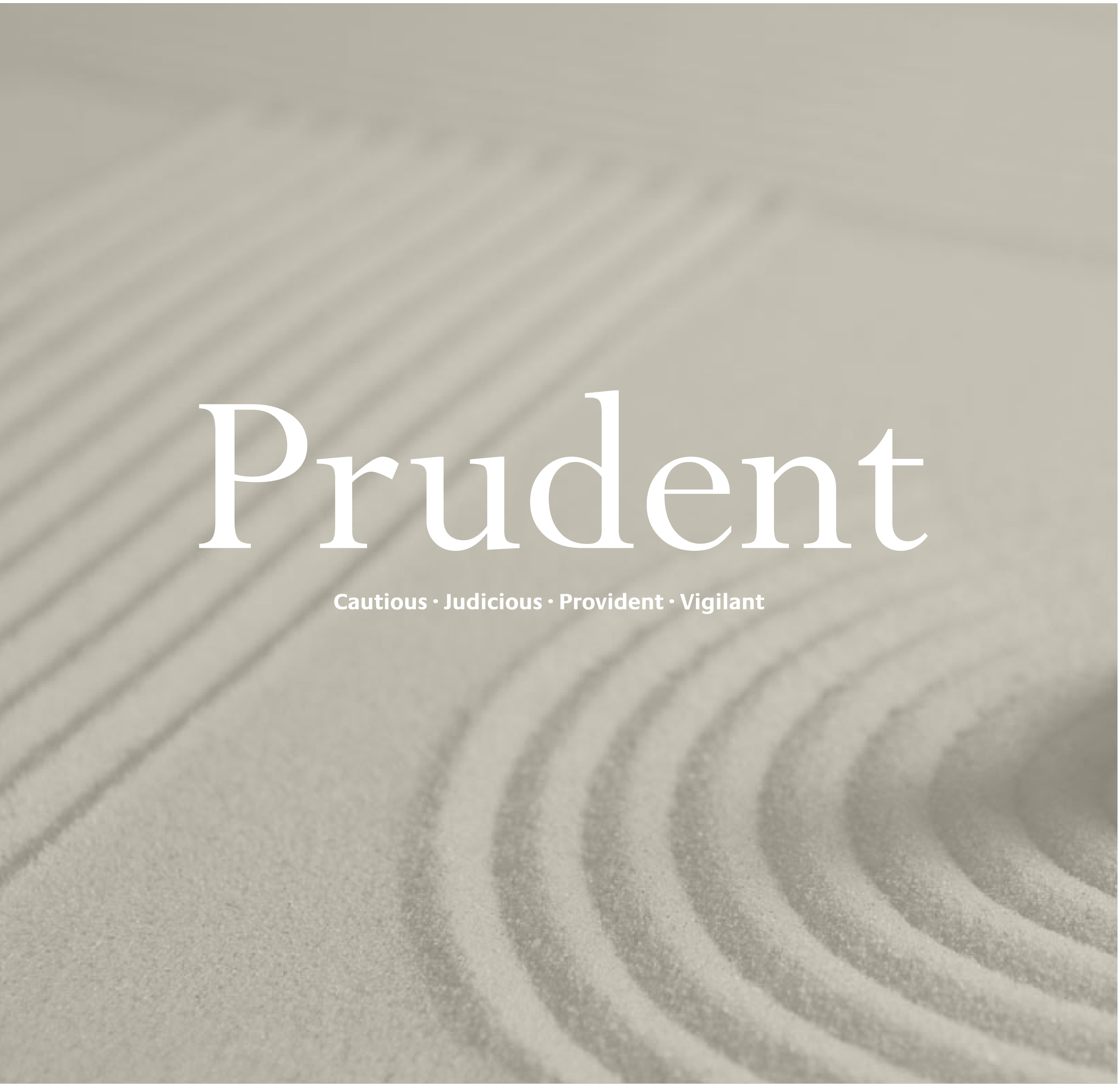
Equity Capital Markets
- Primary Offerings
- Secondary Offerings
- Private Placements

Debt Capital Markets
- Sukuks
- Bonds
- Debt Refinancing Advisory

Hybrid Instruments
- Mezzanine Debt
- Preferred Shares
- Convertible Bonds

Mergers & Acquisitions
- Targetting (sell-side and buy-side)
- Structuring
- Deal Negotiation Support
- Transaction Execution Support

Other Financial Advisory Services
- Corporate & Capital Restructuring
- Business Valuation
- Fund Setup
- Listing & Cross-listing
- Underwriting



Prudent

Cautious · Judicious · Provident · Vigilant

Highlights

58%

Liquidity: 58% of the balance sheet in cash and deposits

15.4%

Decrease in total expenses

82.4%

Capital Adequacy ratio

Corporate Governance Review

KEY DEVELOPMENTS IN 2009

During the year, a comprehensive review of SICO'S policies and operating procedures was conducted by management for approval by the board. The aim of the review was to update all policies and procedures to meet SICO's current process and business requirements, and to ensure they remain specific and relevant. This review was an interim step, pending a more detailed review of all processes and relevant policies to follow the implementation of the new core banking system in 2010-11. Other new risk management and compliance initiatives introduced during 2009 are covered by the Risk Management Review and Basel II Pillar 3 Public Disclosure sections of this annual report. These include:

- Risk Profile Review
- Risks & Controls Self Assessment
- Operational Risk management
- Credit Risk management
- Compliance Policy
- ICAAP Policy

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

RESPONSIBILITIES
BOARD OF DIRECTORS

The Board 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 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.

During the year, Mr. Abdul Karim Bucheery, the representative for BBK was replaced by Mr. Mohammed Abdulla Isa; and Mr. Meshary Al-Judaimi replaced Mr. Abdulaziz Al Mulla as the representative for Gulf Investment Corporation. Board members and their profiles are listed on page 8 & 9 of this annual report.

MANAGEMENT

The Board delegates 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 (ALIC); Internal Control Committee; and IT Development Committee.

Members of the management team are listed on page 16. Their professional profiles are included at the end of this section.

BOARD COMMITTEES
EXECUTIVE COMMITTEE

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

Members

Hussain Al Hussaini	Chairman
Khalid Al Rumaihi	Member
Meshary Al-Judaimi	Member
Mohammed Abdulla Isa	Member

AUDIT COMMITTEE

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

Members

Sawsan Abul Hassan	Chairperson
Anwar Abdulla Ghuloom	Member
Mahmoud Al Zewam Al Amari	Member

Note: Due to changes in the composition of the board of Directors during the year, the membership of the two Board Committees changed correspondingly. Their changes are reflected above.

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 Bank.

Members

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

ASSET MANAGEMENT COMMITTEE

Objective
To review the investment strategy of the Firm's funds and portfolios; review and approve asset allocations; and review maturity mismatches, funding costs, foreign exchange risks, and credit concentration by country and industry/sector.

Members

Chief Executive Officer	Head of Internal Audit
Chief Operating Officer	Head of Investments & Treasury
Chief Corporate Officer	Head of Asset Management
Head of Brokerage	Head of Investments
Head of Research	Head of Risk Management
Head of Corporate Finance	

ASSETS, LIABILITIES AND INVESTMENTS COMMITTEE (ALIC)

Objective
ALIC acts as the principal policy-making body responsible for overseeing the Firm's capital and financial resources. It is also responsible for managing the balance sheet and all proprietary investments activities, including investment strategy, and asset country and industry/sector allocations. The committee is specifically responsible for managing the balance sheet risk, capital and dividend planning; forecasting; and monitoring interest rate risk positions, liquidity and funds management. The committee is also responsible for formulating and reviewing the Company's investment policies (subject to approval by the Board), strategies, and performance measurement and assessment.

Members

Chief Executive Officer	Head of Internal Audit
Chief Operating Officer	Financial Controller
Chief Corporate Officer	Head of Risk Management
Head of Investment & Treasury	Head of Investments

INTERNAL CONTROL COMMITTEE

Objective
To assess the overall impact of the internal control system due to the various risks encountered, and to monitor the functioning of the internal control mechanism of SICO. In addition the Committee ensures compliance with the internal policies & procedures, and regulatory best practices of internal control applicable to the industry.

Members

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

IT DEVELOPMENT COMMITTEE

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

Members

Head of Operations	Financial Controller
Head of IT	Head of Risk Management
Head of Internal Audit	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 employees.

COMPLIANCE

As a licensed wholesale investment bank and 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 the timely disclosure of relevant information to all shareholders on a timely basis, the Firm maintains a website on which, in addition to the timely disclosure of all relevant information, SICO also discloses its financial results.

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 a Board member of ABQ Zawya, and until recently was a Board member of the Bahrain Association of Banks. 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 13 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 30 years' international experience in areas covering commercial and corporate 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 as group vice president, and subsequently worked with Ghobash Investment & Trading 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 31 years, Hanan has worked in the accounts departments for leading 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 in 1995

Nadia has been with SICO for around 15 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 15 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 Riyad 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 21 years' international experience in various aspects of the financial and investments markets. Prior to joining 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 leading financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase). Fadhel holds an MBA from Glamorgan University, UK.

Samer Taleb - Head of Corporate Finance
Joined SICO in 2006

Samer has over 8 years' experience in management consulting and investment banking. Prior to joining SICO, he was Manager of Strategy & Operations with Deloitte Consulting, where he provided M&A, strategy, restructuring and systems advice to medium-to-large corporates, family-owned businesses and regulatory bodies in the Middle East. Samer holds an MSc in Industrial & Systems Engineering from Georgia Institute of Technology, a Management of Technology Certification from DuPree College of Management; and a B.S.c in Industrial Engineering from Purdue University.

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

Rajagopalan has over 20 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 13 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 regional accounts for Lowe Contexture, a leading 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 11 years' experience, including six years in the energy sector in India. Prior to joining SICO, he worked with Irevna Research Services (a 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 19 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; BBK; 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 BA 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 21 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.

Risk Management Review

Risk is an inherent part of SICO's business, and risk management is essential to the Firm's success. Risk management is the systematic process of identifying, and evaluating the principal business risks.

KEY DEVELOPMENTS IN 2009

Risk Management was one of the key areas of focus to be significantly strengthened by SICO during 2009 to ensure that the Firm remains robust, methodical, and consistent in facing the current challenging environment. Business and process reviews were conducted throughout the organisation, aimed at augmenting the policies and procedures, as well as providing the tools and systems to prevent, detect, measure, monitor, and manage the various risks facing the business.

RISK PROFILE REVIEW

A comprehensive risk profile review was carried out by Management during the year using independent external consultants. The report, duly approved by the Board of Directors, has been submitted to the CBB. The review is a CBB requirement under Basel II Pillar 2 regulations to ensure that the Bank has adequate control mechanisms in place to evaluate the material risks to which it is exposed, and ensure that SICO holds adequate capital to protect against those risks.

RISKS AND CONTROLS SELF ASSESSMENT TO STRENGTHEN THE OPERATIONAL RISK MANAGEMENT FRAMEWORK

A comprehensive risks and controls self assessment (RCSA) exercise was carried out during the year to determine the impact and likelihood of the various operational risks that affect each division / department. Key risk indicators, ownership of risks and controls by the process owners, reporting and monitoring tools, and an enhanced operational risk management framework (ORMF) were some of the goals achieved from this initiative.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

A review was undertaken to determine and quantify where practicable, the various risks that affect the operating activities of SICO, and to allocate capital to risks other than those prescribed under Pillar 1 (credit, market and operational risks). ICAAP will enable the assessment of any additional capital that SICO may be required to hold on an ongoing basis against all its material risks, under both normal and stressed business conditions.

POLICIES AND PROCEDURES UPDATE

All SICO's policies and procedure manuals underwent a detailed review by management during the year, with particular emphasis on Investments and Operating policies and procedures manuals to ensure their adequacy and relevance. These were augmented, as required, to bring them in line with current operating practices and requirements. Certain key new policies were also introduced and documented, including Operational Risk Management, Credit Risk Management, and Compliance Policy; as well as an ICAAP Policy incorporating a new stress test framework.

Risk Management Review (Continued)

Risk is an inherent part of SICO's business, and risk management is essential to the Firm's success. Risk management is the systematic process of identifying, and evaluating the principal business risks facing SICO; establishing appropriate controls to manage these risks; and ensure that all 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. The Firm's approach is based on a simplified risk management framework for active investment banks with non-complex activities or transactions.

The following section of this review provides a synopsis of the key qualitative disclosures that are set out in greater detail in the Basel II Pillar 3 Public Disclosures section 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. Recognition 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 and Policy Supervision department (RMD) is responsible for the leadership, direction and coordination of applying 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 the Firm in the realisation of its business objectives and continued development.

MARKET RISK

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 comprise 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 RMD, and regularly reviewed by ALIC.

At the early stages of the ongoing 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 the Firm's 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 fluctuations in 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 is 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 by 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 RMD and ALIC 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 Firm'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 during 2009 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 vehicles 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 will be 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, in order to cope with a payout of liabilities or investment obligations in assets. Such risk may arise from a depletion of cash and cash equivalents, investments turning illiquid, and mismatches in the maturity pattern of assets and liabilities. Measuring and managing liquidity needs are vital for the effective operation of investment banks. As the investment horizon remains uncertain in the near-term, a high level of the Firm's 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. SICO's liquidity position is monitored on a daily basis by RMD, and on a weekly basis by ALIC.

COUNTERPARTY CREDIT RISK

Credit risk is the risk that a counterparty to a financial asset will fail to meet its contractual obligations and cause 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, and placements with counterparty banks give rise to credit risk. Counterparty credit risk arises vis-à-vis customers and counterparty brokers. In the Asset Management and 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 towards institutional and experienced and sophisticated high net worth investors. New bank line credit limits have been introduced in light of SICO having significant cash in inter-bank markets. Investments in debt instruments have been 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 ALIC, the Executive Committee, or the Board. Additionally, the Firm adheres strictly 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 category that provide safety of capital as well as attractive yields. These are also approved through new investment memoranda as applicable for any investment.

Treasury placements

Credit Line Applications (CLAs), supported by financial and other analytical research reports, are used to approve limits for treasury and money market placements with banks. These CLAs are recommended by Treasury, and approved by senior management. Final approval of any new exposure is in accordance with the approved investments authority limits. The firm's 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 due 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 counterparty brokers need to pass a due diligence process and acceptance criteria and be approved by senior management. The broker selection criteria include sound reputation, strong financial standing, superior operational service, and delivery capabilities.

Brokerage clients

Brokerage clients give rise to settlement risk. This risk is mitigated by a 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 out 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 clients' position if there is any protracted delay in settlement of dues. 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 a 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 rating agencies such as Standard & Poor's, Moody's and Fitch, to derive the risk weightings under the CBB's Basel II capital adequacy framework. This is mainly for banks but also, where applicable, for other exposures such as debt instruments. Where ratings vary between rating agencies, the most conservative measure is adopted.

Concentrations of credit risk

SICO complies strictly with the single counterparty exposure norms prescribed by the CBB. As at 31 December 2009, the following exposures of the Firm are in excess of the 15% individual counterparty limit as prescribed by the CBB.

Counterparty	Country	Amount BHD '000s	Exposure as a % to eligible capital base
Counterparty A	QATAR	12,153	23%
Counterparty B	BAHRAIN	9,820	18%
Counterparty C	UAE	8,641	16%

These exposures represent inter-bank placements with a maturity of less than 180 days, and therefore classify as exempt exposures as per the CBB's large exposure norms.

The geographical and sectoral distribution of the Firm's investments are disclosed in the financial statements under note 4 (b). The other exposures of the Firm 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 Firm, as required by CBB regulations. Such external service providers are selected based on an evaluation of their sound internal controls, market reputation, and service delivery capabilities. There are structured contracts to provide clarity of terms, conditions and obligations of the parties involved.

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 institution-specific and is inherent in the day-to-day operations of SICO. This risk could arise from a broad spectrum of causes such as deficient transaction processing, business practices, workplace practices, system failures, and damage to physical assets. Operational risk also includes internal and external fraud.

Sound internal control measures, consisting of an operating policies and procedures framework, compliance initiatives, and 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 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 staff. SICO adopts a top-down approach to compliance, with the board and management leading by example.

Risk Management Review (Continued)

FIDUCIARY RISKS

The asset management activities of SICO, and the custody and fund administration services provided by the Firm's subsidiary, SICO Funds Services Company (SFS), can give rise to the following 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 (AMC). There are operating policies and procedures, coupled with dedicated buy-side research and other guidelines, to support this activity. There are also strict operational controls to protect clients' assets and 'Chinese Walls' to avoid any conflicts of interest. The Compliance unit regularly monitors the activities of the Asset Management division, and reports its findings and observations to the AMC.

Custody and Fund Administration

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

INTERNAL AUDIT

Internal Audit provides an additional line of defense in risk management and internal controls. The role of internal audit is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Firm 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 periodical specific divisional audits 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 Firm risk profile, placing appropriate reliance on the risk management process to optimise audit work.

Basel II Pillar 3 Public Disclosures

Bahraini Dinars '000

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: Described supervisory review processes which includes the Internal Capital Adequacy Assessment 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 2009.

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. The information presented herein pertains to Securities and Investment Company BSC (c) consolidated with its subsidiaries (together termed as "SICO" or the "Bank") and should be read in conjunction with the risk and capital management disclosures provided by the Bank in their annual report for the year ended 31 December 2009.

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 2009, 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.

Basel II Pillar 3 Public Disclosures (Continued)

Bahraini Dinars '000

1.3 Changes to Capital Structure

During the year ended 31 December 2009, the share capital of the Bank increased by BD 74 thousand pursuant to allocation of 739,104 shares under the Employee Stock Option Plan (ESOP) for the year 2008. 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:

	2009	2008
Issued and fully paid:		
At 1 January	42,346	13,921
Bonus shares issued during the year	-	14,115
Rights issue during the year	-	14,116
Issue of shares to the employee share incentive scheme during the year	74	194
At 31 December	42,420	42,346

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 standardised approach to credit and market risk management, and the basic indicator approach for the operational risk management.

As at 31 December 2009, the Bank's total risk weighted assets amounted to BD 64,624; Tier 1 Capital amounted to BD 49,945 and total regulatory capital amounted to BD 53,214. Accordingly, Tier 1 and Total Capital Adequacy Ratio were 77.28% and 82.34% respectively. These ratios exceed the minimum capital requirements under the CBB's Basel II framework.

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 recognises 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 were as follows:

	2009	2008
Tier 1 Capital		
Issued and fully paid ordinary shares	42,420	42,346
Statutory Reserve	3,286	3,286
General Reserve	1,050	1,028
Share Premium	560	546
Retained Earnings Brought forward	3,209	3,229
Gross unrealised loss arising from fair valuing equity securities	(480)	(1,144)
Securitization Exposures subject to deduction	(100)	-
TOTAL TIER 1 capital	49,945	49,291
Tier 2 Capital		
Current interim profits	3,152	-
45% of gross unrealised gains arising from fair valuing equity securities	217	255
Securitization Exposures subject to deduction	(100)	
TOTAL TIER 2 CAPITAL	3,269	255

The Bank's regulatory capital position was as follows:
Based on year end balances:

	2009	2008
Risk weighted exposure		
Credit risk	42,007	37,067
Market risk	8,186	35,875
Operational risk	14,431	17,978
Total risk weighted assets	64,624	90,920
Tier 1 Capital	49,945	49,291
Tier 2 Capital	3,269	255
Total regulatory capital	53,214	49,546
Tier 1 Capital Adequacy Ratio	77.28%	54.21%
Total Capital Adequacy Ratio	82.34%	54.49%

2.2 Regulatory Capital requirements for Market Risk

Asset Categories for Market Risk 2009	Period		Year end	
	Minimum	**Maximum**	**Actual Risk Weighted Assets**	Requirement @ 12%
Interest Rate Position Risk	104	786	358	43
Equities Position Risk	75	1,084	75	9
Foreign Exchange Risk	69	3,893	222	27
Total minimum capital for market risk			655	79
Multiplier			12.5	12.5
Total market risk weighted exposures under the STA			8,186	988

Asset Categories for Market Risk 2008	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

The interest rate risk on the Bank's trading investments is considered minimal and hence no sensitivity analysis has been presented.

Basel II Pillar 3 Public Disclosures (Continued)

Bahraini Dinars '000

• Equity Positions in the Banking Book

Asset Category 2009	Gross exposure	Provision for impairment	Net Risk Weighted assets (RWA)	Regulatory capital requirement @ 12% on RWA
Listed Equities	4,706	-	4,706	565
Unlisted equities	377	-	566	68
Investment in Rated Funds: (ECAI A+ to A-)	961	-	230	28
Investment in unrated funds:				
- Listed	747	-	747	90
- Unlisted	4,692	-	7,038	845
- Unlisted rated (ECAI AAA to A-) funds in Trading portfolio reclassified as banking book	2,355	-	684	82
Total	13,838	-	13,971	1,678

Asset Category 2008	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 rated (ECAI AAA to A-) funds in Trading portfolio reclassified as banking book	2,217	-	3,326	399
Total	11,646	2,173	12,577	1,509

	2009	2008
Realised net gains on sale of available-for-sale securities	299	1,646
Dividend income on available-for-sale securities	113	445

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

	2009	2008
Balance at the beginning of the year	2,173	-
(Write off) / Charge for the year	(2,173)	2,173
Balance at end of the year	-	2,173

- As at 1 January 2009, the Bank had an impairment provision of BD 2,173 on its available-for-sale investment securities. During the year 2009, the entire provision was charged off on sale of the respective securities. None of the other exposures as at 31 December 2009 are either past due, impaired or restructured.
- The sectoral and geographical distribution of provision for impairment as at 31 December is as follows:

Distribution by Sector	2009	2008
Commercial Banks	-	84
Other Banks	-	144
Services	-	669
Managed Funds	-	612
Others	-	664
Total Provision for Impairment	-	2,173

Geographical Distribution	2009	2008
GCC Countries	-	1,424
USA	-	612
Europe	-	136
Total Provision for Impairment	-	2,173

2.3 Regulatory Capital requirement for Credit risk

Standardised Approach

Asset Categories for Credit Risk 2009	Gross exposure		Credit Risk Weighted Assets (RWA)	Capital Requirement (@ 12% of RWA)	Average gross exposure for the year*
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)			
Total Claim on sovereigns	3,040	-	-	-	2,981
Claims on Bahraini Public Sector Entities	500	-	-	-	500
Treasury Bills	-	-	-	-	-
Claims on banks	52,510	-	20,829	2,449	93,533
Claims on Corporates	4,650	-	4,650	558	4,794
Investments in Securities	13,838	1,837	13,970	1,676	12,467
Investments in Real Estate Sector	969	-	1,938	233	450
Delivery-versus-payment transactions	512	-	7	1	605
Other Assets	613	604	613	74	3,345
TOTAL credit risk weighted exposures under STA	76,632	2,441	42,007	4,991	118,675

* Computed based on monthly average

Basel II Pillar 3 Public Disclosures (Continued)

Bahraini Dinars '000

Asset Categories for Credit Risk 2008	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 on-balance sheet and off-balance sheet gross exposures have been risk weighted using the applicable risk weights and CCFs (credit conversion factors). The exposures are not backed by collaterals and hence no benefit for credit risk mitigation is applicable.

2.4 Regulatory Capital requirement for Operational risk

	Actual Risk Weighted Assets	
	2009	2008
Gross Income for the last three years:-		
2005	-	8,707
2006	5,029	5,029
2007	15,029	15,029
2008	3,031	-
Average of the three years	7,696	9,588
Alpha coefficient	15%	15%
K-BIA (3 year average multiplied by alpha)	1,154	1,438
Operational Risk weighted exposure under BIA (K-BIA * 12.5)	**14,431**	**17,978**
Requirement @ 12% of RWA	1,732	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 capitalised in line with the overall risk profile.

2.6 Interest Rate Risk in the banking book

The Fixed Income book has increased in 2009 due to adverse conditions of 2008 continuing in 2009 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 selection 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. 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 debt instruments in the banking book as follows:

	200bp increase	200 bp decrease
As at 31 December 2009	**(653)**	**719**
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.

Consolidated Financial Statements

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Independent Auditors' Report to the Shareholders

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Securities and Investment Company BSC(c)
Manama, Kingdom of Bahrain
8 February 2010

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 statement of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 2009, and its consolidated financial performance and 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 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 Statement of Financial Position

as at 31 December 2009 Bahraini Dinars '000

	Note	2009	2008
ASSETS			
Cash and bank balances	6	47,848	78,013
Treasury bills	7	280	8,050
Investments at fair value through profit or loss	8	6,260	5,008
Available-for-sale investments	9	19,867	13,483
Held to maturity investments	10	4,740	-
Furniture and equipment	11	149	168
Fees receivable	12	660	1,130
Other assets	13	2,773	2,913
Total assets		82,577	108,765
LIABILITIES AND EQUITY			
Short-term bank borrowings	14	1,131	-
Payables to customers	15	20,332	35,908
Deposits from customers	16	5,314	20,926
Other liabilities	17	2,046	2,072
Total liabilities		28,823	58,906
EQUITY			
Share capital	18	42,420	42,346
Statutory reserve	19	4,153	3,832
General reserve	20	1,051	1,028
Available-for-sale investments fair value reserve		154	(576)
Retained earnings		5,976	3,229
Total equity (page 53)		53,754	49,859
Total liabilities and equity		82,577	108,765

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

The Board of Directors approved the consolidated financial statements consisting of pages 50 to 91 on 8 February 2010.

Consolidated Income Statement

for the year ended 31 December 2009 Bahraini Dinars '000

	Note	2009	2008
Interest income	21	1,754	1,313
Interest expense	21	(23)	(165)
Net interest income		1,731	1,148
Net fee and commission income	22	2,357	2,845
Net investment income/ (loss)	23	795	(2,975)
Brokerage and other income	24	1,484	3,659
Operating income		6,367	4,677
Impairment provision on investments	9	-	(2,173)
Staff and related expenses	25	(2,464)	(2,886)
General, administrative and other operating expenses	26	(825)	(1,017)
Profit / (loss) for the year		3,078	(1,399)
Basic earnings per share (fils)	31	7	(4)

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

The consolidated financial statements consist of pages 50 to 91.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009 Bahraini Dinars '000

	2009	2008
Profit for the year	3,078	(1,399)
Other comprehensive income		
Fair value reserve (available-for-sale investments)		
- Net change in fair value	1,029	(4,487)
- Impairment loss on AFS securities transferred to income statement	-	2,173
- Net amount transferred to income statement on disposal of securities	(299)	(1,646)
Total other comprehensive income for the year	730	(3,960)
Total comprehensive income for the year	3,808	(5,359)

The consolidated financial statements consist of pages 50 to 91.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2009 Bahraini Dinars '000

	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
2009						
As at 1 January 2009	42,346	3,832	1,028	(576)	3,229	49,859
Total comprehensive income for the year						
Profit for the year	-	-	-	-	3,078	3,078
Other comprehensive income:						
Available-for-sale investments	-	-	-	1,029	-	1,029
Net changes in fair value						
Impairment loss on AFS securities transferred to income statement	-	-	-	-	-	-
Net profit on disposal of AFS securities transferred to income statement	-	-	-	(299)	-	(299)
Total comprehensive income for the year	-	-	-	730	3,078	3,808
Dividends for 2008	-	-	-	-	-	-
Transfer to general reserve for 2008	-	-	23	-	(23)	-
Remuneration paid to directors for 2008	-	-	-	-	-	-
Bonus shares issued	-	-	-	-	-	-
Rights issue	-	-	-	-	-	-
Issue of shares to employees scheme	74	13	-	-	-	87
Transfer to statutory reserve for 2009	-	308	-	-	(308)	-
Balance at 31 December 2009	42,420	4,153	1,051	154	5,976	53,754
2008						
As at 1 January 2008	13,921	3,415	2,071	3,384	19,315	42,106
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(1,399)	(1,399)
Other comprehensive income:						
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 comprehensive income 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

The consolidated financial statements consist of pages 50 to 91.

Consolidated Statement of Cash Flows

for the year ended 31 December 2009 Bahraini Dinars '000

	Note	2009	2008
OPERATING ACTIVITIES			
Net interest received		1,552	1,039
Sale of investments at fair value through profit or loss		64,816	113,934
Purchase of investments at fair value through profit or loss		(65,808)	(103,964)
Sale of available-for-sale investments		20,404	12,183
Purchase of available-for-sale investments		(25,460)	(16,377)
Purchase of assets held to maturity		(4,625)	-
Net (decrease)/ increase in payables to customers		(15,576)	(17,706)
Net (decrease)/ increase in deposits taken from customers		(15,612)	20,926
Application of subscription money for allotment of units of own funds		-	(3,345)
Dividends received		235	793
Brokerage and other fees received		4,627	7,638
Payments for staff and related expenses		(2,799)	(3,187)
Payments for general and administrative expenses		(722)	(911)
Deposit with BSE Guarantee Contribution Fund		-	-
Cash flows from operating activities		(38,968)	11,023
Investing activities			
Net capital expenditure on furniture and equipment		(98)	(139)
Cash flows utilized in investing activities		(98)	(139)
Financing activities			
Proceeds from rights issue		-	14,163
Repayment of short-term bank borrowings		1,131	(566)
Dividends paid		-	(1,392)
Remuneration paid to Directors		-	(200)
Cash flow from/ (utilized in) financing activities		1,131	12,005
Net (decrease)/increase in cash and cash equivalents		(37,935)	22,889
Cash and cash equivalents at the beginning of the year		86,063	63,174
Cash and cash equivalents at the end of the year		48,128	86,063
Cash and cash equivalents comprise:			
Cash and bank balances	6	47,848	78,013
Treasury bills	7	280	8,050
		48,128	86,063

The consolidated financial statements consist of pages 50 to 91.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009 Bahraini Dinars ‘000

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 license 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 privatization programs, 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 seven wholly owned subsidiaries authorized 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
- SICO Funds Company III BSC (c) launched SICO Gulf Equity Fund
- SICO Funds Company IV BSC (c) (under formation)
- SICO Funds Company V BSC (c) (under formation)
- SICO Funds Company VI BSC (c) (under formation)

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

2. BASIS OF PREPARATION

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

(b) Basis of measurement
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. The investments in subsidiaries are carried at cost in the financial statements of the parent.

2. BASIS OF PREPARATION (CONTINUED)

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 5.

(d) Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group.

IAS 1 (revised) - Presentation of Financial Statements

Revised IAS 1- Presentation of Financial Statements (2007) became effective as of 1 January 2009. As a result, the Group presents in the statement of changes in equity all owners' changes in equity, whereas all non-owners' changes in equity are presented in the statement of comprehensive income. Total comprehensive income may be presented in either:

- a single statement of comprehensive income (effectively combining both the income statement and all non-owners' changes in equity in a single statement), or
- in an income statement and a separate statement of comprehensive income

The Group has opted to present the total comprehensive income in two separate statements - a statement of income and a separate statement of comprehensive income.

In accordance with the transitional requirements of the Standard, the Group has provided full comparative information. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

Amendments to IFRS 7 - Financial instruments disclosures

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

Improvements to IFRS (issued in May 2008)

Improvements to IFRS issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been adopted by the Group and no material changes to accounting policies arose as a result of these amendments.

(e) Standard and interpretations issued but not yet effective

The following new / amended IFRS's and interpretations have been issued which are not yet mandatory for adoption by the Bank.

IFRS 9 Financial instruments part 1: Classification and measurement
IFRS 9 was issued in November 2009 and is applicable for reporting period beginning on or after 1 January 2013. This standard replaces those parts of IAS 39 relating to the classification and measurement of financial assets and the key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (i.e. it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group is considering the implications of the standard, its impact and the timing of its adoption.

Improvements to IFRS (issued in April 2009)
Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

(f) Early adoption of standards
The Group did not early adopt new or amended standards in 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group and are consistent with those of the previous year except as explained in note 2 (d), which addresses changes in accounting policies.

(a) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) 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 non monetary assets which are taken to comprehensive income.

(c) 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 de recognition

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 recognised at 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 recognised at fair value, including transaction costs. Unrealised gains and losses arising from changes in the fair values of AFS securities are recognised in the statement of other comprehensive income. In the event of sale, disposal, collection or impairment, the cumulative gains and losses recognised in other comprehensive income 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 recognised at fair value. They are subsequently carried at amortized cost using the effective interest method.

(iv) Measurement principles

Amortized cost measurement

The amortized 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 amortization 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.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses.

(d) 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 amortized cost

For financial assets carried at amortized 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 other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the comprehensive income. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Impairment of assets (continued)

(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.

(e) Cash and cash equivalents

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

(f) 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.

(g) Borrowings

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

(h) Deposits from customers

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

(i) 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 Labor 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) Employee share incentive scheme

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.

(j) Dividends and board remuneration

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

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Net investment income/(loss)

Net investment income/(loss) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Brokerage and other income
Brokerage and other income consist of brokerage income, investment banking income and marketing income. These fees are recognised when earned.

(t) Operating Segments
IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group's lines of business are brokerage, asset management, corporate finance, market making and custody business. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in the financial statements.

4. 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 maximizing 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 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 (ALIC), 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:

	2009	2008
Cash and bank balances	47,848	78,013
Treasury bills	280	8,050
Investments at fair value through profit or loss	5,902	3,470
Available for sale investments	14,710	11,640
Investments held to maturity	4,740	-
Fee receivable	660	1,130
Other receivables	1,445	1,874
	75,585	104,177

Currently only the Margin Trading Lending on the GCC 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 honor 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 debt 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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4. 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		HTM	
	2009	2008	2009	2008	2009	2008
Commercial banks	1,443	385	5,127	186	1,472	-
Other banks	-	671	395	773	-	-
Services	1,100	538	4,062	898	713	-
Funds	2,488	1,872	3,275	10,399	-	-
Others	1,229	1,542	7,008	1,227	2,555	-
Total carrying amount	6,260	5,008	19,867	13,483	4,740	-

Geographical distribution	Investments at fair value through profit or loss		Available for sale investments		HTM	
	2009	2008	2009	2008	2009	2008
GCC countries	4,493	3,774	14,439	5,623	4,740	-
USA	-	-	3,275	5,613	-	-
Europe	1,756	1,234	2,153	1,492	-	-
Middle East and North Africa	11	-	-	755	-	-
Total carrying amount	6,260	5,008	19,867	13,483	4,740	-

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity Risk is managed for all the three risk originating departments - Asset Management, Brokerage and Investments and Treasury and its subsidiary company SFSCO.

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:

2009	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short term borrowings	1,131	1,137	1,137	-	-
Payables to customers	20,332	20,332	20,332	-	-
Deposits from customers	5,314	5,314	5,314	-	-
Other liabilities	593	593	593	-	-
	27,370	27,376	27,376	-	-

2008	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
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	-	-

4. 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 and equity based funds 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 unrealised gains and losses 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	
	2009	2008	2009	2008
Increase of 1%	63	50	199	135
Decrease of 1%	(63)	(50)	(199)	(135)

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

The Bank follows the Standardized 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.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

Interest rate re-pricing profile

2009	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	6,658	6,658
Call deposits*	-	1,106	-	-	1,106
Placements with banks	0.47%	40,084	-	-	40,084
Treasury bills	3.75%	-	280	-	280
Investments at fair value through profit or loss	3.88%	-	3,414	2,846	6,260
Available-for-sale securities	6.39%	-	7,136	12,731	19,867
Held to maturity	4.35%	-	4,740	-	4,740
Furniture and equipment	-	-	-	149	149
Fees receivable	-	-	-	660	660
Other assets	-	-	-	2,773	2,773
Total assets		41,190	15,570	25,817	82,577
Bank overdrafts	-	-	-	-	-
Short term borrowings	1.25%	1,131	-	-	1,131
Payables to customers	-	-	-	20,332	20,332
Deposits from customers	0.20%	5,314	-	-	5,314
Other liabilities	-	-	-	2,046	2,046
Total liabilities		6,445	-	22,378	28,823
Equity		-	-	53,754	53,754
Total liabilities and equity		6,445	-	76,132	82,577
Interest rate sensitivity gap		34,745	15,570	50,315	-
Cumulative interest rate sensitivity gap		34,745	50,315	-	-

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
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	-	-

* At 31 December 2009 the effective interest rate on Bahraini Dinar call deposits was [0.20%] (2008: 0.70% p.a.) and on USD call deposits was [0.20%] p.a. (2008: 0.95% 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 and all GCC currencies except for KWD are effectively pegged to the US Dollar, currency risk is minimal.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 organisational structure, policies and procedures guidelines, and 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 be implemented during 2010.

Assets under management activity have a range of controls to support the quality of the investment process and are 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 (ALIC).

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 standardized approach to credit and market risk management and the basic indicator approach for the operational risk management under the revised framework.

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

Based on year end balances	2009	2008
RISK WEIGHTED EXPOSURE		
Credit risk	42,007	37,067
Market risk	8,186	35,875
Operational risk	14,431	17,978
Total risk weighted assets	64,624	90,920
Tier 1 capital	49,945	49,291
Tier 2 capital	3,269	255
Total regulatory capital	53,214	49,546
Capital adequacy ratio	82.34%	54.49%

Based on full year average balances

	2009	2008
Risk weighted exposure		
Credit risk	36,014	42,022
Market risk	34,719	52,420
Operational risk	14,431	17,978
Total risk weighted assets	85,164	112,420
Tier 1 Capital	49,517	46,942
Tier 2 Capital	1,546	4,439
Total regulatory capital	51,063	51,381
Capital adequacy ratio	59.96%	45.70%

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

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 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.

Judgments

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.

6. CASH AND BANK BALANCES

	2009	2008
Cash and bank balances	6,658	5,438
Call deposits	1,106	167
Short term placements with Banks	40,084	72,408
	47,848	78,013

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. Included in the cash are amounts payable to clients of BD 20,332 (2008: 35,908) as mentioned in note 15.

The bank overdraft bears interest at prevailing market rates.

7. TREASURY BILLS

Treasury bills comprise unquoted short-term treasury bills issued by the Central Bank of Bahrain.

8. INVESTMENTS AS FAIR VALUE THROUGH PROFIT OR LOSS

	2009	2008
Held for trading		
Equity securities – at fair value		
-Listed	358	1,537
Funds – at fair value		
-Listed	2,488	2,217
Debt securities – at fair value		
-Listed	399	-
-Unlisted	3,015	1,254
	6,260	5,008

9. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
Equity securities – at fair value:		
- Listed	4,780	3,027
Equity Securities – at cost:		
- Unlisted	377	377
Funds – at fair value:		
-Listed	1,899	4,826
-Unlisted	5,676	1,199
Debt securities – at fair value:		
-Listed	3,016	6,227
-Unlisted	4,119	
	19,867	15,656
Less:		
Impairment provision on equity securities	-	1,561
Impairment provision on managed funds	-	612
	19,867	13,483

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10. INVESTMENTS HELD TO MATURITY

	2009	2008
Debt securities at amortized cost		
-Listed	4,740	-
Allowance for impairment	-	-
	4,740	-
Fair value of Debt Securities held at cost	5,125	-

11. FURNITURE AND EQUIPMENT

	2009	2008
Cost as at 1 January	715	584
Additions	98	139
Disposals	(15)	(8)
Cost at 31 December	798	715
Depreciation as at 1 January	547	456
Charge for the year	116	99
Disposals	(14)	(8)
Depreciation as at 31 December	649	547
Net book value at 31 December	149	168
Cost of fully depreciated assets in use	446	380

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

12. FEE RECEIVABLE

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

	2009	2008
Management fee	255	275
Performance fee	318	759
Custody fee	87	96
	660	1,130

13. OTHER ASSETS

	2009	2008
Receivables from clients and brokers	512	1,220
Guarantee deposit with the Bahrain Stock Exchange	500	500
Employee share incentive scheme	999	912
Prepaid expenses	330	127
Interest receivable	310	131
Other receivables	122	23
	2,773	2,913

14. SHORT-TERM BANK BORROWINGS

	2009	2008
Bank borrowings	1,131	-
As 31 December	1,131	-

These Borrowings are unsecured with interest at prevailing market rates.

15. 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 23 (2008: BD 90).

16. 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.

17. OTHER LIABILITIES

	2009	2008
Brokerage payable to counterparty	44	55
Accrued expenses	542	742
Provision for employee indemnities	220	179
Employee share incentive scheme liability	1,233	1,062
Other payables	7	34
	2,046	2,072

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18. SHARE CAPITAL

	2009	2008
Authorized share capital		
1,000,000,000 (2008: 1000,000,000) shares of 100 fils each	100,000	100,000
Issued and fully paid		
At 1 January	42,346	13,921
Issue of shares to employee share incentive scheme trustees during the year	74	194
Bonus shares issued during the year	-	14,115
Rights issue during the year	-	14,116
	42,420	42,346

During the current year, the Bank issued 739,104 shares of BD 100 fils each under the employee share incentive scheme for the year 2009 to HSBC Trustee (C.I) Limited at the 31 December 2008 NAV of 0.118 fils per share (2008: 1,947,564 shares of 100 fils each at the 31 December 2007 NAV of 302 fils per share). Accordingly the share capital was increased by BD 74 (2008: BD 194) to the extent of the nominal value of the shares of 100 fils each. The share Premium of BD 13 (2008: BD 394) relating to the issue of these shares at a premium of 202 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 affected by capitalizing 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 affected 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.

The Board of Directors has proposed a cash dividend 5 fils per share of 100 fils nominal value, a 5% dividend (2008: Nil), Directors remuneration of BD 135,000 (2008: BD Nil) is also proposed. 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.

	2009	2008
Directors' remuneration	135	-
Proposed dividend	2,121	-
General reserve	308	-

The shareholders are:	Nationality	2009		2008	
		Capital	% holding	Capital	% holding
Pension Fund Commission	Bahrain	9,322.5	21.98	9,322.5	22.0
General Org. for Social Insurance	Bahrain	6,600.0	15.56	6,600.0	15.6
National Bank of Bahrain BSC	Bahrain	5,362.5	12.64	5,362.5	12.7
Ahli United Bank (Bahrain) BSC	Bahrain	5,115.0	12.06	5,115.0	12.1
Bank of Bahrain and Kuwait BSC	Bahrain	4,125.0	9.72	4,125.0	9.7
Arab Investment Resources Co EC	Bahrain	3,300.0	7.78	3,300.0	7.8
Arab Banking Corporation BSC	Bahrain	3,300.0	7.78	3,300.0	7.8
Gulf Investment Corporation GSC	Kuwaiti	3,300.0	7.78	3,300.0	7.8
Bahraini Saudi Bank BSC	Bahrain	825.0	1.94	825.0	1.9
Volaw Trust & Corp Service Ltd.	Jersey	1,169.7	2.76	-	-
HSBC Trustee (CI) Limited	Jersey	-	-	1095.8	2.6
		42,419.7	100.0	42,345.8	100.0

Based on these financial statements, the Net Asset Value per share is 0.126 (2008: BD 0.118)

19. 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 308 (2008: BD 23).

The share premium of BD 13 (2008: BD 394) arising from the issue of shares under employee share incentive scheme has been adjusted to statutory reserve.

20. 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. The appropriations are subject to the approval of the shareholders at the Annual General Meeting.

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21. INTEREST INCOME/ EXPENSE

	2009	2008
Interest income		
Placements and call deposits	995	1,184
Interest on investments	736	99
Margin lending	23	30
	1,754	1,313
Interest expense		
Borrowings and customer deposits	22	75
Customer accounts	1	90
	23	165

22. FEE AND COMMISSION INCOME/ EXPENSE

	2009	2008
Fee and commission income from trust or other fiduciary activities		
- Management fee	1,834	2,389
- Performance fee	400	339
- Custody fee	318	465
	2,552	3,193
Fee and commission expense		
- Custody fee	(109)	(187)
- Collection fee	(86)	(161)
Net fee and commission income	2,357	2,845

23. NET INVESTMENT INCOME/(LOSS)

	2009	2008
Net gain/ (loss) on investments carried at fair value through profit or loss	260	(5,414)
Realised gain on sale of available-for-sale investments	299	1,646
Dividend income on investments carried at fair value through profit or loss	123	348
Dividend income on available for sale investments	113	445
	795	(2,975)

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

	2009	2008
Realised gain/ (loss) on sale	170	(4,220)
Unrealised gain/ (loss) representing fair value adjustments	90	(1,194)
	260	(5,414)

24. BROKERAGE AND OTHER INCOME

	2009	2008
Brokerage income	987	2,692
Investment banking income	120	400
Marketing income	1	19
Foreign exchange gain	318	459
Other income	58	89
	1,484	3,659

25. STAFF AND RELATED EXPENSES

	2009	2008
Salaries and allowances	2,315	2,588
Social security costs	105	186
Other costs	44	112
	2,464	2,886

As at 31 December 2009, the Group employed 52 (2008: 53) Bahrainis and 28 (2008: 29) expatriates.

The Group's contributions for the year to the General Organisation for Social Insurance in respect of its employees amounted to BD 105 (2008: BD 104).

Other liabilities include a provision of BD 220 (2008: 179) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

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26. GENERAL, ADMINISTRATION AND OTHER OPERATING EXPENSES

	2009	2008
Rent	103	152
Communication expenses	170	141
Marketing expenses	153	289
Professional fees	109	148
Other operating expenses	174	188
Depreciation	116	99
	825	1,017

27. 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.

	2009	2008
Fee and commission income	767	1,146
Fee receivable	194	291
Investments:		
Available for sale investments		
- Khaleej Equity Fund	620	531
- SICO Selected Securities Fund	154	480
Investments carried at fair value through profit or loss		
- Khaleej Equity Fund	-	-
- SICO Arab Financial Fund	732	638

The details of the own funds under management are in Note 29.

Transactions with shareholders

The Group obtained short term borrowings from its bank shareholder for a total of BD 1,131(2008: Nil). The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilized 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.

	2009	2008
Fee and commission income	257	341
Funds under management	33,692	38,009
Payables	-	-
Deposits	3,518	13,235
Borrowings as at 31 December	1,131	-
Borrowings obtained during the year	1,131	-
Borrowings repaid during the year	-	-

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 to key management personnel are as follows:

	2009	2008
Short term benefits	954	696
Post employment benefits	33	28
Equity compensation benefits	81	50
	1,068	774

General and administrative expenses include BD 10 (2008: BD 34) towards attendance fees and other related expenses for members of the Board and Executive Committee.

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28. EMPLOYEE SHARE INCENTIVE SCHEME

The Group has established an Employee Share Incentive scheme ("the Scheme") 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 Scheme.

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

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme advance account classified under other assets. The employee share incentive scheme share advance account as at 31 December 2009 amounted to BD 998 (2008: 911).

The Group has recognised an employee liability of BD 1,233 (2008: 1,062) 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 2009 in accordance with the rules of the Scheme.

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

	2009		2008	
	No. of shares issued	**Value**	No. of shares issued	Value
As at 1 January	10,957,986	911	1,705,098	323
Shares issued during the year *	739,104	87	1,947,564	588
			3,652,662	911
Bonus shares **	-	-	3,652,662	-
Rights issue allotment **	-	-	3,652,662	-
	11,697,090	998	10,957,986	911

* During the year, the Bank issued 739,104 new shares under the Scheme for the year 2008 as approved by the Board of Directors.

In 2008, the Bank issued 1,947,564 new shares under the Scheme 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).

** As part of the capital increase exercise undertaken in 2008, 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.

29. 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. The bank has commitment to purchase investment of BD 1,210 (2008: Nil) and margin lending drawdown commitments of BD 604.

	2009	2008
Funds under management (net asset value)		
SICO Selected Securities Fund	2,681	3,371
Khaleej Equity Fund	30,930	26,436
SICO Gulf Equity Fund	9,882	13,154
SICO Arab Financial Fund	3,696	6,123
Discretionary Portfolio Management Account	103,332	103,397

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 values 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.
The Bank has hedged its currency exchange risk in British pound for equivalent BD 627.

	2009	2008
Securities under management custody	1,092,094	1,344,333

The Group provides custodianship and nominee services in respect of marketable securities. At 31 December 2009, marketable securities amounting to BD 1,092,094 (2008: BD 1,344,333) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 158,886 (2008: BD 116,298) were registered in the name of the Bank.

30. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

	2009	2008
QAR	24,233	-
US Dollar	12,886	10,673
KWD	1,802	5,724
SAR	5,996	7,948
GBP	1,028	-

All the GCC Currencies except KWD are effectively pegged to the US Dollar at USD 1 = BD 0.377

31. BASIC EARNINGS PER SHARE

	2009	2008
Profit for the year	3,078	(1,399)
Weighted average number of equity shares (In 000's)	424,197	372,949
Earnings per share (in fils)	7	(4)

As per IAS 33, in the case of bonus issue and rights issue, the number of ordinary shares used for the computation of earnings 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.

32. MATURITY PROFILE OF ASSETS AND LIABILITIES

As at 31 December 2009	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	47,848	-	-	47,848
Treasury bills	-	-	-	-
Investments at fair value through profit or loss	2,189	4,351	-	6,540
Available-for-sale securities	-	19,867	-	19,867
Held To Maturity	-	4,740	-	4,740
Furniture and equipment	-	149	-	149
Fees receivable	659	1	-	660
Other assets	1,267	1,506	-	2,773
Total assets	51,963	30,614	-	82,577
Liabilities				
Short term borrowings	1,131	-	-	1,131
Payables to customers	20,332	-	-	20,332
Deposits from customer	5,314	-	-	5,314
Other liabilities	2,046	-	-	2,046
Total liabilities	28,823	-	-	28,823
Liquidity gap	23,140	30,614	-	53,574
Cumulative liquidity gap	23,140	53,754	-	53,754

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 customers	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

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33. ACCOUNTING CLASSIFICATION AND FAIR VALUES

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

31 December 2009	Fair value through profit or loss – held for trading	Available for sale	Held to maturity	Loans and receivables	Others at amortized cost	Total carrying value	Fair value
Cash and bank balances	-	-	-	47,848	-	47,848	47,848
Treasury bills	280	-	-	-	-	280	280
Investments at fair value through profit or loss	6,260	-	-	-	-	6,260	6,260
Available-for-sale investments	-	19,867	-	-	-	19,867	19,867
Investments held to maturity	-	-	4,740	-	-	4,740	5,125
Fees receivable	-	-	-	660	-	660	660
Other assets	-	-	-	1,445	-	1,445	1,445
	6,540	19,867	4,740	49,953	-	81,100	81,485
Short-term bank borrowings	-	-	-	-	1,131	1,131	1,131
Payables to customers	-	-	-	-	20,332	20,332	20,332
Deposits from customers	-	-	-	-	5,314	5,314	5,314
Other liabilities	-	-	-	-	599	599	599
	-	-	-	-	27,376	27,376	27,376

31 December 2008	Fair value through profit or loss – held for trading	Available for sale	Held to maturity	Loans and receivables	Others at amortized 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

Included in AFS category are investments amounting to BD 377 (2008: BD 740) that are carried at cost in the absence of a reliable measure of fair value.

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33. ACCOUNTING CLASSIFICATION AND FAIR VALUES (CONTINUED)

(ii) Fair value hierarchy

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

The table below analyses financial assets carried at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total
As at 31 December 2009				
Available for sale investments				
Funds	-	5,871	1,704	7,575
Equities	4,779	-	-	4,779
Debt Instruments	7,136	-	-	7,136
Trading funds				
Funds	113	2,375		2,488
Debt Instruments	2,312	1,382	-	3,694
Equity	358	-	-	358
Total	14,698	9,628	1,704	26,030

The following table analyses the movement in Level 3 financial assets during the year:

	Level 3 - 2009
At 1 January 2009	1,199
Total gains / (losses):	-
in income statement	-
in other comprehensive income	(327)
Purchases	832
Settlements	-
Transfers into / (out) of level 3	-
At 31 December 2009	1,704
Total gain / (loss) for the year included in income statement for assets / liabilities held as at 31 December 2009	-

Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category which relates to available-for-sale financial assets is assessed as not significant to the other comprehensive income and total equity.

34. 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 Dec 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

In addition, the Bank is in the process of incorporation of three new entities SICO Fund III, IV & V at a capital of BD 1 each.
The following is a summary of the parent's financial statements.

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34. GROUP INFORMATION (CONTINUED)

Parent balance sheet as at 31 December:

As at 31 December	2009	2008
Assets		
Cash and bank	6,610	5,414
Call deposits	1,103	167
Placements with banks	38,048	70,991
Treasury bills	280	8,050
Investments at fair value through profit or loss	6,260	5,008
Available-for-sale investments	19,867	13,483
Held to maturity investments	4,740	-
Investment in subsidiaries	1,554	1,052
Furniture and equipment	147	163
Fees receivable	575	1,034
Other assets	2,762	2,894
Total assets	81,946	108,256
Liabilities		
Bank overdraft	-	-
Short term borrowings	1,131	-
Payables to customers	20,332	35,908
Deposits from customers	5,314	20,926
Other liabilities	2.041	2,066
Total liabilities	28,818	58,900
Equity		
Share capital	42,420	42,346
Statutory reserve	4.102	3,781
General reserve	1,000	1,000
Available-for-sale securities fair value reserve	154	(576)
Retained earnings	5,452	2,805
Total equity	53,128	49,356
Total liabilities and equity	81,946	108,256

Parent income statement for the year ended 31 December:

Year ended 31 December	2009	2008
Income		
Interest income	1,725	1,286
Interest expense	(23)	(165)
Net interest income	1,702	1,121
Net fee and commission income	2,117	2,518
Net investment (loss)/ income	795	(2,975)
Brokerage and other income	1,436	3,596
Operating income	6,050	4,260
Impairment provision on investments	-	(2,173)
Staff and related expenses	(2,307)	(2,735)
General, administrative and other operating expenses	(790)	(981)
Profit/(Loss) for the year	2,953	(1,629)

35. COMPARATIVE FIGURES

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

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