

COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

SICO's net profit increases to BD 5.1 million for the first half of 2014

SICO reported a very strong financial performance for the first six months of 2014, with net profit equalling the total net profitability for the whole of 2013. Net profit for the period increased by 166% to BD 5.1 million compared with BD 1.9 million for the first six months of 2013; while operating income grew by 87% to BD 8.2 million from BD 4.4 million for the same period last year. Basic earnings per share rose from Bahraini fils 4.5 fils to 11.8 fils.

Brokerage and other income increased by 129% to BD 1.6 million, net investment income grew by 94% to BD 3.7 million, and net fee and commission income increased by 108% to BD 2.3 million. Net interest income declined slightly to BD 657 thousand. For the first six months of 2014, total operating expenses, which include staff overheads, general administration and other expenses, rose moderately to BD 2.9 million, compared with BD 2.4 million for the corresponding period in 2013.

As at 30 June 2014, total balance sheet footings had decreased slightly to BD 93.3 million from BD 94.2 million at the end of 2013. Assets under management grew by 13.6% to BD 360 million (US\$ 955mn) from BD 317 million (US\$ 940mn) at the end of the previous year; while assets under custody with the Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – grew by 31% from BD 1.3 billion to BD 1.7 billion.

The Bank continued to maintain a strong capital base, ending the first six months of the year with increased shareholders' equity of BD 62.9 million. The balance sheet remains highly liquid, with a very strong consolidated capital adequacy ratio of 71 per cent. The available-for-sale securities portfolio at the end of June 2014 decreased in size to BD 31.1 million from BD 32.7 million at the end of 2013. Similarly, investments at fair value through profit or loss decreased to BD 15.9 million from BD 19.8 million at the end of the previous year, as part of the Bank's tactical asset allocation.

166%

Net profit growth

Shareholders' equity BD 62.9 million

CEO's Comment - Page 4

Najla Al Shirawi appointed CEO



At the annual general meeting held on 24 March 2014, the board and shareholders of SICO approved the appointment of Ms. Najla M. Al Shirawi as the Bank's new Chief



Executive Officer, with effect from 1 April 2014.

Congratulating Ms. Al Shirawi, the Chairman Shaikh Abdulla bin Khalifa

Al-Khalifa highlighted Najla's successful 16-year career with SICO. An engineer by education, Najla joined the Bank in 1997, and has held various posts including Head of Asset Management and subsequently Investments & Treasury, before being appointed Chief Operating Officer in 2006. She was promoted to Deputy Chief Executive Officer in June 2013. "The Board has every confidence in Najla's ability to lead our team in implementing the next phase of SICO's strategic evolution," he stressed.

Commenting on her appointment, Ms. Al Shirawi stated: "This is a great honour, and I am highly appreciative of the trust placed in me by the board of directors. Backed by a very capable and highly experienced management team, I am committed to building upon the excellent groundwork which has been undertaken since 2001 under the stewardship of Tony Mallis. I see myself and my team further growing and developing SICO's unique capabilities and leadership in the growing GCC economies, while continuing to enhance our Bank's value to all stakeholders."

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Total AUM edge closer to the US\$ 1bn mark

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10th anniversary for Khaleej Equity Fund

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SICO Fund returns for first half 2014

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Assets under management approach US\$ 1 billion

SICO's total assets under management (AUM) increased by 14% from US\$ 840 million at the end of 2013 to US\$ 955 million at the end of June 2014, surpassing the highs recorded before the financial crisis of 2008 by 57%. AUM have grown from less than US\$ 50 million in 2001, when the Bank's GCC asset management business commenced operations.

This positions the Bank as one of the largest boutique investment managers in the region outside Saudi Arabia focused on managing GCC equities and fixed income. Regional and international institutions account for over 98% of total assets under management. These comprise pension funds, financial institutions, sovereign wealth funds, endowments and insurance funds.



Commenting on this significant milestone, SICO's head of asset management, Shakeel Sarwar, said: "With a proven track record spanning more than 14 years, SICO has earned a solid reputation for the quality, innovation and performance of its asset management business. Focused

exclusively on the GCC and MENA, the Bank possesses an in-depth understanding of the regional equity investment environment; and a unique insight into the activities of regional stock markets, key growth sectors and major listed companies."

Underpinned by its disciplined investment strategy and conservative approach, a stable and highly professional asset management team, and the quality of its comprehensive research capability, SICO has developed into a leading and highly-respected institutionally-focused GCC public markets asset manager, providing investors with stable long-term returns that have consistently outperformed benchmarks and peers.

US\$ 955 million
Total assets under management as at end of June 2014

BUSINESS IN BRIEF

Brokerage

During the first six months of 2014, SICO's brokerage business posted another strong performance across all product lines. These comprise direct brokerage services provided in Bahrain and Abu Dhabi (through SICO UAE, which was particularly active); nominee accounts across the GCC plus Egypt and Jordan; and agency services covering all markets. Having established a significant share of overall GCC market trades, SICO is now firmly placed among the leading brokers in the region. The Bank executed the majority of block trades on the Bahrain Bourse during the period, and maintained its status as the leading broker in the Kingdom.

Corporate Finance

Benefiting from renewed interest in capital markets in Bahrain during the first half of 2014, SICO's corporate finance business captured new mandates in advisory and capital market transactions, and built a healthy pipeline for the rest of the year.

Research

In the first half of 2014, SICO Research published a total of 357 reports compared with 335 for the same period in 2013;

and expanded its coverage universe with the addition of four new companies in the banking and petrochemical sectors. The results of a client survey revealed that over 98% of respondents found SICO's research output to be helpful in meeting their investment objectives; while 80% of users of the new SICO research portal rated its usefulness at 'above average'.

Custody and Administration

The Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – won a number of new custody and administration mandates during the first six months of 2014. As a result, assets under custody increased by over 30% to US\$ 4.5 billion at the end of 2013, benefiting also from stock market appreciation.

US\$ 4.5 billion
Total assets under custody with SFS

Khaleej Equity Fund passes 10-year milestone

SICO's flagship Khaleej Equity Fund (KEF) recently completed the first 10 years of operation since being launched at the end of March 2004. The Fund, which seeks long-term capital appreciation by investing principally in equity securities listed on GCC stock markets, is one of the oldest, best-performing and highest-rated funds of its kind in the MENA region.

At the end of March 2014, the Khaleej Equity Fund had achieved a return of 203.9 per cent compared with 77.4 per cent by its benchmark, the S&P GCC Composite Index; and has outperformed the index for the past seven consecutive years. Its annualised

return over the past 10 years has been 11.7 per cent versus 5.9 per cent by the index, and it has consistently ranked in the top quartile of its peers. At the end of its first 10-year period, the Fund – which has a total value of US\$ 85 million – posted its highest-ever NAV of US\$ 304.

Rated regularly since 2007 by leading international agencies, the Khaleej Equity Fund has achieved the highest ratings in the region, as well as being recognised by numerous industry awards, including the prestigious Lipper Awards in 2008 and 2011. The Fund has been cited by industry analysts for its stylistic consistency adapted as part of

a disciplined investment process, supported by a strong and stable management team, robust risk monitoring procedures, positive returns symmetry, and above-average information ratio.

In terms of the Fund's GCC country allocation at the end of March 2014, Saudi Arabia comprised 51 per cent, followed by the UAE at 19 per cent. Kuwait and Qatar accounted for 10 per cent each, with Oman at three per cent and Bahrain one per cent, while the remaining six per cent was allocated to cash. Primary sector allocation consists of banking at 30 per cent and materials at 18 per cent, with real estate and

capital goods at 12 per cent each. The Fund also invests in the telecoms, transport, retail, healthcare, food and beverage, utilities and energy sectors.

204%
KEF 10-year return since inception vs. 77% by benchmark as at 31 March 2014

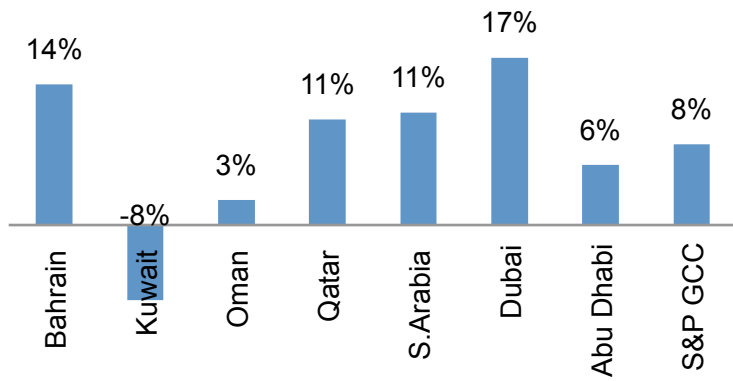
SICO Fund and Benchmark Index Returns for January To June 2014

SICO Fund	Fund Return	Benchmark Index	Benchmark Return
Khaleej Equity Fund	7.1 %	S&P GCC	8.2%
Gulf Equity Fund	7.5%	S&P CGG Ex Saudi	6.1%
Selected Securities Fund	12.0%	Bahrain All Share	14.3%
Kingdom Equity Fund	14.8%	Tadawul	11.5%
Fixed Income Fund	6.3%	Barclays ME Aggregate	5.3%
Money Market Fund	0.45%	2 Months LIBOR	0.11%

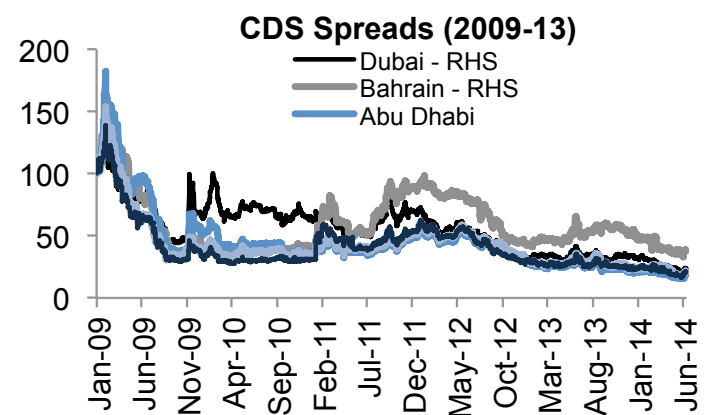
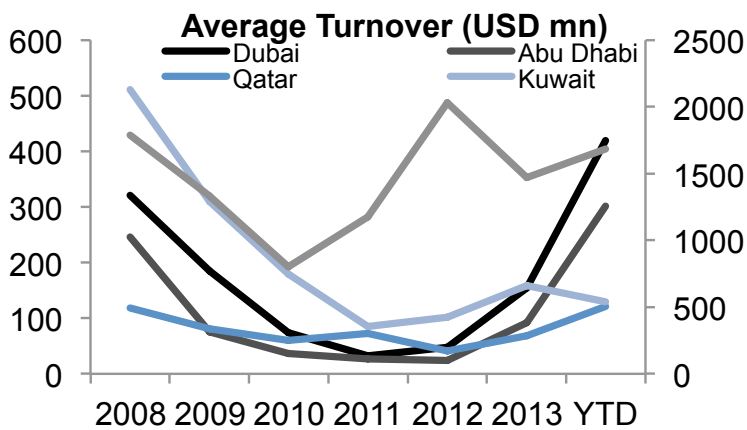
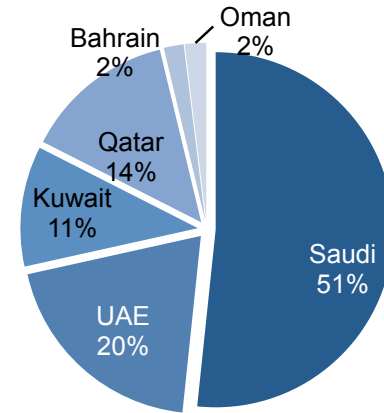
SICO Research: GCC Market Snapshot at 30 June 2014

GCC markets ended the first half of 2014 on a mixed note. Despite the Dubai Index increasing by 59.5% in May, it lost ground in June and finished just 17% higher than at the end of December 2013. The Kuwait market was the worst performer, falling 8% in the first six months of 2014. Average turnover increased significantly year-on-year for all markets, with the exception of Oman and Kuwait. Risk perception, as measured by CDS spread, declined for all countries, especially Dubai and Bahrain which saw a 30% fall in CDS from the end of 2013. The Dubai and Qatari markets remained exceptionally volatile throughout May and June.

Index Returns - 1H14



GCC indices breakdown by market cap

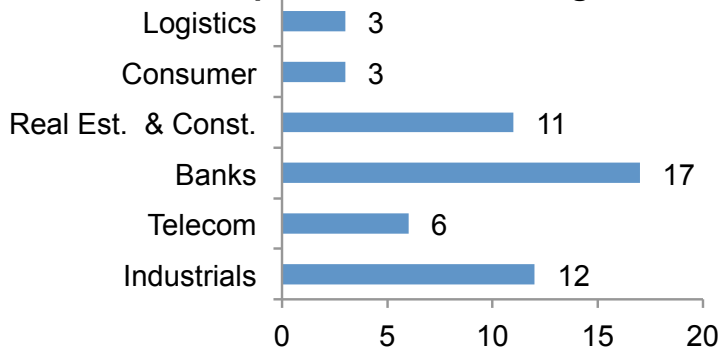


Source: Bloomberg, SICO Research

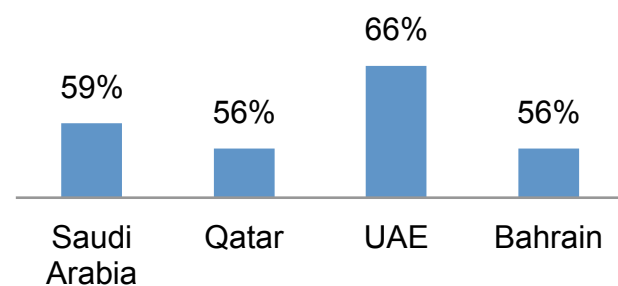
SICO Coverage Universe

SICO research covers over 50 companies across the GCC, with strong coverage in key markets such as Saudi Arabia, the UAE and Qatar.

Companies under coverage



SICO Research coverage - Key GCC countries



Note: Coverage as a % of Market cap of index based companies; UAE includes DFM and ADASM indices

CEO'S MESSAGE

A Winning Team



In my first contribution to Compass as the new Chief Executive Officer of SICO, I would like to look at some of the key underlying factors behind our successful financial performance during the first six months of 2014. Our strong results were highlighted by net profit for the period increasing 166% to BD 5.1 million compared with BD 1.9 million for the first six months of 2013; and significantly, equalling the total net profitability for the whole of 2013.

SICO's very capable and highly-experienced business teams once again demonstrated their ability to create value for shareholders and clients by taking full advantage of continued economic and market recovery. All core business lines generated strong revenues, with net fee and commission income increasing by 108% to BD 2.3 million, which is the best quarterly result since 2007.

Our asset management team's stability and longevity – unmatched in the industry – constitutes a key factor in SICO's consistent performance. This is underpinned by our disciplined investment strategy and conservative approach, and the quality of our comprehensive research capability. With assets under management increasing to US\$ 955 million at the end of June 2014, AUM continue to edge closer to the US\$ 1 billion mark. This underlines SICO's status as a leading and highly-respected institutionally-focused GCC public markets asset manager, providing investors with stable long-term returns that have consistently outperformed benchmark indices and peers.

SICO's brokerage business posted another strong performance across all product lines. These comprise direct brokerage services provided in Bahrain and Abu Dhabi (through SICO UAE, which was particularly active during the period); nominee accounts across the GCC plus Egypt and Jordan; and agency services covering all markets. SICO executed the majority of block trades on the Bahrain Bourse during the period, and maintained its status as the leading broker in the Kingdom. Having established a significant share of overall GCC market trades, SICO is now firmly placed among the leading brokers in the region.

Our brokerage business is supported by the custody services of the Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – which provides our clients investing in equities and fixed income instruments with all their reporting requirements, and handles all corporate actions across all markets. An independent custody and fund administration provider licensed by the Central Bank of Bahrain, SFS offers its services to SICO clients as well as funds domiciled in the Kingdom of Bahrain and abroad. SFS won a number of new custody and administration mandates during the first six months of 2014. As a result, assets under custody increased by over 30% to US\$ 4.5 billion from US\$ 3.4 billion at the end of 2013, benefiting also from stock market appreciation.

Continued proactive management and tactical asset allocation – combined with an opportunistic and risk-averse approach by our investments team – resulted in SICO's net investment income growing by 94% to BD 3.7 million, which is not far short of the BD 4 million reported for the whole of 2013. The investment portfolio is focused on blue chips and attractive names from a valuation point of view in GCC markets with high yields and low multiples. Our treasury business continued to adopt a cautious approach, maintaining deposits with high-quality financial institutions. The Bank maintained a sound and liquid balance sheet, with a very strong capital adequacy ratio of 71%, considerably higher than the requirements of the Central Bank of Bahrain.

Benefiting from the turnaround in M&A activity in Bahrain, our corporate finance business captured new mandates in advisory and capital market transactions. IPO activity in the Kingdom, however, continues to lag behind most other GCC countries, although there are a few potential listings on the horizon for later this year. New public offerings are needed to improve the liquidity and trading volumes on the Bahrain Bourse. With only 49 listed companies, and the majority of shares held by government institutions or large family businesses, the lack of a free float is hindering growth and development of the Bourse.

Looking ahead, we do not expect the GCC markets' exceptionally strong performance during the first six months of the year to be repeated in the second half of 2014, as investors' confidence in the sustainability of the rally started deteriorating as early as June. We also expect the positive momentum in fixed income to slow down, as concerns about the pace of global economic growth that drove investors to safe-haven assets, should subside during the second half of 2014.

Nevertheless, our different business lines give SICO significant room for additional revenues, with a healthy pipeline of mandates and transactions in the areas of asset management, brokerage and corporate finance. We therefore have a positive outlook for the rest of the year, barring of course, any unforeseen events.

Finally, I would like to acknowledge the valuable contribution by our corporate and shared services functions that diligently support our business lines. A world-class support infrastructure is a critical success factor in SICO's vision to be a leading regional wholesale bank, operating to the highest standards of ethics, efficiency, effectiveness and client service. We have a 'winning team' in place to achieve this.

Najla M. Al Shirawi
Chief Executive Officer

Net investment income soars by 94 per cent to BD 3.7 million for the first half of 2014

SICO's investments and treasury business continued its strong performance during the first six months of 2014. Proactive management and tactical asset allocation, combined with an opportunistic and risk-averse approach, resulted in net investment income growing by 94% to BD 3.7 million, not far short of the BD 4 million reported for the whole of 2013.

According to Abdulrahman Saif, Head of Investments & Treasury: "In the first quarter of the year, SICO's investment strategy was geared towards capturing the positive equity trend in the GCC, with an overweight portfolio position towards this asset class, and underweight in fixed income. This balance gradually shifted in the second quarter, with a reduction in our equity position and the addition of fixed income. However, we do not expect the positive momentum in fixed income to continue, as concerns about the pace of global economic growth that

drove investors to safe-haven assets, subsided during the second half of 2014."

The investment portfolio was focused on blue chips and attractive names from a valuation point of view in GCC markets with high yields and low multiples. SICO continued to add floating rate notes (FRNs) to its fixed income exposure, while taking credit risk based on research.

"While the portfolio performed well in the first two quarters, we anticipate a slowdown as we move into the third quarter. With liquidity expected to be lower, triggering higher volatility in the markets, we will be taking an opportunistic stance to add to our investments based on attractive valuations," Abdulrahman Saif pointed out.

SICO's treasury business continued to perform well, delivering slightly higher returns in the second quarter compared

with the first three months. The Bank continued to adopt a cautious approach, maintaining deposits with high-quality financial institutions. Net interest income for the period was BD 657 thousand, compared with BD 1.3 million for the whole of 2013. The Bank continued to maintain a sound and liquid balance sheet, with a very strong capital adequacy ratio of 71%, considerably higher than the requirements of the Central Bank of Bahrain. Treasury results are expected to be in line with budget forecasts for the full year, with healthy trading levels towards the end of the third quarter and beyond.

BD 3.7
million

Net investment
income for first
half of 2014

70.5%
Capital adequacy
ratio (CAR)

SICO people in the news

BAB CEO Quarterly Luncheon

Senior Analyst with SICO Research, Chiradeep Ghosh, addressed the quarterly CEO Luncheon of the Bahrain Association of Banks in June. His presentation entitled 'Buy, Hold or Sell? How Analysts Really Rate Banks', highlighted the basic fundamentals of the GCC banking sector, and revealed what matters most to equity research analysts when they evaluate financial institutions. Chiradeep took a special look at the critical parameters and ratios that interest analysts, in particular capital adequacy ratios and their impact on the profitability and risk profile of banks. He followed his presentation with a live case study.



CEO Power Debate at 10th WIFFMC

Chief Executive Officer Najla M. Al Shirawi was a panelist at the 10th Annual World Islamic Funds & Financial Markets Conference held during May in Bahrain. Najla took part in the CEO Power Debate under the theme of 'Growing the global investor base and expanding the geographic footprint of Islamic investments.' Topics discussed included new standards and consistent screening methodologies; the challenges of cross-border distribution and competitiveness of Islamic funds; and assessing the potential for undertakings for collective investments in transferable securities (UCITS).

MENA Asset Management Conference

Head of Asset Management Shakeel Sarwar was a panellist at the second annual Thomson Reuters MENA Asset Management Conference held during June in Dubai. Entitled 'Strong fundamentals underpin further growth in MENA asset management in 2014', the panel discussed issues such as key trends and opportunities; obstacles to realising the industry's full potential; identifying the most popular asset class in 2014; and key countries that are on the radar of fund managers.

Bahrain Delegation to Russia

Chief Executive Officer Najla M. Al Shirawi was a member of a high-level Bahrain delegation to Russia in April, which was headed by HRH Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Premier. The delegation held talks with Russian business leaders in Moscow and St Petersburg, and attended a forum organised by the Bahrain Economic Development Board, the Russian-Arab Business Council, and the Russia-Bahrain Business Council, aimed at boosting investment between the two countries.

SICO wins AFE 'Best Brokerage House - Bahrain' award

SICO was named 'Best Brokerage House - Bahrain' at the AFE Equities Summit 2014. Fadhel Makhloq, Head of Brokerage, received the award on behalf of SICO at the event held in Dubai on 4-5th June. This annual conference, which is hosted by the Arab Federation of Exchanges (AFE) in partnership with Thomson Reuters, brings together leaders of the Arab financial markets with regional and international experts. The annual event provides highly-relevant and interactive content, addressing key issues within the equities space for all concerned stakeholders; and also offers valuable networking opportunities.



New Team Members & Career Movers

Welcome to the following new SICO team members: Ayman Moussa Gadallah (Corporate Finance); Anoop Mark Fernandes (Research); Kunal R. Damle (Brokerage); Harikrishnan N.S. (Financial Control); and Ashraf Abdul-Farttah, Khamis Hasan Shennawi, Mohammed Ashker and Amani Khaled Al Haj (SICO UAE).

Happy Staff Occasions

Congratulations to the following staff on their new babies: Ali Alalawi from SICO Funds Services Company - SFS (twin girls); Hussain Najati from Investment & Treasury (twin girls); Basma Ali Reza from Asset Management (baby girl); Siddarth Chaudhary from Internal Audit (baby boy); Aysha Al Balooshi from Clients Relations (baby girl); Chiradeep Ghosh from Research (baby girl); Khalil Ahmed Shamsi from financial Control (Baby Boy); and Alya Makhloq from SICO Funds Services Company - SFS (baby boy).

SICO Executive Training Programme

Congratulations to the following Executive Trainees who have recently taken up permanent employment with SICO: Sara A. Qader Saeed, who joined Financial Control in January 2014; and Mohammed Al Shafei, who joined Brokerage in February 2014. And welcome to Mariam Mustafa who joined the SICO Executive Training Programme in June 2014.

Latest Headcount

At the end of June 2014, headcount for the Group totalled 95 people compared with 91 at the end of 2013. The breakdown is 73 for SICO HQ, 10 for SFS, and 12 for SICO UAE.