

COMPASS

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SICO initiates new landmark fund to enhance liquidity and depth of the Bahrain Bourse



Shaikh Khalifa bin Ebrahim Al Khalifa
CEO of Bahrain Bourse

The Bahrain Liquidity Fund was launched in June 2016 with the aim of enhancing and deepening the Kingdom's stock market. The brainchild of SICO, the Fund is supported by a number of key market participants comprising prominent Bahrain financial institutions, and the Central Bank of Bahrain and the Bahrain Bourse.



Ms. Najla M. Al Shirawi
Chief Executive Officer of SICO

With assets in excess of USD 100 million, the Bahrain Liquidity Fund has the scale to make a significant impact on market liquidity, improve valuations over the long-term, and gradually increase the free float for stocks traded on the Bourse. The Fund will act as a market maker, providing two-way quotes on most of the listed

stocks, with a reasonable spread to allow investors to actively trade their stocks.

The Fund's seed investors comprise Osool Asset Management, BBK, Mumtalakat Holding Company and NBB, together with SICO as the Fund Manager. They all have aligned interests in enhancing the vibrancy and depth of the Bahrain Bourse; and have supported this landmark initiative from its initial stages, investing in the Fund either by cash, shares in kind or a combination.

By improving liquidity, the Fund aims to address one of the primary concerns that has made investing in stocks listed on Bahrain Bourse less attractive, albeit the prevailing attractive valuations. Restricted liquidity currently causes securities to trade at a discount to their underlying value and regional peers.

Shaikh Khalifa bin Ebrahim Al Khalifa, Chief Executive Officer of Bahrain Bourse, said: "Capital markets have a very important role to play in funding

economic and business growth in Bahrain. They have the potential to enable businesses to grow faster and create more jobs and greater prosperity, but they will only be able to do this if they have enough liquidity."

The Bahrain Bourse has seen a number of initiatives and reforms in recent months. These include the introduction of the Bahrain Islamic Index (the first in the GCC); the active trading of Bahraini government bonds, Sukuks and treasury bills; new listing rules and guidelines for real estate investment trusts (REITs); and a minimum free float requirement for issuers.

Ms. Najla M. Al Shirawi, Chief Executive Officer of SICO thanked all participants for their contribution and unprecedented support in realising this initiative. "More liquid capital markets can provide real benefits to the economy. They are the heart of any economy through which savings are deployed into long-term investments. A well-developed and vibrant capital market will contribute immensely to higher economic growth and diversity."

Shakeel Sarwar named in MENA FM Power 50

Head of SICO Asset Management, Shakeel Sarwar, has been included in the latest Mena Fund Manager Power 50, which lists 'the most influential and powerful figures in the region's asset management community', according to annual research conducted by this prestigious financial publication.

Joining the Bank in 2004, Shakeel has led the growth of SICO into one of the most reputable asset managers in the region, focused on managing MENA equities and fixed income; with total assets under management exceeding US\$ 1 billion as at 30 June 2016.



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SICO maintains profitability for the first six months of 2016



140%
NET PROFIT INCREASE
Q2 VS. Q1 IN 2016

US\$ 1.02bn
TOTAL AUM GROW BY 16
PER CENT FROM END-2015

"A commendable performance by SICO"

Shaikh Abdulla bin Khalifa Al Khalifa
Chairman of the Board

SICO posted a net profit of BD 422 thousand for the first half of 2016 compared with BD 3.53 million for the first six months of 2015, a decrease of 88 per cent reflecting the challenging economic and market environment during the period. Operating income totalled BD 3.65 million versus BD 6.78 million for the same period last year. Basic earnings per share were Bahraini 0.99 fils against 8.25 fils for the first six months of 2015.

For the second quarter of 2016, net profit was BD 715 thousand compared with BD 2.12 million for the corresponding period in 2015, with operating income at BD 2.31 million against BD 3.79 million the previous year. Basic earnings per share

were Bahraini fils 1.67 compared with 4.96 fils in the second quarter of 2015. Total operating expenses decreased to BD 1.59 million from BD 1.67 million in the second quarter of 2015.

Commenting on these results, SICO Chairman Shaikh Abdulla bin Khalifa Al Khalifa, said: "Given another period of challenging economic and market conditions, SICO posted a commendable performance for the first half, with net profit for the second quarter increasing by 140 per cent over the first three months of the year. It is encouraging to note that albeit a very difficult operating environment, SICO managed to maintain profitability in the first half of the year and grow assets under management by 15.9 per cent to US\$ 1.02 billion.

"The management team will remain conservative in this period of volatility, and continue to focus on providing clients with innovative investment solutions to navigate through these challenging market conditions, backed by our deep insight into regional markets."

Year to date, interest income increased to BD 532 thousand from BD 342 thousand a year earlier. The contribution to operating income by net fee and commission income was BD 1.26 million (1H15: BD 1.82 million), while brokerage and other income contributed BD 823 thousand (1H15: BD 1.01 million). Net investment income amounted to BD 1.03 million (1H15: BD 3.61 million). For the first six months of 2016, total operating expenses, which include staff overheads, general administration and other expenses, reduced to BD 3.23 million (1H15: BD 3.25 million).

Assets under management continued to grow during the first half of 2016, reaching BD 385.11 million (US\$ 1,021.53 million) versus BD 332.33 million (US\$ 881.53 million) at the end of the previous year. Assets under custody with the Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – decreased marginally to BD 1.64 billion (US\$ 4.35 billion) from BD 1.69 billion (US\$ 4.48 billion) at year-end 2015.

As at 30 June 2016, total balance sheet footings had increased to BD 123.15 million from BD 112.76 million at the end of December 2015; while shareholders' equity stood (net of dividends paid

during the year of BD 2.14 million) at BD 56.34 million compared with BD 58.43 million at the end of the previous year. Investments at fair value through profit or loss increased to BD 14.45 million from BD 14.25 million at year-end 2015, with available-for-sale investments reducing to BD 28.32 million from BD 30.24 million.

SICO Chief Executive Officer, Ms. Najla M. Al Shirawi, noted: "Even though GCC markets had a positive second quarter, with the S&P Composite Total Return Index appreciating by 2.7 per cent compared to a depreciation of 3.7 per cent during the first quarter; market participants showed limited interest in GCC equities, with the aggregate turnover across regional markets declining by 36 per cent year-on-year in the second quarter. In contrast, fixed income had a very strong first six months, ending up 4.8 per cent after a negative start to the year. This was driven mainly by the recovery in oil prices, alongside gradually changing expectations of no interest rate hikes by the US Federal Reserve for the remainder of 2016.

"All our lines of business were impacted by the poor market performance and the steep decline in trading activities; however, they all showed resilience against the headwinds experienced in the first half of this year. This is a reflection of clients' confidence in SICO's ability to deliver superior returns in the long term, and the introduction of new strategies under the fixed income platform."

SICO asset management performance update

Total AUM pass US\$ 1 bn

Total equity and fixed income AUM with SICO continued to grow during the first half of 2016, passing the US\$ 1 billion mark. As at 30 June 2016, total AUM amounted to US\$ 1.02 billion (BD 385mn) compared with US\$ 881.5 million (BD 332.3mn) at the end of 2015.

Two fund milestones

The SICO Gulf Equity Fund (SGEF) and SICO Kingdom Equity Fund (SKEF) celebrated the completion of 10 and 5 years, respectively. During this period, SGEF returned 46% versus minus 20% by the S&P GCC Ex-Saudi index; while SKEF achieved a positive return of 32% versus 7% by the S&P Saudi Index.

Fund liquidated

The SICO Selected Securities Fund, which invests in securities listed on the Bahrain Bourse, was liquidated on 31 March 2016. The Board of Directors took this decision because the size of the fund had declined substantially, and it was no longer beneficial to unit holders due to the fees charged.

SICO FUND PERFORMANCE VERSUS BENCHMARKS FOR JANUARY - JUNE 2016

SICO Fund	Fund Return %	Benchmark Index	Benchmark Return %
Khaleej Equity Fund	-1.2	S&P GCC	-1.1
SICO Gulf Equity Fund	-0.3	S&P GCC Ex-Saudi	1.7
SICO Kingdom Equity Fund	-3.7	S&P Saudi	-2.9
SICO Fixed Income Fund	3.8	Barclays EM GCC Bond	4.8

SICO appointed first qualified market maker on Bahrain Bourse under new market making rules and guidelines



SICO CEO Najla Al Shirawi, (centre) with BHB CEO Shaikh Khalifa, (second from right) with other officials at the signing ceremony at the Bahrain Bourse

The Bahrain Bourse (BHB) has approved the appointment of SICO as the first qualified market maker on the stock exchange. This follows the introduction of new BHB Market Making Rules and Guidelines, which are designed to enhance the professionalism of market making activities on the Bourse in accordance with international standards. The appointment was marked by a signing ceremony between BHB Chief Executive Shaikh Khalifa bin Ebrahim Al Khalifa, and SICO Chief Executive Ms. Najla Al Shirawi, on 28 May 2016.

As a qualified market maker, SICO will seek to create a continuous balance between supply and demand, and bridge the gap between the buy and sell prices. SICO will also make bids and offers for shares available, along with the volumes required for buy and sell, and will find the balance price for the security by entering the bids and offers of securities.

Shaikh Khalifa welcomed SICO as the first qualified market maker, and wished them every success. He assured BHB's continuous commitment and keenness to develop the investment environment in Bahrain's capital markets sector in cooperation with related parties in a way that would satisfy the various needs of securities issuers and investors.

"Market making is one of the factors that the BHB has realised is very important in developing and enhancing the investment environment," he said. "BHB was eager to finalise all related legal, technical and administrative aspects in order to add value to market makers' presence at the Bourse by increasing the depth of the market and making investment in the BHB more attractive to investors, and positively reflected in trading activity.

"We hope to witness more market makers at the Bourse, especially now that BHB Board Resolution 5 of 2015, relating to a minimum free float of listed companies, makes the presence of market makers feasible to both investors and market makers," Shaikh Khalifa added.

SICO has 21 years' experience in making a market on the BHB for selected stocks, post-IPO listings, cross listings, matured listings, and global depository receipts; together with placing and advising on sovereign and corporate fixed income issues.

According to SICO Chief Executive Najla Al Shirawi: "Having pioneered the concept of market making on the Bahrain Stock Exchange in 1995, we are delighted that SICO has been approved as the first qualified market maker on the Bahrain Bourse under the new BHB rules and guidelines. Having played a major role in making a market on Bahraini equity and fixed income securities, we will continue to offer our services and coverage of Bahrain's capital markets.

"SICO welcomes and supports new initiatives and reforms by the Central Bank of Bahrain and the Bahrain Bourse to provide greater depth and liquidity on the Bourse, which will further enhance the confidence of regional and international investors," Ms. Al Shirawi noted



Wissam Haddad
Head of SICO Corporate Finance

SICO completes share swap between Gulf Hotels Group and Bahrain Tourism Company in record time

Chief Executive Officer of SICO, Ms. Najla Al Shirawi, congratulated Gulf Hotels Group on the successful share swap, and thanked the Central Bank of Bahrain and the Bahrain Bourse for their respective professional guidance and cooperation, resulting in the transaction, which featured an innovative streamlined process, being completed smoothly and efficiently, and in record time.

The share swap was managed in full compliance with the Takeovers, Mergers & Acquisition (TMA) Module of Rule Book Volume 6 of the Central Bank of Bahrain, and with regulatory requirements of the Bahrain Bourse. The transaction involved the swap of 72 million shares of Bahrain Tourism Company (BTC) with Gulf Hotels Group (BHOTEL) shares at a share exchange ratio of one new BHOTEL share for every 2.261 BTC shares.

Shareholders at the extraordinary general meeting of GHG approved an increase in the Group's paid up capital from BD

17.4 million to BD 20.5 million through the issuance of 31.8 million new BHOTEL shares of BHD 0.100 par value, which were utilised to swap with 100 per cent of BTC's 72 million shares.

According to SICO's Head of Corporate Finance, Mr. Wissam Haddad: "The transaction, one of the first of its kind in Bahrain, represents an attractive opportunity for the shareholders of both GHG and BTC. Consolidation is no longer a luxury in the hospitality sector, with new hotels coming into Bahrain on what seems like almost a daily basis. Synergies resulting from the transaction will result in enhanced market share, pricing power and reduced costs, benefiting shareholders and the Group's customers.

"Current consolidation in this sector is not unique to Bahrain or the region, as we have seen this globally with the recent share swap transaction between Marriott International and Starwood Hotels & Resorts," he noted.

US\$
69mn

VALUE OF SHARE SWAP
BETWEEN GHG AND BTC

16
days

RECORD NUMBER OF
WORKING DAYS TO
COMPLETE SHARE SWAP

SICO is lead manager for landmark BBK perpetual tier 1 convertible capital securities offering



BBK CEO Reyadh Sater (fifth from left) rings the opening bell at the Bahrain Bourse (BHB) on 3 May 2016 to mark the listing of the Bank's capital securities in the presence of BHB CEO Shaikh Abdulla (fifth from right) and SICO CEO Najla Al Shirawi (fourth from left) and other officials.

SICO was mandated as lead manager for BBK's BD 100 million perpetual tier 1 convertible capital securities offering on a privileged basis to shareholders. The capital securities offer an attractive annual interest rate of 8.25 per cent for the first five years, after which the rate will be reset to the equivalent of 3-month Bahraini Dinar Interbank Offered Rate (BHIBOR) plus 5.86 per cent. Interest will be payable on 2 May and 2 October each year, commencing on 2 October 2016.

The capital securities, being perpetual, have no fixed or final redemption date; and may only be redeemed at the Issuer's option after a minimum period of five years after issuance, unless they have been converted by the Issuer.

An option to convert the securities, in whole or in part, into ordinary shares of BBK has been reserved. This option could be exercised in any one of three years – 2019, 2020 or 2021 – subject to approval of BBK shareholders at an extraordinary general meeting.

The subscribed capital securities totalled BHD 86.1 million, representing over 86 per cent of the total subscription offering. Commenting on the result, BBK Chief Executive, Mr. Reyadh Yousif Sater, said: "We would like to thank the Bank's shareholders for their positive response to this offering, which surpassed our minimum threshold of BD 60 million by a significant margin. In addition to the direct impact of such a capital issuance on enhancing BBK's regulatory capital base and capital adequacy buffers, the increase in capital will be used to fund the Bank's ambitious strategy of future expansion and diversification."

Capital securities constitute a form of capital with specific features that comply with regulations applied to banks to meet their regulatory capital requirements; and which have been continuously strengthened by the Central Bank of Bahrain in line with the Basel Committee on Banking Supervision since the global financial crisis of 2008.

Ms. Najla M. Al Shirawi, Chief Executive of SICO, said: "As lead manager for the offering, we would like to congratulate BBK on the results of this landmark issuance, which we regard as highly encouraging given the current challenging market conditions. This is the first-ever BHD-denominated tier 1 perpetual securities issuance, which incorporates unique features including a conversion to equity only option, no contractual write-down, and tradability on the Bahrain Bourse. As such, it provides another example of the innovative corporate finance solutions provided by SICO."

BBK's capital securities were listed on the Bahrain Bourse on 3 May 2016. Congratulating BBK on the listing, Chief Executive of Bahrain Bourse, Shaikh Khalifa bin Ebrahim Al Khalifa, said: "The landmark listing underlines the ongoing initiatives by the Central Bank of Bahrain and the Bahrain Bourse to bring new products and services to the stock market. These are designed to strengthen the competitiveness of the Bourse, and enhance its appeal to local, regional and international investors, both institutional and individual."

SICO operating subsidiaries performance update

SFS wins additional regional mandates

Despite challenging market conditions including increased competition, the Bank's wholly-owned custody and administration subsidiary – SICO Funds Services Company (SFS) – won new custody and administration mandates from leading regional financial institutions during the first six months of the year. Assets under custody with SFS stood at US\$ 4.35 billion (BD 1.64 billion) as at 30 June 2016.

**US\$
4.35bn**

**TOTAL ASSETS UNDER
CUSTODY WITH SFS
AS AT 30 JUNE 2016**

SICO UAE rises in DFM rankings

The Bank's Abu Dhabi-based brokerage subsidiary, SICO UAE, continued its improvement in performance during the first half of 2016. The Company signed up a number of new regional institutional clients and increased its market share. The subsidiary also improved its ranking on the Dubai Financial Market (DFM) rising eight places to 25 out of a total 48 brokers.

SICO adopts CFA Institute global asset management standards and code of conduct

SICO has joined a select group of asset managers in the MENA region that have claimed compliance with the Global Investment Performance Standards (GIPS) issued by the CFA Institute.

GIPS constitute a single global standard and ethical framework for the calculation and presentation of the investment performance history of asset management firms. These standards, which are based on the fundamental principles of full disclosure and fair representation of performance results, enable investors to make meaningful comparisons between investment managers across the world.

Commenting on this achievement, SICO Chief Executive Ms. Najla Al Shirawi, said: "GIPS compliance reinforces SICO's pioneering commitment to adopt the highest international standards and global best practice; and to protect the interests of our shareholders and clients above all else. Our investment performance can now be compared

credibly with asset managers across the globe, providing prospective institutional clients with a greater degree of confidence in the presentation of SICO's historical performance information."

Independent verification

SICO's compliance with these standards was independently verified by Ashland Partners & Company, a global pioneer in GIPS verification services. GIPS compliance covers all SICO discretionary portfolios and funds in multiple composites defined by investment mandate, objectives and strategy; and cover investment performance for the past five years.

According to Mr. Jason Millard, a Partner with Ashland Partners: "We are delighted to have assisted SICO in claiming compliance with GIPS. This demonstrates a strong commitment to providing investors with full disclosure and transparency in performance results. We commend SICO for leading the MENA region, and look forward to continuing our work with them."

Code of Professional Conduct

SICO has also adopted the CFA Institute Asset Manager Code of Professional Conduct. The code defines the ethical and professional responsibilities of firms that manage assets on behalf of clients. It covers key factors such as loyalty to clients, the investment process, trading, risk management and compliance, performance evaluation and disclosure. For investors, it provides a benchmark of ethical conduct that they should expect from asset managers, and offers a higher level of confidence in firms that adopt the code.

CFA Institute

As the global association for investment professionals, the CFA Institute is a champion for ethical behaviour in investment markets, and a respected source of knowledge in the global financial community. The end goal is to create an environment where investors' interests come first, markets function at their best, and economies grow.

Strong AUM growth and new products from Fixed Income



Ali Marshad
Head of Fixed Income

SICO's Fixed Income division posted a strong performance for the first six months of 2016, with fixed income assets under management growing

by 35 per cent to US\$ 165 million (BD 62mn). The trading desk was also successful, with more than US\$ 430 million of bonds and Sukuks changing hands. The SICO Fixed Income Fund maintained its positive performance, delivering a return of 4 per cent for the period. SICO continues to be the most active player in the local issuance secondary market, both on the Bahrain Bourse and in the over-the-counter (OTC) market.

According to Ali Marshad, Head of Fixed Income: "We recognise that in today's environment of low interest rates and changing demographics,

SICO's ability to create added value for clients has become more important than ever. With this in mind, we structured and executed the Bank's first derivative transaction through a total return swap, adding to its array of fixed income solutions which include discretionary management, brokerage, leverage and short-term bills. We also strengthened our focus on meeting the needs of SICO's Sharia-compliant clients, putting together Bahrain's first Islamic repurchase agreement (repo) to provide leverage on Sukuks."

SICO 1H16 NUMBERS

BD
3.65mn

OPERATING INCOME

BD
3.23mn

OPERATING EXPENSES

BD
422,000

NET PROFIT FOR THE PERIOD

BD
123.2mn

TOTAL BALANCE SHEET FOOTINGS

BD
56.3mn

SHAREHOLDERS' EQUITY

US\$
1.02bn

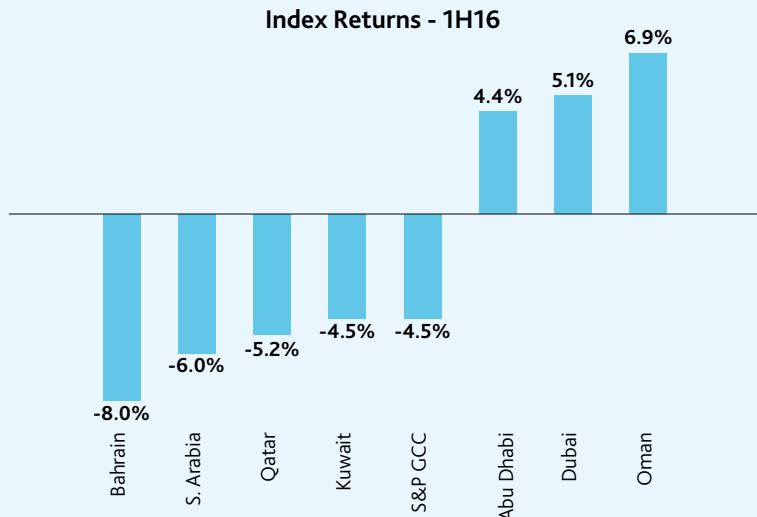
TOTAL AUM WITH SICO AT 30 JUNE 2016

SICO Research: GCC Market Snapshot at 30 June 2016

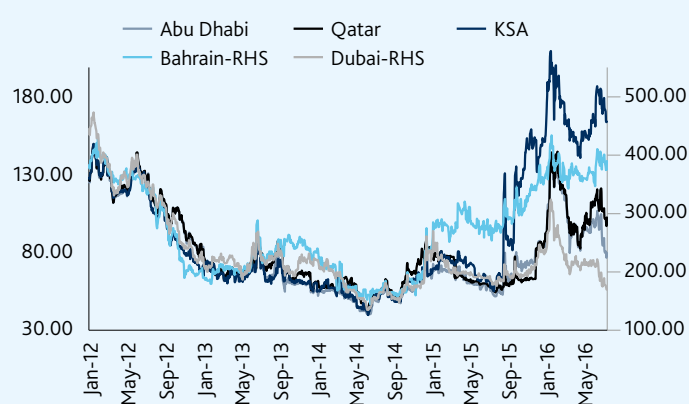
The UAE and Oman markets were the key outperformers in the GCC for the first half of 2016, generating mid-single-digit positive returns. Attractive valuations and earnings support led to their strong performance. All other regional markets underperformed, with Bahrain being the worst performer. The impact of a low oil price regime is clearly visible on the fundamentals and credit standing of

all countries, with CDS spreads widening from the lows witnessed in 2014. In addition, aggregate market turnover declined by 36 per cent year-on-year in the second quarter across the GCC, as investors became risk averse, shying away from equity exposure; while leverage (margin lending) also declined during the first six months of 2016.

Index Returns - 1H16

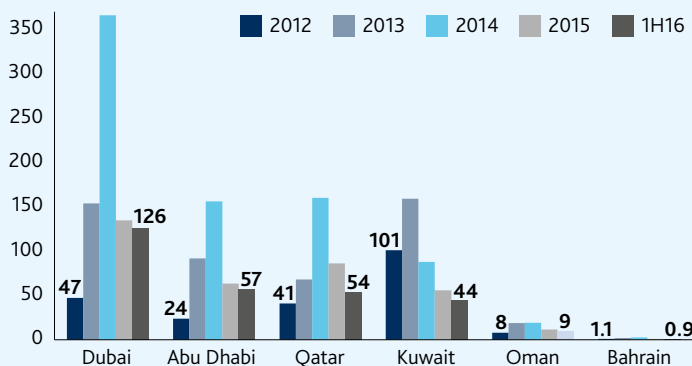


CDS Spreads (2012-1H16)

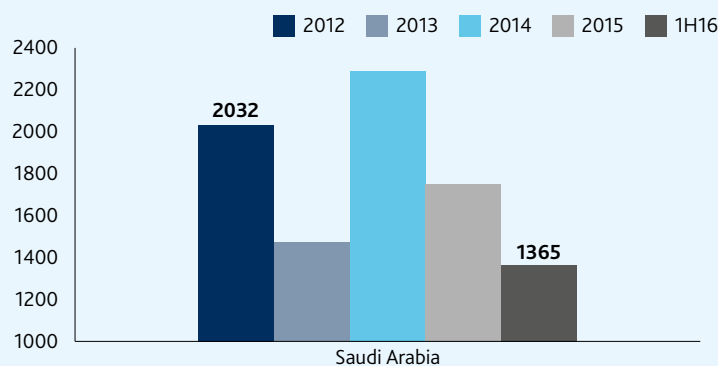


Source: Bloomberg

Average Turnover (USD million)

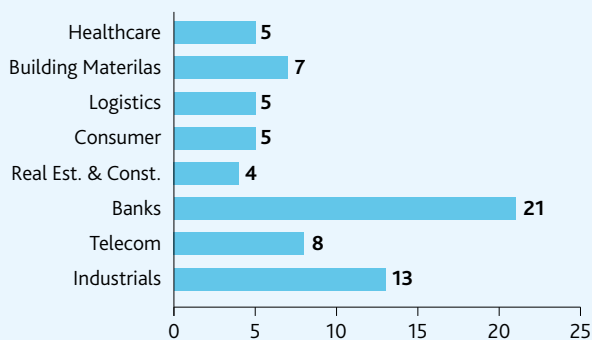


Average Turnover (USD million)

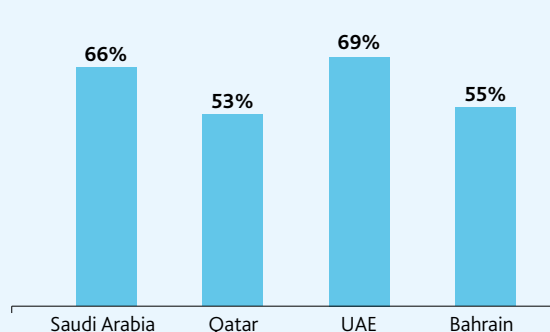


Source: Bloomberg

Companies under Coverage



SICO Research Coverage - Key GCC Countries



Note: As a % of index M. cap

Compass Guest Article

Welcome to a new addition to Compass, involving guest writers covering a timely and thought-provoking topic of their choice. For this issue, Chiradeep Ghosh, Banking Senior Analyst with SICO Research, takes a look at the implications – positive and negative – of investing in negative-yielding bonds.

Paying to Save – The Story of Negative-Yielding Bonds



At the end of June 2016, all bonds issued by the Swiss government were yielding negative interest rates, even those with a maturity of 50 years. It is estimated that a third of all developed world government debt is now offering a negative yield. In layman's terms, should investors wish to hold these bonds until maturity, they would be paying or effectively losing money every year, similar to paying a bank for keeping their

deposits. Not unreasonably, such behaviour could be considered irrational – if not insane – but then why are people buying these bonds?

Of the total return a fund is going to make on its investments, yields on the bond is just one element. For example, if a US-based fund manager believes that the Euro or Swiss franc will surge against the US dollar, he could bet on the currency appreciation of the local currency bond to offset the negative return it will generate. Also, the counterparty risk (that the borrower may default) is considerably lower when investing in government bonds compared with parking money in a bank.

Declining interest rates

With inflation in negative territory, there is always a likelihood of central banks cutting interest rates further, which would lower funding costs of the banks and other borrowers. In line with a decline in interest rates, the yield of a bond would come down further, suggesting a higher value of the bond. Simply stated, an investor may be willing to buy a bond at a yield of minus 0.5 per cent if he believes that he can sell it off at a negative 1 per cent yield, and make a gain.

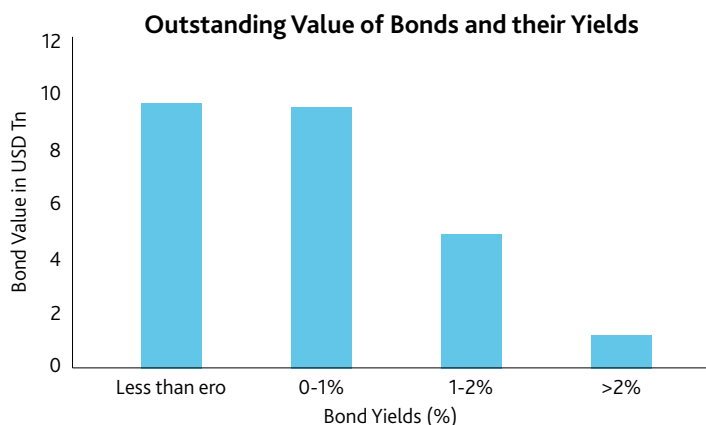
There could also be investors who are looking for the real rate of return. That is, if they expect negative inflation rates to be lower than the negative yield on bonds, it is worth their investment. For example, if they believe a certain

country will witness 3 per cent deflation, they may be happy to take out their money from shares and real estate, and invest it in government bonds in which they might lose 0.5 per cent.

Why invest in government bonds?

The logical question is why not just hold cash with a bank and avoid losing anything, rather than investing in government bonds? There are a number of reasons for such a decision. First, it would come with a counterparty risk for the bank, which a fund manager may not be willing to take. Second, banks which are investing, have to set aside capital linked to how they invest their money. The capital required for investment in government bonds is almost nil, while it is much higher for interbank lending, hence it is more attractive for banks to invest in sovereign bonds. Third, with a negative interest rate imposed by some central banks on cash deposits, it may be followed by banks charging sub-zero rates to institutional investors. And fourth, fixed income-focused funds with a size of US\$ 150-250 billion, have a mandate to invest only in sovereign funds, hence they are forced to use these instruments.

Theoretically, negative interest rates are positive for the economy, since governments can raise money at lower than principal, and can spend it to boost their economies. Even other corporate bond rates come down with a decline in sovereign bond yields. Practically speaking, however, we have not yet seen a revival of economic growth in countries with negative yields. It is definitely negative for banks as their margins contracts, since retail depositors can hold cash instead of lending it to banks at negative rates while yields on bank assets continue to decline. It is also negative for long-term funds such as pension and endowment funds, since they keep receiving fresh inflows, which have to be invested at sub-zero rates or in riskier assets.



Source: SICO Research, Bloomberg
Note: June 30,2016

	Duration of Bonds (in years)									
	1	2	3	4	5	6	7	8	9	10
Switzerland	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Germany	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Japan	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Belgium	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Grey	Grey
Sweden	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Grey	Grey
France	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Grey	Grey
Ireland	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Grey	Grey
Czech	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Grey	Grey
Italy	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Grey	Grey
UK	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Grey	Grey
US	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey

Source: SICO Research, Bloomberg
Note: Aug.2016

Blue Negative Yields Grey Positive Yields

Message from the CEO

Innovation in action



Several news stories in this issue of Compass – which covers the first six months of 2016 – showcase SICO's continued development of innovative investment banking solutions, and the Bank's enduring contribution to the development of Bahrain's capital markets and banking sector, and the local community. This in turn supports the ongoing business development, and social and economic growth of the Kingdom. Such activities also illustrate SICO's ability to think outside the box even in times of unprecedented global market volatility and uncertainty, and regional geo-political turmoil.

In the first example, SICO initiated the development and launch of the US\$ 100 million Bahrain Liquidity Fund in collaboration with a number of key markets participants. With assets in excess of USD 100 million, the Fund has

the scale to make a significant impact on market liquidity. More liquid capital markets can provide real benefits to the economy. They are the heart of any economy through which savings are deployed into long-term investments. This development illustrates SICO's support for important reforms and initiatives being introduced by the Central bank of Bahrain and the Bahrain Bourse to enhance the liquidity, depth and competitiveness of the stock market.

Second, SICO acted as Issue Advisor and Lead Manager for the US\$ 69 million share swap between Gulf Hotels Group and Bahrain Tourist Company. One of the first of its kind in Bahrain, the transaction featured an innovative streamlined process, and was completed in record time. Such consolidation will strengthen Bahrain's hospitality sector against increased competition in the region's tourism industry.

Third, SICO was mandated as Lead Manager for the issuance and listing of BBK's BD 100 million perpetual tier 1 convertible capital securities offering on a privileged basis to shareholders. This is the first-ever BHD-denominated issuance of its kind, which incorporates unique features including a conversion to equity only option, no contractual write-down, and tradability on the Bahrain Bourse. As such, it provides another example of the innovative corporate finance solutions provided by SICO.

Fourth, SICO was appointed as the first qualified market maker on the Bahrain Bourse under new market making rules and guidelines, which are designed to enhance the professionalism of market making activities on the Bourse in accordance with international standards. The appointment reflects SICO's track record as a market maker for the past 21 years, a concept which it pioneered for the first time in the GCC in 1995 on the Bahrain Stock Exchange. Market making plays an important role in developing and enhancing the Kingdom's investment environment.

Fifth, in another example of innovation, SICO introduced new products to augment its fast-growing range of Fixed Income solutions. These include developing Bahrain's first Sharia-compliant repurchase agreement (repo) to provide leverage on Sukuks; and the Bank's first derivative transaction through a total return swap. In today's environment of low interest rates and changing demographics, SICO's ability to create added value for clients has become more important than ever.

Sixth, in July 2016, SICO joined a select group of asset managers in the MENA region that are compliant with the Global Investment Performance Standards (GIPS) issued by the CFA Institute. GIPS compliance reinforces SICO's enduring commitment to adopt the highest global standards and best practice; and to

protect the interests of its shareholders and clients above all else. SICO has also adopted the CFA Institute Asset Manager Code of Professional Conduct., which defines the ethical and professional responsibilities of firms that manage assets on behalf of clients.

Finally, moving away from business activities, I would like to highlight a heart-warming and uplifting story in this issue of Compass. This illustrates one aspect of SICO's commitment to corporate social responsibility through its financial support for the Thinkinc Foundation. This Bahrain-based charity helps children from the less-privileged sections of society in the Kingdom with autism or related disorders, by providing access to Applied Behaviour Analysis (ABA) therapy, which otherwise their families could not afford.

In conclusion, it has been a very active, productive and encouraging first six months of the year for SICO, underlined by another profitable financial performance. I would like to thank all our stakeholders who have made this possible – including our shareholders, board of directors, and management and staff; together with our business partners and the Kingdom's regulatory authorities.

Najla. M. Al Shirawi
Chief Executive Officer

Maximising life outcomes for autistic children in Bahrain

As part of its corporate social responsibility programme, SICO provides financial support for the Thinkinc Foundation, a UK-registered, Bahrain-based charity committed to helping children in the Kingdom with autism or related disorders, by providing access to Applied Behaviour Analysis (ABA) therapy. This highly-respected therapy is backed by over 60 years of scientific research, and is the only intervention recommended for the treatment of autism by the US Center for Disease Control and the American Pediatrics Association.

Achieving the optimal outcome for a child with autism requires a highly-trained team, which means that good therapy

comes at a high cost. Autistic children need several hours of ABA activity daily to achieve their maximum outcome. For many families in Bahrain, this is simply unaffordable, since the Kingdom's universal health coverage does not extend to treatment for autism and related disorders. Furthermore, lower income families are unlikely to have employer-provided private health insurance that is extensive enough to cover this cost.

Currently, Thinkinc Foundation funds daily one-on-one ABA therapy for two Bahraini children – Farjes and Faisal – as well as regular training for their parents to continue the therapy at home. The mother of five-year-old Farjes was not

able to find a school that would take her daughter. She is now receiving four hours of ABA therapy a day. Farjes can transition between buildings at the treatment centre independently of her mother for her ABA sessions. The team of therapists who look after her are very impressed with her progress. Farjes has begun to speak more than expected, and now benefits from weekly speech and language therapy sessions to further improve the quality of her emerging speech.

For nine-year-old Faisal, daily one-on-one ABA therapy has replaced his special needs school, where he had been facing many difficulties. He needed a

highly-skilled ABA team to provide data-based instruction to develop the communication and living skills he was not able to acquire at the school. The focus of his therapy programme is developing the independent living skills that he currently needs at home, and that he will need in adulthood. His clinical team reports that Faisal is making good progress.

For more information, visit www.thinkinccfoundation.org.

SICO People and Events

CFA Institute ME Investment Conference

SICO was a sponsor of the CFA Institute Middle East Investment Conference, hosted with the CFA Society Bahrain, which took place during April 2016 in Bahrain. The conference brought together international thought leaders, policymakers, industry experts, and key market participants to consider the most pressing issues facing investors today, under the theme 'Beyond Borders: MENA's Role in the Global Economy'.

Commenting on the Bank's sponsorship, SICO Chief Executive Najla Al Shirawi said: "The Bank is a long-standing supporter of the CFA Society Bahrain and its enduring commitment to promote the highest standards of professional excellence and integrity, and contribute to the development of Bahrain's capital markets. In a climate of volatile oil prices, heightened geopolitical tensions, and regional governments' fiscal reforms, which continue to affect the investment climate across the Middle East, this is a most timely forum for international and regional investors to discuss current and future challenges, and exchange views on latest developments and trends."

AFE Equities Summit Brokerage Award

SICO was honoured for the third consecutive year with a special award by the Arab Federation of Exchanges (AFE) at the AFE Equities Summit 2016 held during April in Jordan. SICO received the award for the 'Highest Traded Shares on the Bahrain Bourse in 2015' in recognition of being ranked first in terms of the highest value of transactions on the Bourse during the year. The Bank handled 4,651 transactions involving 270 million shares with a total value of BD 71.2 million (US\$ 188.7 million), constituting a leading market share of 32.4 per cent.

Receiving the award from AFE Chairman and Amman Stock Exchange CEO Nader Azar, and AFE Secretary General Dr. Fadi Khalaf, SICO Head of Brokerage Fadhel Makhloq said: "Despite trading volumes across all GCC markets declining by 32 per cent during the year, Brokerage grew its client base, extended its provision of value-added advisory services to clients including in-depth market research, and made a positive contribution to the Bank's total revenues."



Middle East Asset Management Forum

Mr. Shakeel Sarwar, SICO Head of Asset Management, was a guest speaker at the Middle East Asset Management Forum, which took place in Bahrain during May 2016. An initiative by the Central Bank of Bahrain and the Bahrain Asset Managers Association, and sponsored by SICO, the Forum brought together asset management professionals, policymakers and regulators, and industry experts, to discuss the most pressing issues facing the regional asset management industry and investors, under the theme 'The Road Ahead in the MENA Investment Industry'.

"The MENA asset management industry has immense growth potential, as represented by the region's low assets under management (AUM) as a percentage of GDP; as well as the comparison of AUM managed by large global managers with regional players. In order to realise the industry's full potential, key challenges regarding the regulatory and legal framework, corporate governance, development of regional capital markets, and lack of qualified professionals, need to be addressed and resolved by all concerned stakeholders," Mr. Sarwar commented.



Women's Empowerment Conference

SICO Chief Executive Najla Al Shirawi was invited to speak at a keynote women's empowerment conference held in Kuwait during April 2016. Organised by Alghanim Industries and Gulf Bank, this non-profit conference was entitled 'Women in the Corporate World: Beyond the Glass Ceiling'. It brought together some of the most influential women in the GCC who have broken through the glass ceiling to reach the highest levels in their respective fields.

"It is highly encouraging to note that in the latest WEF Global Gender Gap Report, Bahrain's overall score has improved by 9.3 per cent since the report was first published 10 years ago; and that its score in the Economic Participation & Opportunity Index has soared by 48 per cent, which is the highest improvement recorded by any country in the world. This means that Bahrain is providing more opportunities for an increasing number of women to participate in the economic and business activities of the Kingdom," she pointed out.



Happy Staff Occasions

Births: Ali Mohammed A. Redah,
Internal Audit: Baby Boy

Latest Headcount

	SICO	SFS	SICO UAE	Total
30 June 2016	75	10	13	98
31 December 2015	76	9	14	99

New Joiners

Mariam Alqattan, Administrative Officer, HR & Administration
Shaima Teraif, Custody Officer, SFS
Abdulla Almeer*, Analyst, Fixed Income
Dana Sahwan*, Analyst, Asset Management

[*]Joined from SICO Executive Training Programme]

Promotions

The following staff have been promoted to a higher grade:

Abdulhameed Khonji, Asset Management (transferred from Investments & Treasury)
Rami Jamal, Asset Management
Khalil Shamsi, Financial Control
Hussain Ahmed, Operations
Manual Al Mutawa, Fixed Income
Aysha Al Balooshi, Client Relations
Najla Ali, Client Relations
Zahra Abbas, SFS

SICO Executive Training Programme

New Trainees:

Mohammed Buhejji (with Asset Management)

Professional Qualifications

Manuel Almutawa, Fixed Income: CFA Level 2 Exam
Rami Jamal, Asset Management: CFA Level 1 Exam