

C O M P A S S

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

Net profit increases 23 per cent to BD 3.8 million in 2010

SICO posted a strong financial performance in 2010, significantly outperforming its peers in the GCC region. Net profit for the year was BD 3.8 million, up 23 per cent over BD 3.1 million for 2009. Total operating income increased by 23.3 per cent to BD 7.8 million compared with BD 6.4 million the previous year, while basic earnings per share grew to Bahraini fils 8.9 versus 7 fils for 2009.

273%

Increase in investment income

While the financial markets remained volatile during the year, the Firm benefited from buoyant global and GCC equity and fixed income trading conditions. As a result, trading revenues and investments at fair value both increased substantially. Net investment income grew by 273 per cent to BD 2.968 million compared with BD 795 thousand for 2009.

Net interest income decreased to BD 1.5 million, net fee and commission income dropped to BD 2.3 million, and brokerage and other income declined to BD 1.14 million, reflecting the low cost interest environment, the dearth of capital and debt raising opportunities, and the reduced share turnover in GCC equity markets.

\$10.4 million

Increase in investment income

Increased activity by SICO's asset management business resulted in funds under management growing by 34 per cent to

total BD 201 million as at 30 December 2010. At the same time, increased inflows to the Firm's subsidiary, SICO Funds Services Company, generated a growth in securities under custody to BD 1.3 billion.

34%

AUM growth

The Firm's balance sheet, which contracted slightly to BD 81.2 million, remained highly liquid, with cash and bank balances of BD 35.4 million; shareholders' equity grew by 6 per cent to reach BD 56.7 million at the end of the year.

Commenting on the 2010 results, SICO Chairman, Shaikh Mohammed bin Isa

Al-Khalifa, said: "SICO's solid results in a relatively difficult and volatile year, underscore the continued effectiveness of the Firm's consistent strategy and prudent management principles based on product and asset class diversification. They also highlight the dedicated commitment of the SICO team to deliver high quality and innovative services with the utmost integrity and professionalism and retain the confidence of loyalty of our clients, while continuing to set a benchmark in their respective areas of operation."

BD 1.3 billion

Securities under custody

SICO Arab Financial Fund is star performer

Two industry awards, market-leading returns, and an S&P 'A' rating affirmation, underline the continued stellar performance of the SICO Arab Financial Fund during 2010. The fund was named 'MENA Equity Fund of the Year' and 'Specialist Fund of the Year' by MENA Fund Manager magazine. The judging panel noted that 'the fund has demonstrated consistent growth over the past three years, with relatively low standard deviation, and was again a best-in-class performer in 2010. It stood out for its impressive year-to-date returns.'

The fund, which recently closed its third year, strongly outperformed its benchmark and other regional funds in 2010, with a return of 25.2 per cent versus the S&P GCC Financial index of 9.6 per cent. Since its launch in August 2007, the fund has produced a return of 21.6 percent compared with its benchmark of -30.6 per cent. The first and only fund of its kind, the SICO Arab Financial Fund invests in financial sector securities listed on MENA region stock markets.

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SICO number 1 on Bahrain Bourse for 12th year running

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Research output increases with 501 reports published

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SICO TEAM UPDATE

During 2010, David Halstead - Head of Operations, and Bassam Khoury - Head of Brokerage, resigned from SICO. These vacancies were filled by Amal Al Nasser, SFS General Manager, returning to her previous position as Head of Operations; and Fadhel Makhloq, Head of Investments & Treasury, returning to his previous post of Head of Brokerage. A new General Manager, Mark Said, was recruited for SFS; and Abdulrahman Saif was promoted from within the Firm to Head of Investments & Treasury.

Amal Al Nasser

Head
of Operations



Amal joined SICO in 1997. She was Head of Operations for 10 years before being appointed General Manager of SFS, a wholly-owned subsidiary of SICO, on its establishment in 2006. Before joining SICO, Amal spent 10 years with ALUBAF Arab International Bank in Bahrain, working in the areas of credit, investment and commercial banking operations.

Fadhel Makhloq

Head
of Brokerage



Fadhel joined SICO in 2004. He was Head of Brokerage for five years before being appointed Head of Investments & Treasury in 2008. Prior to joining SICO, he worked for a number of leading financial institutions including Investcorp and Chemical Bank (now JPM Morgan Chase).

Mark Said

General Manager
SICO Funds Services Company (SFS)



Mark has over 18 years' experience covering the US and the Middle East, in financial administration, operations management, custody and accounting, and financial control. Prior to joining SICO, he was with SAIB BNP Paribas Asset Management in Saudi Arabia. Before this, Mark worked in the US for Columbia Management, the investment division of Bank of America; MFS Investment Management; and State Street Bank.

Abdulrahman Saif

Head
of Investments & Treasury



Abdulrahman joined SICO in 2003. He has over 10 years' experience in investments and treasury. Prior to joining SICO, he was with the Asset Management team at Taib Bank. He has also worked for Gulf International Bank and Arab Banking Corporation.

SICO maintains leading position on Bahrain Bourse

For the 12th successive year, SICO maintained its status as the leading broker on the Bahrain Bourse (previously the Bahrain Stock Exchange), and continued to be the preferred broker of choice for larger trades. In 2010, SICO completed 9,511 transactions, equating to 24.20 per cent of all transactions on the Bahrain Bourse. This represented a total trade volume of 552 million shares or 45.03 per cent of total market volume, with a total value of BD 94 million or 43.16 per cent market share by value of shares traded. SICO also managed

the majority of transactions generated by non-national investors, which accounted for over 50% of the Bourse's turnover.

SICO has established a significant share of overall GCC market trades, despite being based in Bahrain, which places the Firm among the leading brokers in the region. Currently, 30.6% of SICO's brokerage activities outside Bahrain are in the Kingdom of Saudi Arabia, followed by 13.5% in Qatar, 13.3% in the UAE and 10.7% in Kuwait.

Bahrain Bourse

45%

SICO share of total
market volume 2010

12th

Successive year as leading
broker on Bahrain Bourse

New awards in 2010

SICO

Bahrain Best Brokerage House

- Global Investor

Bahrain Best Asset Management House

- Global Investor

Bahrain Asset Manager of the Year

- Mena Fund Manager

SICO Arab Financial Fund

Mena Equity Fund of the Year

- Mena Fund Manager

Specialist Fund of the Year

- Mena Fund Manager

SICO equity funds perform well in 2010

Overall, SICO's equity funds recorded a strong performance in 2010, with all four funds ending the year on a positive note.

The SICO Arab Financial Fund produced a return of 25.2 per cent compared with 9.6 per cent by the S&P GCC Financial Index, while the SICO Selected Securities Fund outperformed the Bahrain Bourse All Share Index with a return of 4.8 per cent versus -1.8 per cent.

The Khaleej Equity Fund also performed well, with a return of 14.1 per cent against 12.8 per cent by its S&P GCC Index. The return of the SICO Gulf Equity Fund was

11.6 per cent versus 18.4 per cent by the S&P GCC Ex-Saudi Index.

The new SICO Money Market Fund was launched in May 2010, so the first year's performance figures for this fund are not yet available. With six funds now listed on the Bahrain Stock Exchange, SICO has established a reputation as a major GCC-focused asset management house in Bahrain and the Gulf region.

Underlying the continued strong performance of SICO equity funds in 2010 is the Firm's prudent investment approach, characterised by conservative asset

allocation and a bottom-up value-driven approach rather than indexing the portfolio to a benchmark. With a keen emphasis on highly selective stock-picking, the asset management team seeks out undervalued equities that have strong business fundamentals, top quality management, and the potential to outperform.

SICO invests in stocks that offer high dividend yields in order to enhance portfolio income, while avoiding companies that rely on non-operating and non-recurring income. The overall objective is to achieve medium to long-term capital appreciation.

SICO funds realigned

SICO completed a realignment of its equity funds in 2010 to bring them closer to international benchmarks.

Changes include the provision of weekly instead of monthly liquidity; the implementation of a high watermark for performance fees for all funds; a change of Registrar; and a common Custodian for all funds. The risk management process was reviewed and strengthened, with enhanced internal guidelines and more stringent liquidity criteria.

New initiatives implemented to strengthen governance

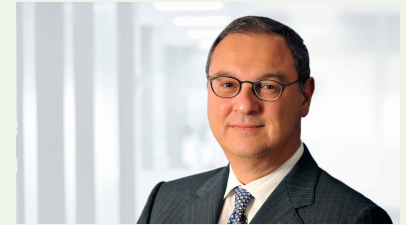
During 2010, SICO continued to strengthen its corporate governance and risk management framework. Initiatives implemented during the year include establishment of a new Board committee – the Corporate Governance Implementation Committee. The charter of this new committee is to develop, review and recommend changes from time to time in SICO's corporate governance policy framework in line with the regulations of the HC Module of Rule Book Volume 1

of the Central Bank of Bahrain (CBB). The committee has undertaken a review of the new Code of Corporate Governance for the Kingdom of Bahrain issued by the Ministry of Industry & Commerce in March, and related revisions to the HC Module of the CBB.

During 2010, SICO reinforced its focus on risk management, which has evolved into an area of strength and core competence for the Firm. Proactive measures taken during the year include the appointment

of Operational Risk Coordinators (ORCs) in each department. The Firm conducted workshops to ensure that ORCs fully understood their roles and responsibilities; raise awareness of operational risks and controls; and work towards instilling a risk management and compliance culture throughout the Firm. Another important development was the establishment of a new Internal Control Unit as part of Financial Control to enhance the Firm's internal control framework.

MALLIS AFORETHOUGHT



Volatility is the name of the game

If there is one word that characterises the continued aftermath of the global financial crisis, it is volatility. Looking back at 2010, it really was a year of 'ups and downs', month by month and quarter by quarter, highlighted by the peaks and troughs of oil prices and regional equity markets. The extreme volatility of market conditions shows no signs of abating, and is likely to continue for the foreseeable future. We therefore have to get focused on how to deal with it. If the past is an indicator, economic crises in the Gulf lead to wide-ranging economic reforms, with serious restructuring seeming to occur when government finances are stressed.

In my opinion, what makes the current economic phase even more interesting is that unlike previous crises, parts of the banking industry and private sector, especially family businesses, are now in substantial distress, while governments are in a healthier financial state. So banks, companies and family firms will need to remodel themselves if they wish to survive for the long term. The challenge now is to consolidate, recapitalize and redesign the business model, with shareholders needing to accept the fact that the days of exaggerated returns are truly over. It will require getting back to basics, focusing on core competencies, and identifying key areas of differentiation and competitive advantage.

One positive by-product of the global financial crisis is that we finally seem to be seeing the creation of a viable GCC debt market, underpinned by governments' credit. Off that 'curve' we should hopefully see corporates breaking their dependency on bank debt. We will witness substantial demands being put on GCC equity markets as financial institutions recapitalize, with GCC governments disengaging at some point from institutions that they 'stabilised'. We are already seeing a modest stream of rights issues being undertaken, particularly in Bahrain, which I believe is a weather vane for the region, as part of an effort to bulk up capital. They will come thick and fast in 2011. Volatility is the name of the game, and we are all players, whether we like it or not. The trick is working out how to play the game . . . and end up winning.

Anthony C Mallis
Chief Executive Officer

SFS expands services and grows securities under custody

The Firm's subsidiary, SICO Funds Services Company (SFS), expanded its range of custody and fund administration services during 2010, and also grew its revenues. The Depository Participant Agreement signed with the Bahrain Bourse (BB) earlier in the year, enables the Company to provide custody of BB-listed securities to local, regional and international investors.

SFS is also an approved Security Agent and Mortgage Agent, providing custody and agency of securities involved in a transaction between two parties.

The Company also entered the area of electronic trading during the year, acting as a custodian of over-the-counter (OTC) securities by major clearing houses such

as Euroclear. Despite challenging market conditions and increased competition, SFS was successful in growing its revenues and securing a number of new mandates in 2010. Increased inflows generated a growth in total securities under custody to BD 1.3 billion at the end of the year.



SICO boosts research output by 21 per cent

During 2010, SICO published a total of 501 research reports, an increase of 21 per cent over the 414 reports issued the previous year. Of these, 147 were detailed company and sector reports compared with 88 in 2009, a rise of 67 per cent. The Firm added 14 new companies during the year, including Aramex, Almarai, Air Arabia, Doha Bank, Samba and Yanbu National Petrochemicals, bringing total coverage to 56 listed companies in the GCC.

The Firm's regular reports comprise the daily GCC Market Watch, weekly Bahrain Market Watch, fortnightly Petrochemicals Round-up, monthly Oil Markets Update, and periodic GCC Strategy Outlook Reports. Access to SICO's research reports, which are widely recognised for the quality of both their analysis and writing, has been widened to include Thomson Financial / First Call, Reuters, Bloomberg, Capital IQ and Advantage Data, as well as via the Firm's website.

New core banking system on track

The first stage on the implementation of SICO's new core banking system (CBS) has progressed during 2010, which involves development, delivery and installation with functional and user testing planned for 2011. With a total investment exceeding BD 1.5 million, the CBS project is the largest capital expenditure incurred to date by SICO. Also during the year, as part of the Firm's business continuity planning policy, a new disaster recovery site, featuring both 'hot' and 'warm' functionality, was successfully tested.

First-of-its-kind corporate finance mandate

SICO's corporate finance team secured a number of financial advisory mandates during 2010, including one in the Sharia-compliant financial sector. In a first-of-its-kind mandate, the Firm acted as Financial Adviser to the independent shareholders in the fully-subscribed US\$ 1.11 billion priority rights issue by Arab Banking Corporation in March 2010.



Investment income grows by 273 per cent

Taking advantage of improved trading conditions during the year, SICO increased its trading risk stance. The Firm was one of the first institutions to recognise the opportunities in fixed income, and also increased its use of ETFs as a trading tool. Net investment income grew by 273 per cent to BD 2.97 million in 2010 compared with BD 795 thousand for 2009.

Investments at fair value through profit or loss increased by 163 per cent to BD 16.6 million as at 30 December 2010 compared

with BD 6.3 million at the end of 2009, while available-for-sale investments rose 23 per cent to BD 24.4 million from BD 19.9 million in 2009. The Firm's held-to-maturity investments, which comprised GCC-originated securities, and were understated in terms of their mark-to-market value, were realised in the fourth quarter. Cash and bank balances declined from BD 47.8 million at the end of 2009 to BD 35.4 million as at 31 December 2010, representing 44 per cent of the balance sheet versus 58 per cent in 2009.