بنك استثماري
sico
Investment Bank

SETTING A BENCHMARK

Annual Report 2010

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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Setting a benchmark

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

Securities & Investment Company (SICO) provides a select range of specialist solutions – 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 Bourse in 2003 as a closed company, SICO operates under a conditional 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 of the Kingdom of Bahrain, and the Firm's staff through the Employee Stock Ownership Plan.

As the premier market maker and broker on the Bahrain Bourse, a highly reputed GCC equity fund manager, and a leading provider of corporate finance solutions, SICO has consistently set a benchmark for the regional investment banking industry since it commenced operations fifteen years ago.

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, and 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

During 2010, operating income increased by 23.3% to BD 7.8 million, while net profit rose to BD 3.8 million, an increase of 23% over 2009.

TOTAL REVENUE BD Million	2010	2009
Investments	2.968	.795
Brokerage	.632	.987
Asset Management	2.037	2.234
Corporate Finance	.90	.120
Other	.672	.50

RETURN ON AVERAGE ASSETS
Annual Ratio

2006	7%
2007	17%
2008	-2%
2009	4%
2010	**5%**

EARNINGS PER SHARE (FILS)
Annual Ratio

2006	29
2007	38
2008	(4)
2009	7
2010	**8.9**

COST-TO-INCOME
Annual Ratio

2006	38%
2007	25%
2008	87%
2009	50%
2010	**51%**

RETURN ON AVERAGE EQUITY
Annual Ratio

2006	14%
2007	36%
2008	-3%
2009	6%
2010	**7%**

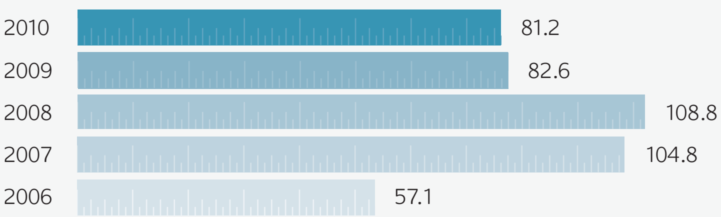
DIVIDENDS PER SHARE (FILS)
Annual Ratio

2006	8
2007	10
2008	-
2009	5
2010	**6**

NET INTEREST MARGIN
Annual Ratio

2006	3%
2007	3%
2008	4%
2009	7%
2010	**4%**

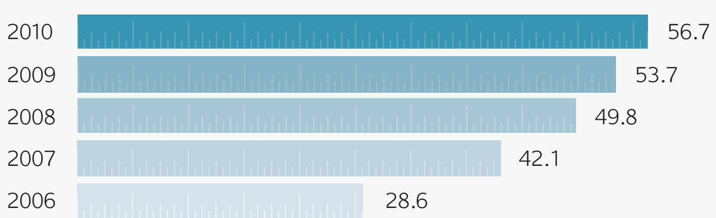
TOTAL ASSETS BD Million



BD81.2m

Total assets for 2010

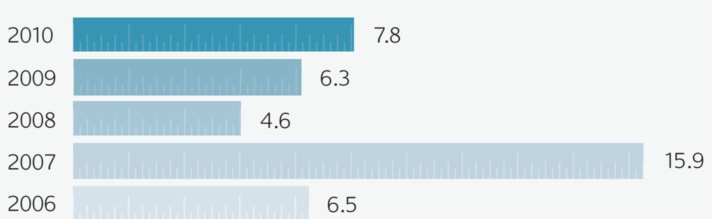
SHAREHOLDERS' EQUITY BD Million



+5.6%

Increase in shareholders' equity for 2010

TOTAL REVENUE BD Million



+23.3%

Growth in total revenue in 2010

Chairman's Statement

Shaikh Mohammed bin Isa Al Khalifa
Chairman of the Board

On behalf of the Board of Directors, it is my pleasure to present the fifteenth annual report and consolidated financial statements of Securities & Investment Company (SICO) for the year ended 31 December 2010. I am delighted to announce that, despite extremely testing market conditions, this proved to be another successful and eventful year for our Firm, during which we continued to set a benchmark for the industry. Positive financial results and sound strategic progress were supported by a strengthened institutional capability and a number of significant business achievements.

FINANCIAL RESULTS

SICO posted a solid financial performance for 2010 with a net profit of BD 3.8 million compared with BD 3.1 million for 2009. While the financial markets remained volatile, during the second half of the year the Firm benefited from buoyant trading conditions coupled to strong global and regional fixed income markets, and a turnaround in GCC equity markets. As a result, investments at fair value and held to maturity investments both increased substantially; while funds under management and securities under custody witnessed significant organic growth. Throughout the year, we continued maintaining a liquid balance sheet, underlined by strong capital ratios that were substantially higher than the minimum requirements of the Central Bank of Bahrain.

BUSINESS ACHIEVEMENTS

The combined prudent and proactive approach of the SICO team resulted in all business lines contributing to the Firm's revenues and profits during 2010, and continuing to set a benchmark in their respective areas of operation. We retained our position as leading broker and market maker on the Bahrain Bourse for the 12th consecutive year; secured a number of important new mandates; launched the first money market fund to be offered by a Bahraini fund manager; and expanded our research services. In addition, SICO Funds Services Company became the first national firm to be appointed as a custodian on the Bahrain Bourse.

STRATEGIC DIRECTION

These results confirm the continued success of the Firm's consistent strategy: to focus on serving the GCC region; grow and diversify our business and revenue; pursue a best-of-class, client-focused business model; and maintain a disciplined approach to managing our costs, risk and capital.

INSTITUTIONAL CAPABILITY

Throughout the year, we continued to strengthen SICO's institutional capability. In line with latest regulatory requirements, including Basel 3. We reviewed and enhanced our corporate governance and risk management framework, and also established a new Internal Control Unit. In addition, we resumed recruitment, continued our substantial investment in training and development, and progressed with the first stage of the implementation of the Firm's new core banking system.

ECONOMIC AND MARKET BACKGROUND

SICO's positive performance in 2010 was achieved against an uncertain global economic background and challenging regional market conditions. International and GCC markets partially recovered ground during the second half of the year, after posting their worst monthly performance in May, and ending the second quarter in negative territory. Developments during the year included the evolving economic crises of EU peripheral members, and successful stress tests by European banks; the introduction of Basel 3; the Wall Street Reform Bill in the US; the November round of quantitative easing by the US Federal Reserve; China's continued but seemingly unbalanced growth; Korean Peninsula tensions; and oil pricing stabilisation, with Brent crude ending the year at US$ 95 per barrel. In one way or another, these affected the US Dollar trade weighted value, perceptions on EU sovereign debt, inflation, and further global currency tensions.

"The combined prudent and proactive approach of the SICO team resulted in all business lines contributing to the Firm's positive financial results in 2010, and continuing to set a benchmark in their respective areas of operation."

OUTLOOK

The recovery of oil prices from their trough of US$ 67 per barrel in May 2010 has strengthened the robust underlying macroeconomic fundamentals of the GCC for next year. While the lack of liquidity, a stressed banking sector, and lethargic credit activity in the GCC continue to be a cause for concern, the medium and long term economic outlook for the region remains positive. SICO is well positioned to take advantage of new business opportunities as markets continue their recovery.

APPROPRIATIONS

Based on the Firm's 2010 financial results, the Board is recommending the following appropriations for approval by the shareholders:

1. Transfer of BD 379 thousand to the General Reserve.
2. Payment of a cash dividend of BD 2,552 thousand to shareholders, representing 6 per cent of paid-up capital.

Total shareholders' equity is BD 56.7 million compared with BD 53.7 million in 2009.

ACKNOWLEDGEMENTS

In conclusion, I would like to acknowledge 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 Bourse, for their continued guidance and support.

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

Shaikh Mohammed bin Isa Al Khalifa
Chairman
Represents Social Insurance Organisation - Bahrain

Hussain Al Hussaini
Vice Chairman
Represents National Bank of Bahrain - Bahrain

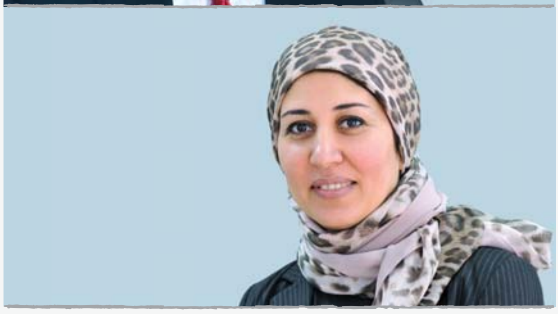
Anwar Abdulla Ghuloom
Director
Represents Social Insurance Organisation (Pension Fund Commission) - Bahrain

Mahmoud Al Zewam Al Amari
Director
Represents Arab Banking Corporation - Bahrain

Meshary Al-Judaimi, CFA
Director
Represents Gulf Investment Corporation - Kuwait

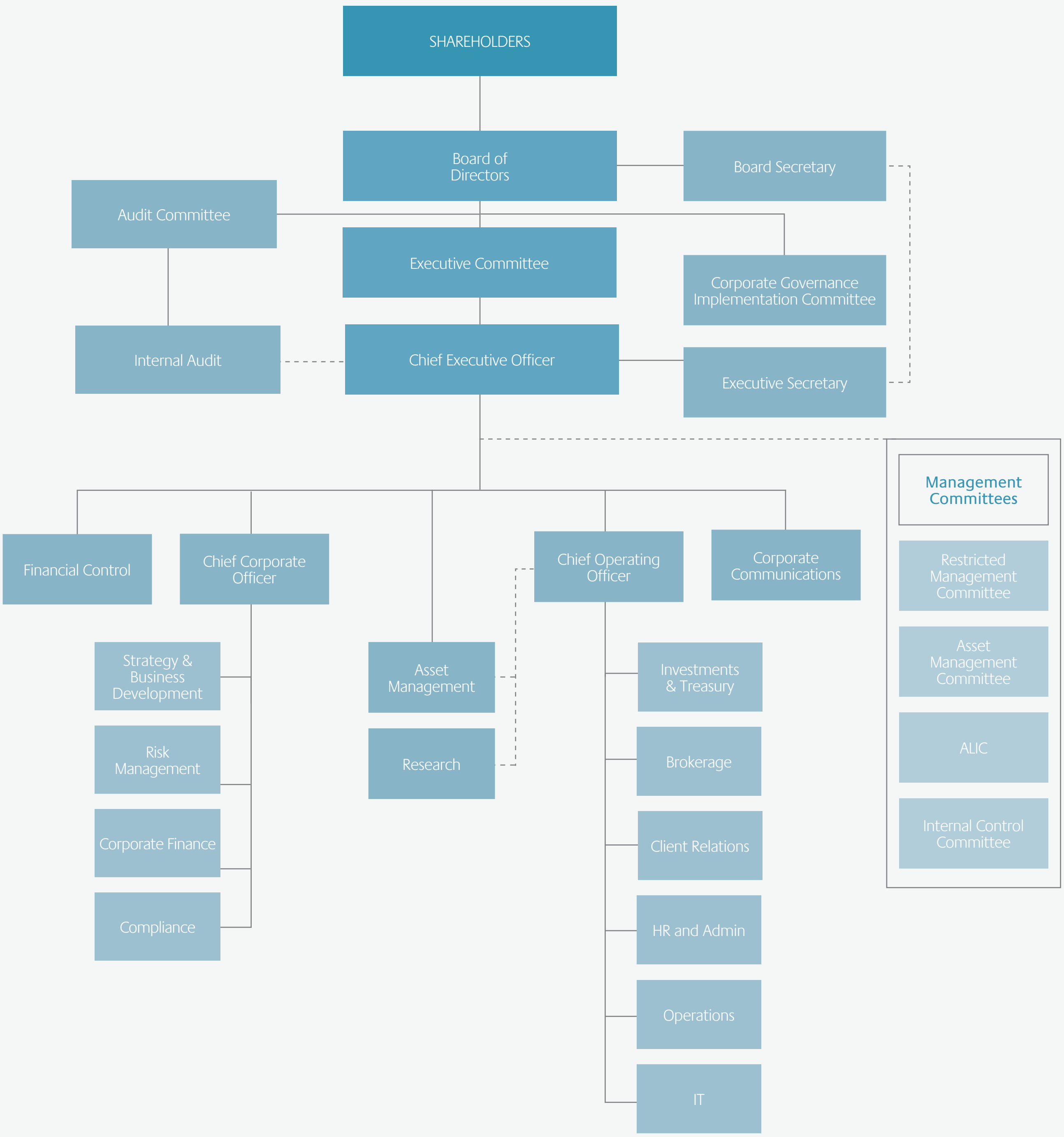
Mohammed Abdulla Isa
Director
Represents BBK - Bahrain

Khalid Al Rumaihi
Director
Represents Arab Investment Resources Company - Bahrain



Sawsan Abulhassan
Director
Represents Ahli United Bank - Bahrain

Governance & Organisation Structure



Setting a benchmark

Since pioneering the market making concept on the Bahrain Bourse in 1997, SICO has maintained its status as the sole official **market maker** on the Bahrain Bourse and one of the GCC's premier market makers. Since 1999, the Firm has been the **premier broker** on the Bahrain Bourse and managed the majority of large transactions on the Bourse. SICO is also the broker-of-choice for transactions generated by non-national investors, which now account for over 40% of the Bahrain Bourse's annual turnover.

Market Making & Brokerage 15-year Highlights

1995

Commenced brokerage activities in the Kingdom of Bahrain

1997

Pioneered market making on the Bahrain Bourse

1998

Mandated as sole official market maker for Bahrain Government's first listed bonds

1999

Became leading broker on the Bahrain Bourse, a position SICO has held ever since for 12 consecutive years

2000

Managed the largest transaction in the history of the Bahrain Bourse with a value of US$ 48 million

2001

Expanded brokerage activities outside Bahrain to the GCC region

2006

Managed the two largest block transactions on the Bahrain Bourse with a total value of US$ 982 million

Mandated by AlBaraka Banking Group to make a market on ABG shares on the Bahrain Bourse and DIFX, representing the first listing of a Bahrain-based entity, and the first Sharia-compliant financial institution, to offer its shares on the DIFX

SICO became the first member of any GCC exchange to make a market in shares on the DIFX

2007

In a unique tender-offer transaction, acted as buy-side broker for Dubai Financial Group's acquisition of a 60% stake in Taib Bank

2008

Managed the largest transaction on the Bahrain Bourse with a total value of US$ 318 million

Established first Agency Brokerage Desk in Bahrain

Expanded brokerage coverage outside GCC to other selective MENA markets

2009

Managed three of the largest transactions on the Bahrain Bourse with a total value of US$ 323 million

2010

Mandated as a sole market maker for a Bahrain IPO listing

Named 'Best Brokerage House Bahrain 2010' by The Global Investor

Chief Executive's Report

Anthony C. Mallis
Chief Executive Officer

In what proved to be another testing year, I am pleased to report that SICO made excellent progress during 2010. In its fifteenth year of operations, our Firm also continued to set a benchmark for the regional investment banking sector.

ANOTHER YEAR OF VOLATILE CHANGE

After a subdued start, the first quarter of 2010 finished on an encouraging note. With a moderate revival in global economic growth, Brent crude rising to just over US$ 80 a barrel, and announcement of the Dubai World restructuring proposal, major international and regional markets returned to positive territory by the end of March. The positive market momentum carried through into April and early May, with Brent oil reaching a 19-month peak of over US$ 87 per barrel. However, the middle of May marked the beginning of a major reversal in Western economies' fortunes.

This was sparked by concerns about the scope and manageability of EU sovereign debt, the non-traction of the US economy, falling interest rates, and concerns of a slowdown in the Chinese economy. As a consequence, Brent crude dropped to a trough of US$ 65 per barrel. These, and other factors, led to international and regional markets posting their worst monthly performance for over a year. The first half of 2010 ended with fears of a double-dip recession, concerns that austerity measures by the UK and Germany would impact economic output, and international and regional markets continuing their negative performance.

In contrast, the second half of the year witnessed a modest recovery in the global economy, more buoyant trading conditions, and a turnaround in GCC equity markets. International and regional markets partially recovered from what I can best describe as the 'bloodbath' of the second quarter, with most markets ending the year in positive territory. A number of key developments contributed to this state of affairs. These included the passing of the 'Dodd-Frank' Reform Bill in the US, which ushered in the most sweeping regulatory overhaul of Wall Street since the 1930s; the economic resiliency of BRIC and emerging markets generally, after a relative slowdown in late 2009; the positive results of the stress tests by EU banks; the introduction of Basel 3 guidelines; the November round of quantitative easing (QE2) by the Federal Reserve, resulting in a US$ 600 billion liquidity boost to the US economy; and the sustained stabilisation of oil prices, which ended the year at US$ 95 per barrel.

These helped to mitigate concerns about the weakening US$, the contagion of EU sovereign debt, inflation, and increased global currency tensions. The recovery of oil prices from their trough of US$ 65 per barrel in May has strengthened the robust underlying macroeconomic fundamentals of the GCC. While the lack of liquidity, a stressed banking sector, and lethargic credit activity in the region remained a cause for concern, the GCC economies, with their strong underlying fundamentals, continued to weather the worst consequences of the by-effects of the global financial crisis, and grow at a faster rate than the global average.

RISING TO THE CHALLENGE

Against this challenging and unpredictable background – in which new business opportunities were generally not many – I am pleased to report that we made excellent operational progress during 2010. Business highlights include the launch of the SICO Money Market

Chief Executive's Report (continued)

Fund, the first of its kind by a Bahraini fund manager, and the signing of a depository agreement by our subsidiary SICO Funds Services Company (SFS) with the Bahrain Bourse, resulting in SFS being the first national firm to be appointed a custodian on the Bahrain Bourse. These particular achievements illustrate the ability of SICO to continue setting a benchmark.

Subdued revenues from our annuity businesses were offset by increased contributions from our proprietary trading business during the year. An exception was the increased activity by our asset management business.

> "Our consistent strategy and focused business model, together with the concerted efforts of our business and support teams, enabled SICO to capitalise on the modest revival in global and regional markets seen during the year."

During 2010, the Firm maintained its reputation as the premier Bahrain market maker and respected GCC broker; a successful fund manager; a leading provider of corporate finance solutions; a reputed custodian and fund administrator; a well-recognised source of high quality independent research; and a pioneer of innovative products and services. Concurrently, we continued enhancing our institutional capability and organisational strength. To ensure that SICO remains strong, methodical and consistent in the face of demanding market conditions, we maintained our focus on risk management while raising our corporate governance standards, with a number of important new initiatives. We also continued our substantial investment in the development of our people and the utilisation of cutting-edge information and communications technology.

SOLID FINANCIAL PERFORMANCE

Our consistent strategy and focused business model, together with the concerted efforts of our business and support teams, enabled SICO to capitalise on 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 2010.

Net profit for the year was BD 3.8 million compared with BD 3.1 million for 2009. SICO posted a profit for each quarter in 2010, with only one loss-making month in May, when international and regional equity and fixed income markets posted their worst monthly performance for over a year. Net interest income accounted for 18.5 per cent of total income, while net fee and commission income contributed 29.2 per cent, brokerage and other income 14.5 per cent, and net investment income 37.8 per cent. Total expenses, which include staff overheads, general administration and other expenses, increased by 23.7 per cent in 2010 to BD 4.1 million compared with BD 3.3 million for the previous year. Head count remained largely unchanged.

Increased activity by SICO's asset management business resulted in funds under management growing by 33.6 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 17 per cent growth in securities under custody to BD 1,278 billion. Taking advantage of improved trading conditions during the year, SICO increased its trading risk appetite. Investments at fair value through profit or loss increased by 167 per cent to BD 16.6 million at the end of the year compared with BD 6.2 million at the end of 2009, while available-for-sale investments rose slightly to BD 24.3 million. 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 saw a significant decline of 26 per cent from the end of 2009, falling to BD 35.4 million, and representing 43.6 per cent of the balance sheet.

SICO remains well capitalised and soundly financed. Shareholder's equity, including proposed appropriations, was BD 56.7 million compared to BD 53.7 million in 2009. At the end of 2010, shareholders' equity as a percentage of total assets was 70 per cent, compared with 65 per cent at the end of 2009. The Firm's capital adequacy ratio as of the balance sheet date was 64.6 per cent compared with 82.3 per cent the previous year.

Net profit for the year 2010

3.8million

versus 2009 profit of BD 3.1 million

+167%

Increase in investments at fair value

7.8million

Total income increased to BD 7.8 million in 2010

LOOKING AHEAD

SICO has a cautiously optimistic outlook for 2011. We expect that moderate global economic recovery – and the resulting stable demand for energy – will provide healthy support for oil prices. GCC governments are likely to maintain initiatives geared towards overseeing their financial systems and stimulating their economies, while regional sovereign wealth funds should continue to build up their reserves. Regional growth prospects are relatively strong due to an expected combined GCC economic growth rate of more than 5 per cent, while attractive stock yield and growth potential offer value for the long-term investor. Of particular note during 2010 was the growing maturity of the nascent regional fixed income market, which will set up the framework for a further development of the capital markets in the Gulf.

While the worst effects of the financial crisis may be over for the GCC, the region still has a number of particular challenges to face. These include continued low volumes in the equity markets, depressed real estate sectors, a banking environment that remains stressed, and a private sector that is impacted by reduced economic growth and liquidity. However, the GCC economies, with their strong underlying fundamentals, have shown their ability to weather the consequences of the global financial crisis, and are forecasted to grow at a faster rate than the global average over the next few years.

We believe that the worst is over for the region, and that the GCC will continue to deliver strong and sustainable growth, and thereby benefit SICO's business. We see interesting business opportunities arising in all our main areas of business, and are well positioned to take advantage of such opportunities as markets continue their recovery.

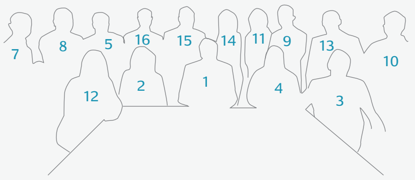
ACKNOWLEDGEMENTS

I would like to thank all our stakeholders for contributing to another successful year for SICO. In particular, I pay tribute to our board of directors for their encouragement and guidance; to our clients for their trust and confidence; to our business partners for their positive collaboration; to my partners in our management team; and, above all, to our staff for their loyalty, professionalism and commitment.

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.

1. Anthony C. Mallis
Chief Executive Officer

2. Najla Al Shirawi
Chief Operating Officer

3. Samir Sami
Chief Corporate Officer

4. Hanan Y. Sater
Financial Controller

5. Anantha Narayanan
Internal Audit

6. T. Rajagopalan
Risk Management
(Not in picture)

7. Fadhel Makhlooq
Brokerage

8. Shakeel Sarwar
Asset Management

9. Samer Taleb
Corporate Finance

10. Abdulrahman Saif
Investments & Treasury

11. Amal Al Nasser
Operations

12. Nadia Khalil
HR & Administration

13. Ismail Sabbagh
Information Technology

14. Nadeen Oweis
Corporate Communications

15. Jithesh Gopi
Research

Subsidiary
16. Mark Said
General Manager
SICO Funds Services Company

Review of Operations

BROKERAGE

For the 12th successive year, SICO maintained its status as the leading broker on the Bahrain Bourse, and continued to be the preferred broker of choice for larger trades. The Firm was named **'Bahrain Best Broker 2010'** by The Global Investor magazine. 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 551 million shares or 45 per cent of total market volume, with a total value of BD 93.6 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 Bahrain Bourse 's turnover.

Supporting this business was the growing success of SICO's Agency Brokerage Desk, which enables clients to trade listed investment opportunities available across the MENA region, including access to the fixed income market. During 2010, SICO expanded its regional network of correspondent brokers and signed a number of new major accounts. 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 13.6% in Qatar, 13.4% in the UAE (DFM, NASDAQ and ADX) and 10.7% in Kuwait.

MARKET MAKING

Since pioneering the market making concept on the Bahrain Bourse in 1997, SICO has maintained its status as the sole official market maker on the Bahrain Bourse. The Firm has also built considerable expertise in advising and managing listed securities in Bahrain. SICO participated in fixed income issues, both soverign and corporate, and is active in Bahrain and regionally. SICO's growing strength in this area stems from its in-house research capability, and its one-stop-shop service that provides end-to-end solutions for an increasing number of fixed income investors.

ASSET MANAGEMENT

SICO continued to grow its asset management business during 2010, both by fresh inflows and NAV increase, benefiting from the turnaround in GCC equity markets during the second half of the year. As a result, total assets under management rose by 33.6 per cent to BD 201 million compared with BD 150.5 million at the end of December 2009.

A key development during the year was the launch of the SICO Money Market Fund, the first locally-managed fund of its kind to be offered by a Bahraini fund manager. The fund aims to provide investors with higher returns compared to bank deposits while offering weekly liquidity. The fund invests in investment grade money market instruments, such as GCC government bills and notes, corporate paper, and domestic banks' term deposits, capitalising on movements in the short-term yield curve. With five funds now listed on the Bahrain Bourse, SICO has established a reputation as a major GCC-focused asset management house in Bahrain and the Gulf region. This was recognised by receipt of the **'Bahrain Best Asset Manager 2010'** award from The Global Investor magazine.

SICO funds continued to post strong gains during the year. SICO Arab Financial Fund was up 25.2% for the year, significantly outperforming the benchmark that was up 9.6%. Khaleej Equity Fund was up 14.1% for the year versus the benchmark that was up 12.8%. During the last five years, the fund is up 9.2% versus a negative 53.4% decline in the benchmark. SICO Selected Securities Fund appreciated by 4.8% in 2010 compared to a 1.8% decline in the Bahrain Bourse All Share index. SICO Gulf Equity Fund posted a steady return appreciating by 11.6% in 2010. Since its inception in March 2006, the fund has produced a return of 11.1% compared to a negative return of 39.9% by the benchmark

The high ratings ('AA' and 'A') assigned to the Firm's funds in 2008 by Standard & Poor's, were re-affirmed in 2010 for the second consecutive year. SICO's funds also continued to lead the way in the quarterly Zawya Fund Ranking results. The Khaleej Equity Fund and the SICO Gulf Equity Fund were ranked first and second respectively in the GCC Equity Conventional Funds category. The Al Islami GCC Equity Fund, which the Firm manages for Dubai Islamic Bank, was ranked first in the GCC Equity Islamic Funds category.

Review of Operations (continued)

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 and a change of Registrar. The risk management process was reviewed and strengthened, with enhanced internal guidelines and more stringent liquidity criteria.

Also during the year, there was increased interest in the Firm's Discretionary Portfolio Managed Accounts, with new mandates received from regional and international institutions. SICO further expanded its global marketing and distribution footprint, with partnerships now covering the key regions of USA, Europe and East Asia.

CORPORATE FINANCE

With a successful track record approaching 15 years, SICO is a leading provider of corporate finance solutions in the Kingdom of Bahrain and the GCC. The Firm is one of a select group of regional investment banks that cover the entire spectrum of corporate finance-related products and services for blue-chip clients in key sectors.

SICO secured a number of financial advisory mandates, 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.

INVESTMENTS AND TREASURY

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. Investments at fair value through profit or loss increased by 167 per cent to BD 16.6 million as at 30 December 2010 compared with BD 6.2 million at the end of 2009, while available-for-sale investments rose slightly to BD 24.3 million. 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 significantly by 26 per cent from the end of 2009 to BD 35.4 million, representing 43.6 per cent of the balance sheet.

SICO's treasury business posted another profitable year in 2010, despite the difficult market conditions. The Firm adopted a cautious approach, with prudent balance sheet management, and a focus on cash management and liquidity-building. SICO's network of GCC counterparty relationships was further extended to the MENA region, in order to achieve a better spread of risk. Customer deposits were down on the previous year, partly due to clients moving their money back to the markets to take advantage of improved conditions. SICO continued to maintain a fortress balance sheet, with a strong capital adequacy ratio of 64.6 per cent, substantially higher than Central Bank of Bahrain requirements.

CLIENT RELATIONS

The Firm's client relations unit (CRU) performed well in 2010. This totally independent unit reinforces SICO's commitment to providing the highest standards of customer service and satisfaction. The CRU acts as the first point of contact for SICO clients, dealing promptly and responsively with queries and complaints in all non-trading issues.

RESEARCH

SICO continued to enhance its provision of in-depth proprietary research, which provides clients with an independent, value-added service. The Firm added 14 new companies during the year, further expanding its coverage universe. SICO's database, which is regularly updated, covers about 90 per cent of major listed GCC companies, of which approximately half are blue-chip, top-tier entities. During 2010, SICO published a total of 501 reports of which 354 were periodical reports, while 147 were detailed company/sector reports and strategy notes.

The Firm's research approach is also differentiated by a willingness to tackle controversial issues in a constructive manner. In response to specific feedback, SICO research is planning to introduce a new weekly fixed income market report in 2011. The Firm continued to act as the Official Research Partner to the Oxford Business Group for their annual publication 'The Report: Bahrain 2010'; and also contributed to the Quarterly Updates on Capital Markets issued by the Central Bank of Bahrain, during the year.

CUSTODY AND FUND ADMINISTRATION

In 2010, SICO Funds Services Company (SFS) signed a Depository Participant Agreement with the Bahrain Bourse, which enables the Company to provide custody of Bahrain Bourse - listed securities to local, regional and international investors. Significantly, SFS is the first and only national firm to be appointed as a custodian on the Bahrain Bourse, further enhancing its recognition and reputation. The Company is also an approved Security Agent and Mortgage Agent, providing custody and agency of securities involved in a transaction between two parties.

Despite challenging market conditions and increased competition, SFS was successful in growing its revenues and securing a number of new mandates in 2010. The Company also entered the area of electronic trading, acting as a custodian of over-the-counter (OTC) securities by major clearing houses such as Euroclear. Increased inflows generated a 17 per cent increase in total securities under custody, which amounted to BD 1,278 billion at the end of 2010.

During the year, SFS appointed a new General Manager, Mr Sharmaarke Said, following the move of Ms Amal Al Nasser to Head of Operations at SICO, a position which she held previously from 1997 to 2006. The Company also announced the appointment of Ms. Khulood Rashid Al Qattan to the Board of SFS as an independent non-executive director.

HUMAN RESOURCES

Despite difficult market conditions, SICO maintained headcount during 2010 and also resumed recruitment. A number of senior vacancies were also filled internally through the transfer of staff, highlighting the flexibility of the organisation and the scope and depth of management expertise and experience.

The Firm continued its investment in training and development during the year, including the provision of specialised courses in key areas such as risk management, and sponsorship of staff to achieve professional qualifications and pursue post-graduate studies. At the end of the year, 19 per cent of SICO staff were undertaking or had completed the CFA programme. The Firm's Executive Training Programme made excellent progress, with two graduates having been recruited by SICO to date; and another two university students enrolled during 2010.

An exhaustive review of Human Resources policies, procedures and processes and "Performance Management and Development System" was completed during the year with the assistance of external consultants. As a result of this exercise, SICO now has in place a more comprehensive, robust and professional HR framework with which to support the Firm's business growth and expansion.

SICO's unique 'partnership' corporate culture continued to be a major factor in the Firm's successful performance during 2010. 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. The Employee Stock Ownership Plan, which recognises and rewards the loyalty of staff with shares in the Firm, has grown to constitute three per cent of the balance sheet since its introduction in 2004.

INFORMATION TECHNOLOGY

The first stage of the implementation of SICO's new core banking system (CBS) – involving delivery and installation, and functional and user configuration – was completed during 2010. 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.

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 Bahrain, and less privileged and handicapped sections of society. Accordingly, the Firm implements an annual corporate social responsibility programme that has three primary objectives. First, improving the quality of life of the local community with a particular focus on education and meeting the needs of the elderly and of children with special needs. 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 the annual American Mission Hospital Island Classic Charity Golf Tournament fund-raising event in Bahrain
- Supported the Madrasati Palestine (My School) Initiative to repair and restore damaged schools, and provide accommodation and education for refugee students
- Signed MoU with AIESEC to establish areas of cooperation to promote leadership skills of Bahraini students and provide a positive impact on the kingdom's youth
- Sponsored Bahrain's 'Young Hands for Sustainable Futures' project to educate students, families and SMEs on environmental sustainability
- Provided financial support for UCO parents care center for elderly people

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

- SICO Executive Training Programme: two graduates recruited to date, and a further two university students enrolled in 2010
- Sponsored SICO staff to attain CFA qualifications and to pursue post-graduate studies at INSEAD and the London Business School
- Hosted Bahraini students at overseas universities in their 'practical experience' year through a Summer training programme
- Provided Summer internship for students from the University of Bahrain
- Supported training and career initiatives by the Bahrain Association of Banks

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

SICO either sponsored or participated in the following financial industry conferences and events:

- Annual Fund Forum Middle East 2010
- 6th Annual Middle East Insurance Forum
- Institute of Chartered Accountants of India Bahrain Chapter Annual Regional Conference
- CFA Bahrain Annual Forecast Dinner & Charter Award Ceremony
- Inaugural CFA Institute Middle East Investment Conference

Setting a benchmark

SICO is a pioneering regional fund manager, with a proven track record spanning more than 10 years, and a solid reputation for the quality, innovation and performance of its GCC-focused **asset management** business. Over the last decade, total assets under management have grown more than ten-fold. These comprise four unique and highly-rated proprietary equity funds, a first-of-its-kind money market fund, various third party funds, and discretionary portfolio managed accounts.

Asset Management 15-year Highlights

1998

SICO Selected Securities Fund launched

2001

Discretionary Portfolio Managed Accounts introduced

2004

Assets under management US$ 41 million

2005

SICO Khaleej Equity Fund launched

Assets under management US$ 150 million

2006

Commenced acting as investment manager for GCC funds sponsored by other regional and international institutions

2007

Assets under management US$ 250 million

SICO Gulf Equity Fund launched

2008

Assets under management US$ 337 million

SICO Arab Financial Fund launched

Khaleej Equity Fund rated 'A' by Standard & Poor's

Khaleej Equity Fund wins Lipper Fund Award

2009

Assets under management US$ 398 million

Khaleej Equity Fund upgraded from 'A' to 'AA' by Standard & Poor's

SICO Selected Securities Fund rated 'A' by Standard & Poor's

SICO Gulf Equity Fund rated 'AA' by Standard & Poor's

SICO Arab Financial Fund rated 'A' by Standard & Poor's

2010

SICO Money Market Fund launched

Standard & Poor's reaffirms ratings for all SICO equity funds

Khaleej Equity Fund ranked First in GCC Equity Fund category by Zawya

SICO Gulf Equity Fund ranked Second in GCC Equity Fund category by Zawya

Marketing and distribution agreements signed with German and Japanese institutions

SICO
Funds Update 2010

'AA'

Rating: Re-affirmed 'AA' by Standard& Poor's in December 2010

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 2010

Benchmark
S&P GCC Index

Peer group
GCC

Return January - December 2010
14.1% versus benchmark of 12.8%

Return since inception
117.4% versus benchmark 36.1%

'AA'

Rating: Re-affirmed 'AA' by Standard & Poor's in December 2010

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 2010

Benchmark
S&P GCC Ex-Saudi Arabia Index

Peer group
GCC

Return January - December 2010
11.6% versus benchmark of 18.4%

Return since inception
11.1% versus benchmark of -39.9%

'A'

Rating: Re-affirmed 'A' by Standard & Poor's in December 2010

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 2010

Benchmark
S&P GCC Financial

Peer group
MENA

Return January - December 2010
25.2% versus benchmark of 9.6%

Return since inception
21.6% versus benchmark of -30.6%

'A'

Rating: Re-affirmed 'A' by Standard & Poor's in December 2010

SICO SELECTED SECURITIES FUND

Launch date
May 1998

Principal investment focus
Equity and debt securities listed, or expected to be listed, on the Bahrain Bourse

Standard & Poor's rating
A
Re-affirmed in December 2010

Benchmark
Bahrain Bourse All Share Index

Peer group
Equity Bahrain

Return January - December 2010
4.8% versus benchmark of -1.8%

Return since inception
112.8% versus benchmark 13.4%

SICO
Research Reports 2010

During 2010, SICO published a total of 501 reports (4,263 pages) of which 354 (3,354 pages) were periodical reports, while 147 (909 pages) 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 as 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.
Published: 252 reports (2,520 pages)

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 companies listed on the Bahrain Bourse.
Published: 50 reports (100 pages)

GCC ECONOMICS – THE NUMBERS

Published monthly
Analyses data from the region's central banks and tracks economic trends.
Published 12 reports (108 pages)

PETROCHEMICALS ROUND-UP

Published fortnightly
Offers an insight into one of the GCC region's fastest growing and key industrial sectors – petrochemicals. The aim is to provide investors with a tool to understand the sector dynamics and make better-informed investment decisions.
Published: 22 reports (410 pages)

OIL MARKETS UPDATE

Published monthly
Tracks important data points used by investors and analysts for understanding oil market dynamics, and interpreting and forecasting price movements.
Published: 18 reports (216 pages)

COMPANY & SECTOR REPORTS

Published on a regular basis
Tracks actively-traded companies and major sectors in the GCC. They include initiation coverage reports, followed by updates on quarterly and annual results and developments, and topical event flashes. SICO added 14 new companies in 2010, bringing total coverage to 56 companies at the end of the year.
Published: 147 reports (909 pages)

GCC STRATEGIC OUTLOOK REPORTS

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 them in the context of global trends and outlook.
Published: 1 report (34 pages)

ACCESSING SICO RESEARCH

SICO's comprehensive range of research reports and strategy notes can be accessed via the Firm's website – www.sicobahrain.com – and also through Thomson Reuters, FactSet, Capital IQ, Zawya and Bloomberg.

Corporate Governance Report 2010

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 risk management, compliance and internal controls, in accordance with the latest rules and guidelines from the Central Bank of Bahrain (CBB).

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors. The Board is committed to excellence in corporate governance, and supports the principles of the Corporate Governance Code issued by the Ministry of Industry and Commerce, and the related rules of Module HC of Volume 1 of the Central Bank of Bahrain rules and regulations.

During 2010, the Board established a Corporate Governance Implementation Committee which shall be responsible for developing and recommending changes from time to time in the Bank's corporate governance policy framework. The committee has undertaken an assessment of the regulations of the HC Module, and developed an action plan with timelines for adherence to the regulations.

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 Board works together as a team to provide strategic leadership to staff, ensure the organisation's fitness for purpose, set the values and standards for the organisation, and ensure sufficient financial and human resources are available.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board.

This includes strategic issues and planning, performance reviews, acquisition and disposal of assets, investment policies, capital expenditure, authority levels, treasury policies, risk management policies, the appointment of auditors and review of the financial statements, financing and borrowing activities, reviewing and approving the annual operating plan and budget, ensuring regulatory compliance, and reviewing the adequacy and integrity of internal controls.

The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Bank's shareholders.

The Board has delegated certain responsibilities to Board sub-committees, without abdicating its responsibility. This is to ensure sound decision making and facilitate the conduct of business without unnecessary impediment, as the speed of decision-making in the Bank is crucial. Where a Committee is formed, a specific charter of the committee has been established to cover matters such as the purpose, composition and function of the committee.

The Board has three committees to assist it in carrying out its responsibilities: the Executive Committee, the Audit Committee and Corporate Governance Implementation Committee (set up in November 2010). The Internal Audit function reports directly to the Board through the Audit Committee.

BOARD COMPOSITION AND ELECTION

The Board composition is guided by the Bank's Memorandum of Association, and presently the Board comprises of eight Directors. The Board recognises the need for the composition to reflect a range of skills mix and expertise.

Directors are elected by the shareholders at the AGM, subject to the approval of the CBB for a period of three (3) years, after which they shall be eligible for re-election for a further three-year period.

During the year 2010 there was no change to the Board of Directors.

Profiles of Board Members are listed on pages 26-27 of this annual report.

Corporate Governance Report 2010 (continued)

BOARD MEETINGS AND ATTENDANCE

According to the Commercial Law and the CBB rules, Board meetings will be conducted at least four times a year i.e. on a quarterly basis. All Board members must attend at least 75% of all Board meetings within a calendar year. At least 5 directors must attend each Board meeting, including the Chairman or the Vice-Chairman.

Directors' Attendance January To December 2010

Board Members	Board Meetings Total held: 5	Executive Committee Meetings Total held: 4	Audit Committee Meetings Total held: 4	Corporate Governance Implementation Committee Meetings Total held: 1
Shaikh Mohammed bin Isa Al Khalifa Chairman	5			
Mr. Hussain Al Hussaini Vice Chairman Chairman of the Executive Committee	4	4		
Mr. Anwar Abdulla Ghuloom	5		4	
Mr. Mahmoud Al Zewam Al-Amari	5		4	
Mr. Khalid Al Rumaihi	3	0#		0
Ms. Sawsan Abulhassan Chairman of the Audit Committee	3		2	1
Mr. Meshary Al-Judaimi	5	2¥		
Mr. Mohammed Abdulla Isa Chairman of the Corporate Governance Committee	5	4		1

Board Committee Members

\# At the Board Meeting on 18 March 2010, the Executive Committee was reconstituted with Mr Hussain Al Hussaini, Mr Meshary Al-Judaimi and Mr Mohammed Abdulla Isa as members.

¥ Participated in 2 meetings by telephone

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.

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 Bank's own Code of Business Conduct.

CORPORATE GOVERNANCE IMPLEMENTATION COMMITTEE

Objective
To develop, review and recommend changes from time to time in SICO's corporate governance policy framework in line with the regulations of HC Module of the CBB Rule Book Volume 1.

DIRECTORS' PROFILES

Shaikh Mohammed bin Isa Al Khalifa - Chairman
Chairman since 1999 and Director since 1995
(Non-independent and Executive)

Represents Social Insurance Organisation - Bahrain
Chief Executive Officer: Social Insurance Organisation
Chairman: Oasis Capital Bank
Vice Chairman: Batelco, Umniah Communications (Jordan), National Motor Company, Bahrain International Golf Course Company, BBK
Board Director: Bahrain Commercial Facilities Company
Professional experience: 22 years
Educational qualifications: Bachelor of Business Administration, University of Texas, Austin, USA

Mr. Hussain Al Hussaini - Vice Chairman
Director since 1997 (Non-independent and Executive)

Represents National Bank of Bahrain - Bahrain
Chairman of SICO Executive Committee
General Manager: Treasury & International Banking Group, National Bank of Bahrain
Board Director: Esterad
Professional experience: 29 years
Educational qualifications: PMD Program for Management Development, Harvard Business School, Boston, USA; MBA Program, Marketing & Management Change, DePaul University; BA in Economics, Concordia University, Montreal, Canada

Mr. Anwar Abdulla Ghuloom
Director since 2002 (Non-independent and Executive)

Represents Social Insurance Organisation (Pension Fund Commission) - Bahrain
Member of SICO Audit Committee
Board Director: Contribution & Revenues Directorate, Social Insurance General Organisation (Pension Fund Commission), Bahrain Tourism Company, Royal Women's University
Professional experience: 28 years
Educational qualifications: ACPA, CIPA, BSc in Accounting

Mahmoud Al Zewam Al-Amari

Director since 2004 (Non-independent and Non-executive)

Represents Arab Banking Corporation - Bahrain
Member of SICO Audit Committee
First VP & Head: Portfolio Department, Arab Banking Corporation
Board Director: LIA
Professional experience: 26 years
Educational qualifications: AIBD, MA Macro Economics

Mr. Khalid Al Rumaihi

Director since 2005 (Non-independent and Non-executive)

Represents Arab Investment Resources Company - Bahrain
Member of SICO Corporate Governance Implementation Committee
Managing Director & Head of Institutional Team: Placement Relationship Management, Investcorp
Board Director: Gulf Air
Professional experience: 17 years
Educational qualifications: Master in Public Policy, Kennedy School of Government, Harvard University, BSc from School of Foreign Service, Georgetown University, USA

Ms. Sawsan Abulhassan

Director since 2008 (Non-independent and Executive)

Represents Ahli United Bank - Bahrain
Chairperson of SICO Audit Committee
Member of SICO Corporate Governance Implementation Committee
Deputy Group CEO: Private Banking & Wealth Management, Ahli United Bank
Board Director: Ahli United Bank UK, The Family Bank, National Social Work Fund
Professional experience: 20 years
Educational qualifications: MBA in Finance, University of Bahrain; BSC in Management, University of Bahrain

Mr. Meshary Al-Judaimi, CFA

Director since 2009 (Non-independent and Non-executive)

Represents Gulf Investment Corporation - Kuwait
Member of SICO Executive Committee
Vice President - Principal Investments Division, Gulf Investment Corporation
Board Director: Gulf Reinsurance Ltd, Rasameel Structured Finance Company, Ras Laffan Power Company, Al-Ezzel Power Company, Al-Dur Power & Water Company
Professional experience: 15 years
Educational qualifications: CFA Charterholder; MBA, Emory University; BSc in Mechanical Engineering, Kuwait University

Mr. Mohammed Abdulla Isa

Director since 2009 (Non-independent and Executive)

Represents BBK - Bahrain
Chairman of SICO Corporate Governance Implementation Committee;
Member of SICO Executive Committee
Chief Financial Officer: BBK
Professional experience: 19 years
Educational qualifications: Certified Public Accountant, American Institute of Certified Public Accountants, Delaware State Board of Accountancy (2001)

MANAGEMENT

The Board delegates the 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 four management committees: Restricted Management Committee; Asset Management Committee; Assets, Liabilities and Investments Committee (ALIC); and Internal Control Committee.

Membership of Management Committees

Managers	Restricted Management Committee	Asset Management Committee	Assets, Liabilities & Investments Committee	Internal Control Committee
Chief Executive Officer	Chairman	Chairman	Chairman	Chairman
Chief Operating Officer				
Chief Corporate Officer				
Financial Controller				
Head of Internal Audit			¥	
Head of Risk Management				
Headof Brokerage				
Head of Asset Management				
Head of Corporate Finance				
Acting Head of Investments & Treasury			¥	
Head of Research				

Management Committee Members
¥ Non-voting Member

Corporate Governance Report 2010 (continued)

MANAGEMENT COMMITTEES

RESTRICTED MANAGEMENT COMMITTEE

Objective

To review the overall performance of the Bank; review the implementation and implications of new initiatives and products; and contribute to developing an ongoing strategy for the Bank.

ASSET MANAGEMENT COMMITTEE

Objective

To review the investment strategy of the Bank's funds and portfolios; review and approve asset allocations; and review subscription and redemptions, and compliance.

ASSETS, LIABILITIES AND INVESTMENTS COMMITTEE (ALIC)

Objective

ALIC acts as the principal policy making body responsible for overseeing the Bank's capital and financial resources. It is also responsible for managing the balance sheet and all proprietary investment 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.

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 and procedures, and regulatory best practices of internal control applicable to the industry

MANAGEMENT PROFILES

Anthony C. Mallis - Chief Executive Officer
Joined SICO in 2000

Anthony has over 34 years' international banking experience. Prior to joining SICO he was a Partner in a London-based private equity firm focusing on the Middle East. He also worked for Credit Suisse Asset Management and its predecessor, Credit Suisse First Boston Investment 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 14 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, 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 a Board member for various non-profit organisations.

Hanan Y. Sater - Financial Controller
Joined SICO in 1997

Hanan has more than 31 years' experience in accounting and financial control. Prior to joining SICO, she worked for manufacturers Hanover Trust Bank, Chemical Bank, and Chase Manhattan Bank. She is a Certified Accountant from the UK-based Association of Chartered Certified Accountants (ACCA), and is also a Certified Anti-money Laundering Specialist by the US-based Association of Certified Anti-Money Laundering Specialists (ACAMS). A graduate of the University of Bahrain, Hanan has undertaken training in general management, internal control and risk management with reputed institutions such as the BIBF and INSEAD, France.

Nadia Khalil - Head of HR & Administration
Joined SICO in 1995

Nadia has been with SICO since its establishment, during which time she established the HR & Administration department as well as being responsible for Board meetings administration. Prior to joining SICO, she provided administrative support for the Private Banking Unit of 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 over 16 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 the 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.

Fadhel Makhlooq - Head of Brokerage
Joined SICO in 2004

Fadhel was Head of Brokerage at SICO for five years before being appointed as Head of Investments & Treasury in 2008. He was re-appointed Head of Brokerage in 2010. Prior to joining SICO, 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 9 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 BSc in Industrial Engineering from Purdue University.

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

Rajagopalan has over 21 years of professional experience. Before being appointed to his current position in 2005, he was SICO's Internal Auditor for five years. Prior to joining SICO, he worked with Ernst & Young Bahrain. He has also held the positions of Audit Executive and Accounts Executive for a large FMCG company in India. A Chartered Accountant and Cost Accountant (India), Rajagopalan is also a Certified Anti-money Laundering Specialist.

Ismail Sabbagh - Head of Information Technology
Joined SICO in 2007

Ismail has over 14 years' experience in the fields of business consulting and information technology. Prior to joining SICO, he worked with BDO 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.

Amal Al Nasser - Head of Operations
Joined SICO in 1997

Amal has more than 22 years' banking experience. She was Head of Operations at SICO for 10 years before being appointed General Manager of SFS, a wholly-owned subsidiary of SICO, on its establishment in 2006. Amal resumed her role as Head of Operations at SICO in 2010. Before joining SICO, she spent 10 years with ALUBAF Arab International Bank in Bahrain, working in the areas of credit, investment and commercial banking operations. Amal holds a BA degree in Economics from Poona University, India.

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 Jordan University.

Corporate Governance Report 2010 (continued)

Jithesh Gopi - Head of Research
Joined SICO in 2006

Jithesh has over 13 years' experience, including six years in the energy sector in India. Prior to joining SICO, he worked with Irevna Research Services (an 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; and the Executive Education Programme at INSEAD, Singapore.

Anantha Narayanan - Head of Internal Audit
Joined SICO in 2008

Anantha has more than 20 years' experience in the areas of audit and risk management in the banking industry. Prior to joining SICO, he worked for Credit Agricole 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.

Mark Said - General Manager
SICO Funds Services Company (SFS)
Joined SICO in 2010

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. He holds an MSc degree in Finance and a BSc in Business Administration, both from Boston University, USA.

Abdulrahman Saif - Head of Investments & Treasury
Joined SICO in 2003

Abdulrahman 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. A Certified Investment Representative, Abdulrahman holds a BSc in Accounting from the University of Bahrain, and a Treasury & Capital Markets Diploma from the Bahrain Institute of Banking & Finance. He has also undertaken specialised training at INSEAD, France.

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 licenced wholesale 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 Bourse.

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 disclosure of relevant information to all shareholders, the Bank maintains a website on which, in addition to the timely disclosure of all relevant information, the Bank also discloses its financial results.

Setting a benchmark

SICO is the leading provider of **corporate finance** solutions in the Kingdom of Bahrain, and one of the few investment banks in the MENA region to cover the entire spectrum of corporate finance-related products and services. Since 1997, the Firm has managed and advised on the majority of equity capital raising exercises and conventional bond issues on the Bahrain Bourse. During this period, SICO has set a benchmark for pioneering new innovative IPO structures.

Corporate Finance 15-year Highlights

1997

Bahrain Duty Free
IPO: First privatisation in Bahrain

1997

Arab Insurance Group
IPO: Set new record for the largest IPO on the Bahrain Bourse

1998

Qatar Telecom
IPO: First privatisation in Qatar

1998

Bahrain Kuwait Insurance Company
Rights offering: First in Bahrain to be managed by a third party

2002

Dana Hotels Management Company
FRN: First asset-collateralised floating rate note of its kind in the GCC

2005

Nass Corporation
IPO: First family business to go public in the GCC outside Saudi Arabia, and the first IPO in Bahrain open to investors of all nationalities

2006

Al Salam Bank
IPO: Oversubscribed 64 times, setting a new record for the largest IPO on the Bahrain Bourse

2006

European Islamic Investment Bank
IPO: First listing of a Sharia-compliant financial institution on the Alternative Investment Market of the London Bourse

2007

Seef Properties
IPO: Set a new benchmark for privatisation in the MENA region, and featured a pioneering structure that protected retail investors

2010

Arab Banking Corporation
Financial Advisor: First-of-its-kind mandate as financial adviser to the independent shareholders of ABC in a fully-subscribed rights issue

Risk Management Review 2010

During 2010, SICO reinforced its focus on risk management into an area of strength and core competence for the Firm. Our aim is to ensure that SICO remains strong, methodical and consistent in the face of the challenging economic and financial environments.

KEY DEVELOPMENTS IN 2010

- Continued to adopt a cautious investment strategy aimed at preserving the Firm's strong capital base and maintaining a safe, liquid and profitable portfolio.
- An ICAAP framework was established and approved by the Board.
- Strengthened and enhanced focus on monitoring compliance to ensure adherence to investment guidelines.
- Conducted regular Senior Management portfolio reviews to ensure that investment decisions at the ground level remain relevant, responsive and aligned with market dynamics.
- Monitored fiduciary portfolios to ensure compliance with internal investment guidelines.
- Bolstered SICO's operational risk management framework by appointing Operational Risk Coordinators (ORCs) in each department. The Firm conducted workshops to ensure Coordinators' understanding of their roles and responsibilities; raise awareness of operational risks and controls; instill a risk management and compliance culture throughout the Firm; monitor and report operational incidents to facilitate prompt corrective actions; and maintain preventive control to mitigate such risks in the future.
- Actively participated and contributed to several consultative papers issued by the Central Bank of Bahrain and the Bahrain Bourse, including the new Corporate Governance Code of the Kingdom of Bahrain.
- Established an Internal Control Unit as part of Financial Control to enhance the Firm's internal control framework.

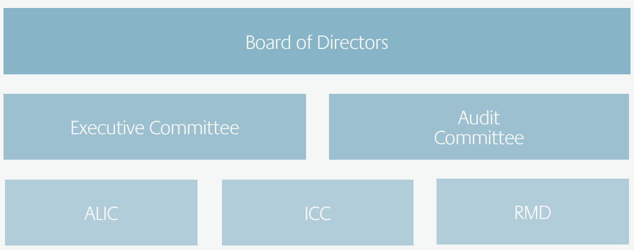
Risk is an inherent part of SICO's business, and risk management is essential to the Firm's success. Risk management is the systematic process of identifying, and evaluating the principal business risks facing SICO; establishing appropriate controls to manage these risks; and ensuring that all appropriate 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.

Risk Management Review (continued)

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 **Executive Committee** of the Board is the second point where decision making of SICO's investment activities is considered. This committee approves investments within its discretionary powers as delegated by the Board. The **Audit Committee** of the Board provides able support to the internal control framework

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 resources to assist the Firm in the realisation of its business objectives and continued development. The **Assets, Liabilities and Investments Committee (ALIC)** is a management committee that sets the investments philosophy and guidelines, and monitors the performance of the proprietary investments and treasury activities. The **Internal Control Committee (ICC)** is a management committee that assesses the overall impact of the internal control system due to the various risks encountered, and monitors the functioning of the internal control mechanism of SICO.

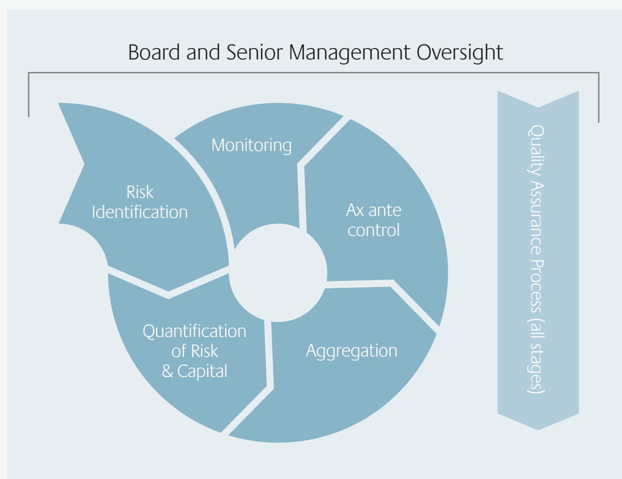
INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

As set out in the Basel-II Pillar 2 guidelines, an ICAAP framework was established and approved by the Board during the current year. This framework goes beyond the regulatory capital prescriptions under Pillar 1 and enables the identification and measurement of the various other risks that are associated with the various business activities of SICO, with a view to ensure adequate capitalisation at all times to protect against all those risks. Resilience of Internal Capital Adequacy is also tested under stressed market conditions to further bolster capital and risk management.

MAJOR BUILDING BLOCKS OF ICAAP

The main components of the ICAAP framework are graphically illustrated below:

Board and Senior Management Oversight



SICO's Board and Senior Management are responsible for understanding the nature and level of risks faced by the Firm and ensuring that the risk management process chosen is appropriate considering the risk profile of SICO. Senior Management is responsible for ensuring that there is a process to relate the business risk to an adequate level of capital; and must set the tolerance to various risks, and have in place the framework and process for measuring and monitoring the compliance.

- Risk identification
  Identification of the various risks that impact the various business activities of SICO sets the foundation for building an ICAAP process, since the Firm is required to maintain adequate internal capital to cover the material risks that SICO is exposed to.

- Quantification of risks and capital coverage
  This step allocates internal capital to each of the risks identified and quantified in the risk identification process. This step creates the objective basis for decision-making in SICO, and allows the Senior Management of the Firm to make decisions regarding SICO's risk-bearing capacity within the framework of the ICAAP.

- Aggregation
  Once risks have been identified and quantified, individual risks and the associated capital requirements are aggregated to determine SICO's overall capital requirement for the purpose of ICAAP.

- Ex ante control
  SICO has established various tolerance limits based on the overall risk strategy of the Firm. These limits will be revised periodically, taking into account the changing market and economic conditions. SICO has established a comprehensive limit framework to monitor its exposure to all significant risks applicable.

- Risk monitoring and ex post control
  The risk monitoring process ensures that SICO's risk profile remains in line with its risk preferences. In this context, there is a standardised procedure for dealing with increasing levels of limit utilisation and limit overruns.

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.

SICO's risk management approach continues to be forward looking, proactive, and highly effective in rebalancing the Bank's investment portfolio in line with the Firm's investment strategy, to ensure 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 (Trading), held-to-maturity securities (HTM) or available-for-sale securities (AFS). 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. Uncertain conditions in the equity and bond markets are carefully considered by rebalancing the asset allocations to minimise risk exposures.

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.

Risk Management Review (continued)

In line with having a dynamic monitoring process of market trends, and being responsive to adapting appropriate investment allocation strategies, Management took the decision to convert the HTM portfolio to AFS during Q4 2010. This was done in response to changes and SICO's expectations of market interest rates trends and risks yields on alternative investments.

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. The Firm'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, 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 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 because SICO has the right to force-liquidate the client's 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 2010, the following exposure of the Bank is 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	Bahrain	10.493	18.9%

This exposure represents 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 SICO's investments are disclosed in the financial statements under note 4b. The other exposures of the Firm consists mainly of cash and bank balances, and receivables from client. These are concentrated predominantly on 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

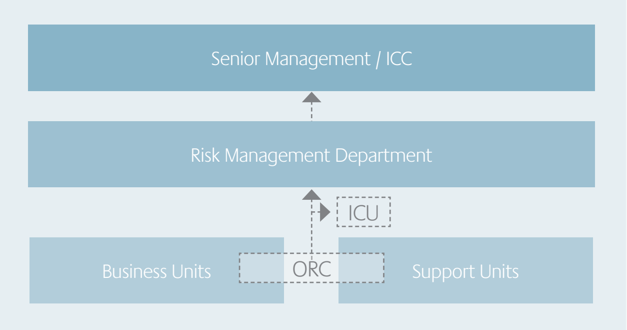
Operational risk is the risk of loss due to inadequate or failed internal processes, systems, people or external events. Unlike market or credit risks, which are systemic in nature, operational risk is institution-specific and is inherent in the day-to-day operations of SICO. This risk could arise from 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.

The Operational Risk Management Framework includes conducting Risks and Controls Self-Assessments, identification of key risks, nominating Operational Risk Coordinators (ORCs) in each department to monitor, prevent or control operational risks and, report any risk incidents to RMD on a timely basis. RMD follows up on any corrective action required.

Risk Management Review (continued)

The Operational Risk and Response Management Framework:



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 licenced 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 Bourse, 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.

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 a put in place a number of operating controls, including the monitoring and reporting of securities 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.

INTERNAL CONTROL UNIT

The Internal Control Unit (ICU) is part of the Financial Control department and was established during 2010 to enhance the Internal Control Compliance & Internal Compliance environment. The Unit works closely with Internal Audit and RMD to further bolster monitoring of operating controls framework.

INTERNAL AUDIT

Internal Audit provides an additional line of defence 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 Bank 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's 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 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 December 31st 2010.

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 2010.

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 2010, 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)

1. OVERVIEW (CONTINUED)

1.3 Changes to Capital Structure

During the year ended 31 December 2010, the share capital of the Bank increased by BD 108 thousand pursuant to allocation of 1,086,598 shares under the Employee Stock Option Plan (ESOP) for the year 2009. 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:

	2010	2009
Issued and fully paid:		
At 1 January	42,420	42,346
Bonus shares issued during the year	-	-
Rights issue during the year	-	-
Issue of shares to the employee share incentive scheme during the year	108	74
At 31 December	42,528	42,420

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

As at 31 December 2010, the Bank's total risk weighted assets amounted to BD 85,922; Tier 1 Capital amounted to BD 51,238 and total regulatory capital amounted to BD 55,507. Accordingly, Tier 1 and Total Capital Adequacy Ratio was 59.63% and 64.60% 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 recognizes 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:

	2010	2009
Tier 1 Capital		
Issued and fully paid ordinary shares	42,528	42,420
Statutory Reserve	3,594	3,286
General Reserve	1,359	1,050
Share Premium	588	560
Retained Earnings Brought forward	3,483	3,209
Gross unrealised loss arising from fair valuing equity securities	(214)	(480)
Securitization Exposures subject to deduction	(100)	(100)
TOTAL TIER 1 capital	51,238	49,945
Tier 2 Capital		
Current interim profits	3,910	3,152
45% of gross unrealised gains arising from fair valuing equity securities	459	217
Securitization Exposures subject to deduction	(100)	(100)
TOTAL TIER 2 CAPITAL	4,269	3,269

The Bank’s regulatory capital position was as follows:

Based on year end balances:

	2010	2009
Risk weighted exposure		
Credit risk	42,800	42,007
Market risk	28,042	8,186
Operational risk	15,080	14,431
Total risk weighted assets	85,922	64,624
Tier 1 Capital	51,238	49,945
Tier 2 Capital	4,269	3,269
Total regulatory capital	55,507	53,214
Tier 1 Capital Adequacy Ratio	59.63%	77.28%
Total Capital Adequacy Ratio	64.60%	82.34%

2.2 Regulatory Capital requirements for Market Risk

Asset Categories for Market Risk 2010	Period		Year end	
	Minimum	Maximum	Actual Risk Weighted Assets	Requirement @ 12%
Interest Rate Position Risk	397	682	439	53
Equities Position Risk	52	1,617	1,617	194
Foreign Exchange Risk	182	283	188	23
Total minimum capital for market risk			2,244	270
Multiplier			12.5	12.5
Total market risk weighted exposures under the STA			28,043	3,375

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

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)

Equity Positions in the Banking Book

Asset Category 2010	Gross exposure	Provision for impairment	Net Risk Weighted assets (RWA)	Regulatory capital requirement @ 12% on RWA
Listed Equities	3,600	-	3,600	432
Unlisted equities	1,511	-	2,267	272
Investment in Rated Funds: (ECAI A+ to A-)	4,980	-	1,035	124
Investment in unrated funds:				
- Listed	1,141	-	1,141	137
- Unlisted	7,976	-	11,964	1,436
- Unlisted rated (ECAI AAA to A-) funds in Trading portfolio reclassified as banking book	-	-	-	-
Total	19,208	-	20,007	2,401

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

	2010	2009
Realised net gains on sale of available-for-sale securities	1,181	299
Dividend income on available-for-sale securities	423	113

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

	2010	2009
Balance at the beginning of the year	-	2,173
(Write off) / Charge for the year	-	(2,173)
Balance at end of the year	-	-

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 2010 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	2010	2009
Commercial Banks	-	-
Other Banks	-	-
Services	-	-
Managed Funds	-	-
Others	-	-
Total Provision for Impairment	-	-

Geographical Distribution	2010	2009
GCC Countries	-	-
USA	-	-
Europe	-	-
Total Provision for Impairment	-	-

2.3 Regulatory Capital requirement for Credit risk

Standardised Approach

Asset Categories for Credit Risk 2010	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	132	-	132	16	2,209
Claims on Bahraini Public Sector Entities	500	-	500	60	500
Treasury Bills	-	-	-	-	-
Claims on banks	38,679	6,342	45,021	5,402	41,662
Claims on Corporates	1,736	391	2,127	255	4,400
Investments in Securities	18,923	285	19,208	2,305	17,797
Investments in Real Estate Sector	1,135	130	1,265	152	1,163
Delivery-versus-payment transactions	792	-	792	95	492
Other Assets	901	302	1,203	144	1,609
TOTAL credit risk weighted exposures under STA	62,798	7,450	70,248	8,429	69,832

Basel II Pillar 3 Public Disclosures (continued)

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

The on-balance sheet and off-balance sheet gross exposures have been risk weighted using the applicable risk weights and CCF's (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	
	2010	2009
Gross Income for the last three years:		
2005	-	-
2006	-	5,029
2007	**15,029**	15,029
2008	**3,031**	3,031
2009	**6,068**	-
Average of the three years	**8,043**	7,696
Alpha coefficient	**15%**	15%
K-BIA (3 year average multiplied by alpha)	**1,206**	1,154
Operational Risk weighted exposure under BIA (K-BIA* 12.5)	**15,080**	14,431
Requirement @ 12% of RWA	**1,810**	1,732

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 capitalized in line with the overall risk profile.

2.6 Interest Rate Risk in the banking book

The Bank continues to have exposure in the Fixed Income book during 2010. Therefore monitoring the interest rate risk continues to be relevant and management monitors this closely. 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.

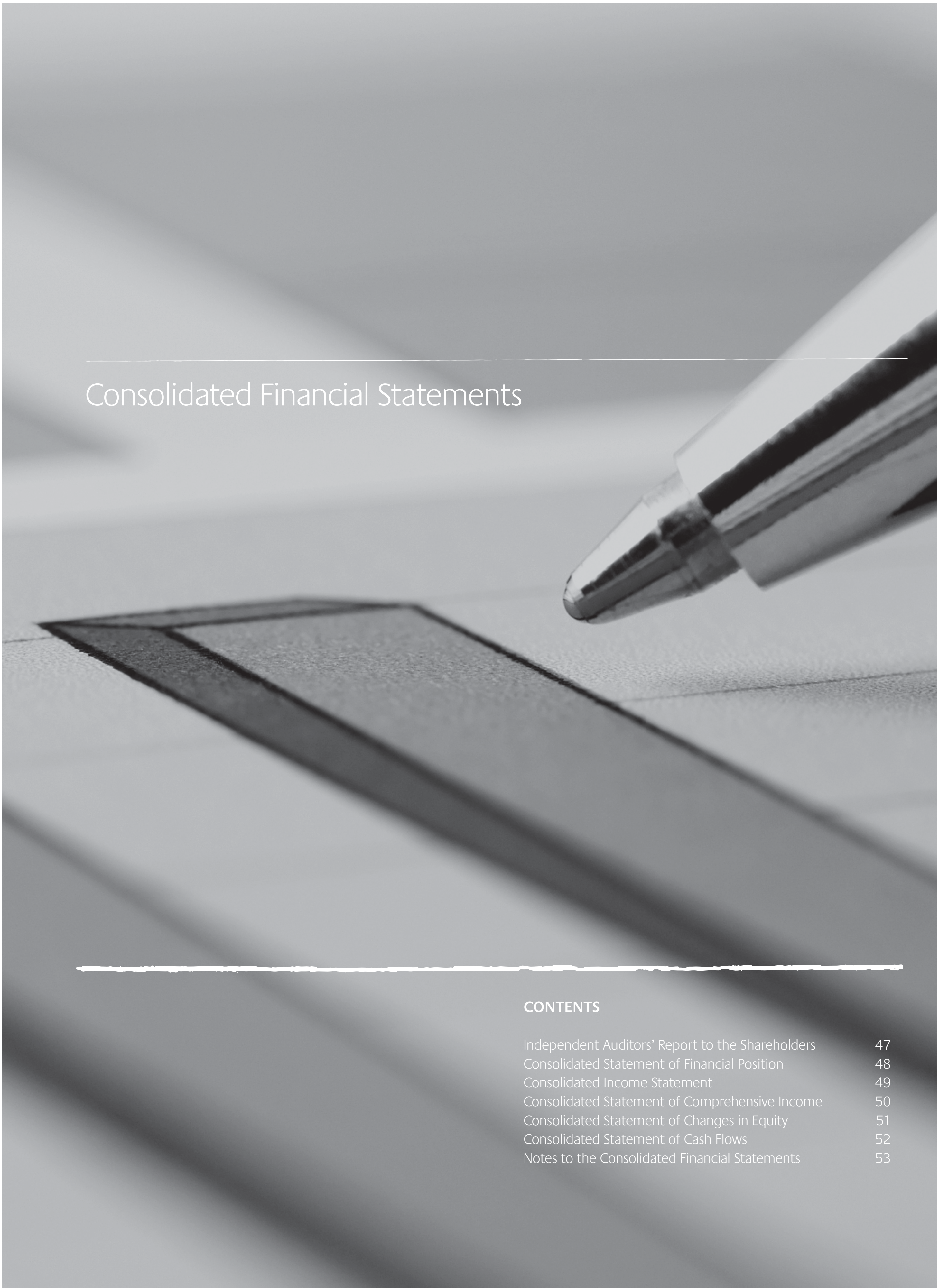
A 200 bp increase or decrease in market interest rates would affect the value of the debt instruments in the banking book as follows:

	200bp increase	200 bp decrease
As at 31 December 2010	**(256)**	**289**
As at 31 December 2009	(653)	719

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 & Investment Company BSC(c)
Manama, Kingdom of Bahrain
14 February 2011

REPORT ON THE (CONSOLIDATED) FINANCIAL STATEMENTS

We have audited the accompanying (consolidated) financial statements of Securities & Investment Company BSC (c) ('the Bank') and its subsidiaries (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED 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, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain Law, the terms of the Bank's licence or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and 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 2010
Bahraini Dinars '000

	Note	2010	2009
Assets			
Cash and bank balances	6	**35,397**	47,848
Treasury bills	7	-	280
Investments at fair value through profit or loss	8	**16,643**	6,260
Available-for-sale investments	9	**24,375**	19,867
Held to maturity investments	10	-	4,740
Furniture and equipment	11	**78**	149
Fees receivable	12	**458**	660
Other assets	13	**4,277**	2,773
Total assets		**81,228**	82,577
Liabilities and equity			
Short-term bank borrowings	14	**9,285**	1,131
Payables to customers	15	**12,570**	20,332
Deposits from customers	16	-	5,314
Other liabilities	17	**2,627**	2,046
Total liabilities		**24,482**	28,823
Equity			
Share capital	18	**42,528**	42,420
Statutory reserve	19	**4,561**	4,153
General reserve	20	**1,359**	1,051
Available-for-sale investments fair value reserve		**1,410**	154
Retained earnings		**6,888**	5,976
Total equity (page 51)		**56,746**	53,754
Total liabilities and equity		**81,228**	82,577

Shaikh Mohammed Bin Isa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman of the Board
Chairman of the Executive Committee

Anthony C. Mallis
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 48 to 86 on 14 February 2011.

Consolidated Income Statement

as at 31 December 2010
Bahraini Dinars '000

	Note	2010	2009
Interest income	21	1,524	1,754
Interest expense	21	(74)	(23)
Net interest income		1,450	1,731
Net fee and commission income	22	2,291	2,357
Net investment income	23	2,968	795
Brokerage and other income	24	1,140	1,484
Operating income		7,849	6,367
Staff and related expenses	25	(3,047)	(2,464)
General, administrative and other operating expenses	26	(1,017)	(825)
Profit for the year		3,785	3,078
Basic earnings per share (fils)	31	8.9	7

Shaikh Mohammed Bin Isa Al Khalifa
Chairman

Hussain Al Hussaini
Vice Chairman of the Board
Chairman of the Executive Committee

Anthony C. Mallis
Chief Executive Officer

The consolidated financial statements consist of pages 48 to 86.

Consolidated Statement of Comprehensive Income

as at 31 December 2010
Bahraini Dinars '000

	2010	2009
Profit for the year	**3,785**	3,078
Other comprehensive income		
Fair value reserve (available-for-sale investments)		
- Net change in fair value	**2,437**	1,029
- Net amount transferred to income statement on disposal of securities	**(1,181)**	(299)
Total other comprehensive income for the year	**1,256**	730
Total comprehensive income for the year	**5,041**	3,808

The consolidated financial statements consist of pages 48 to 86.

Consolidated Statement of Changes in Equity

as at 31 December 2010
Bahraini Dinars '000

	Share capital	Statutory reserve	General reserve	Available-for-sale investments fair value reserve	Retained earnings	Total equity
2010						
As at 1 January 2010	**42,420**	**4,153**	**1,051**	**154**	**5,976**	**53,754**
2009 appropriations:						
- Dividends at 5%	-	-	-	-	**(2,121)**	**(2,121)**
- Directors' remuneration paid	-	-	-	-	**(65)**	**(65)**
- Transfer to general reserve	-	-	**308**	-	**(308)**	-
- Issue of shares to employees' scheme	**108**	**29**	-	-	-	**137**
Balance after 2009 appropriations	**42,528**	**4,182**	**1,359**	**154**	**3,482**	**51,705**
Total comprehensive income for the year:						
Profit for the period	-	-	-	-	**3,785**	**3,785**
Other Comprehensive income:						
Revaluation reserve (available-for-sale securities)						
Net Change in fair value	-	-	-	**2,437**	-	**2,437**
Net amount transferred to profit and loss	-	-	-	**(1,181)**	-	**(1,181)**
Total comprehensive income for the year	-	-	-	**1,256**	**3,785**	**5,041**
Transfer to statutory reserve	-	**379**	-	-	**(379)**	-
Balance at 31 December 2010	**42,528**	**4,561**	**1,359**	**1,410**	**6,888**	**56,746**
2009						
As at 1 January 2009	42,346	3,832	1,028	(576)	3,229	49,859
2008 appropriations:						
- Dividends	-	-	-	-	-	-
- Director's remuneration paid	-	-	-	-	-	-
- Transfer to general reserve	-	-	23	-	(23)	-
- Issue of shares to employees' scheme	74	13	-	-	-	87
Balance after 2008 appropriations	42,420	3,845	1,051	(576)	3,206	49,946
Total comprehensive income for the year						
Profit for the period	-	-	-	-	3,078	3,078
Other Comprehensive income:	-	-	-	-	-	-
Revaluation reserve (available-for-sale securities)						
Net Change in fair value	-	-	-	1,029	-	1,029
Net amount transferred to profit and loss	-	-	-	(299)	-	(299)
Total comprehensive income for the year	-	-	-	730	3,078	3,808
Transfer to statutory reserve	-	308	-	-	(308)	-
Balance at 31 December 2009	42,420	4,153	1,051	154	5,976	53,754

The consolidated financial statements consist of pages 48 to 86.

Consolidated Statement of Cash Flows

as at 31 December 2010
Bahraini Dinars '000

	Note	2010	2009
OPERATING ACTIVITIES			
Net interest received		1,676	1,552
Sale of investments at fair value through profit or loss		103,665	64,816
Purchase of investments at fair value through profit or loss		(112,848)	(65,808)
Sale of available-for-sale investments		40,234	20,404
Purchase of available-for-sale investments		(36,132)	(25,460)
Sale of assets held to maturity		1,785	-
Purchase of assets held to maturity		(3,216)	(4,625)
Net decrease in payables to customers		(7,762)	(15,576)
Net decrease in deposits taken from customers		(5,314)	(15,612)
Dividends received		587	235
Brokerage and other fees received		2,879	4,627
Payments for staff and related expenses		(2,682)	(2,799)
Payments for general and administrative expenses		(1,554)	(722)
Cash flows utilized in operating activities		(18,682)	(38,968)
Investing activities			
Net capital expenditure on furniture and equipment		(17)	(98)
Cash flows utilized in investing activities		(17)	(98)
Financing activities			
Proceeds from short-term bank borrowings		8,154	1,131
Dividends paid		(2,121)	-
Remuneration paid to Directors		(65)	-
Cash flow from financing activities		5,968	1,131
Net decrease in cash and cash equivalents		(12,731)	(37,935)
Cash and cash equivalents at the beginning of the year		48,128	86,063
Cash and cash equivalents at the end of the year		35,397	48,128
Cash and cash equivalents comprise:			
Cash and bank balances	6	35,397	47,848
Treasury bills	7	-	280
		35,397	48,128

The consolidated financial statements consist of pages 48 to 86.

Notes to the Consolidated Financial Statements

as at 31 December 2010
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 licence 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 licence 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 privatisation 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 eight wholly owned subsidiaries authorised and approved by the Central Bank of Bahrain to carry on the business of collective investment schemes:

- SICO Funds Company BSC (c) launched SICO 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) launched SICO Kingdom Fund;
- SICO Funds Company V BSC (c) launched SICO Money Market Fund;
- SICO Funds Company VI BSC (c) launched SICO Simplex Fund;
- SICO Funds Company VII BSC (c) launched SICO Selected Securities Fund;
- SICO Ventures Company SPC.

The Bank has also another wholly owned subsidiary company SICO Fund Services Company BSC (c) (SFSCO) 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 2010

The following standards, amendments and interpretations, which became effective in 2010 are relevant to the Group.

- Improvements to IFRSs

  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 are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. There were no material changes to the current accounting policies of the Bank as a result of these amendments.

(e) New Standards, amendments and interpretations issued but not yet effective

The following standards and interpretations have been issued and are expected to be relevant to the Bank but not yet effective for the year ended 31 December 2010.

- IFRS 9 'Financial Instruments'

  Standard issued November 2009

  IFRS 9 'Financial Instruments' issued in November 2009 is the first standard issued as part of a wider project to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

  Standard issued October 2010

  IFRS 9 adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 'Reassessment of Embedded Derivatives'

  The Bank is yet to assess IFRS9's full impact. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

- IAS 24 (Revised) 'related party disclosures'

  It was issued in November 2009 and is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard will be applied, the Bank and the parent will need to disclose transactions between its subsidiaries and its associates.

- Improvements to IFRS (issued in April 2009)

  Improvements to IFRS issued in 2010 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 are effective for the Bank's 2011 annual financial statements 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 and 2010.

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.

(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 securities which are taken to equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 and remuneration is accrued.

(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 statement of financial position 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 realize 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.

(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 maximising 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:

	2010	2009
Cash and bank balances	35,397	47,848
Treasury bills	-	280
Investments at fair value through profit or loss	6,766	5,902
Available for sale investments	18,901	14,710
Investments held to maturity	-	4,740
Fee receivable	458	660
Other receivables	1,972	1,445
	63,494	75,585

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.

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**	
	2010	2009	2010	2009	2010	2009
Commercial banks	3,480	1,443	2,181	5,127	-	1,472
Other banks	200	-	1,417	395	-	-
Services	7,775	1,100	4,504	4,062	-	713
Funds	1,369	2,488	13,456	3,275	-	-
Others	3,819	1,229	2,817	7,008	-	2,555
Total carrying amount	16,643	6,260	24,375	19,867	-	4,740

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Geographical distribution	In or loss		Available for sale investments		HTM	
	2010	2009	2010	2009	2010	2009
GCC countries	16,415	4,493	11,495	14,439	-	4,740
USA	-	-	2,235	3,275	-	-
Europe	228	1,756	10,219	2,153	-	-
Middle East and North Africa	-	11	426	-	-	-
Total carrying amount	16,643	6,260	24,375	19,867	-	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 crystallization 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:

2010	Carrying value	Gross outflow	Less than 1 year	1 to 5 years	Above 5 years
Short term borrowings	9,285	9,289	9,289	-	-
Payables to customers	12,570	12,570	12,570	-	-
Other liabilities	784	784	600	184	-
	22,639	22,643	22,459	184	-

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	-	

(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.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

Sensitivity Analysis of a 1% change in market prices on the unrealised 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	
	2010	2009	**2010**	2009
Increase of 1%	**166**	63	**244**	199
Decrease of 1%	**(166)**	(63)	**(244)**	(199)

(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 minimizes 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 for purchase of investments on their behalf.

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.

Interest rate re-pricing profile

2010	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Cash and bank	-	-	-	5,272	5,272
Call deposits*	-	1,786	-	-	1,786
Placements with banks	0.15%	28,339	-	-	28,339
Investments at fair value through profit or loss	2.58%	1,636	3,761	11,246	16,643
Available-for-sale securities	2.03%	2,447	2,447	19,481	24,375
Furniture and equipment	-	-	-	78	78
Fees receivable	-	-	-	458	458
Other assets	-	-	-	4,277	4,277
Total assets		34,208	6,208	40,812	81,228
Short term borrowings	0.69%	9,285	-	-	9,285
Payables to customers	-	-	-	12,570	12,570
Other liabilities	-	-	-	2,627	2,627
Total liabilities		9,285	-	15,197	24,482
Equity		-	-	56,746	56,746
Total liabilities and equity		9,285	-	71,943	81,228
Interest rate sensitivity gap		24,923	6,208	31,131	-
Cumulative interest rate sensitivity gap		24,923	31,131	-	-

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

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	-	-

* At 31 December 2010 the effective interest rate on Bahraini Dinar call deposits is 0.225% (2009: 0.20% p.a.) and on USD call deposits is 0.15% p.a. (2009: 0.20% 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.

(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 recognizes 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.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital Management (continued)

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

Based on year end balances	2010	2009
RISK WEIGHTED EXPOSURE		
Credit risk	42,756	42,007
Market risk	28,042	8,186
Operational risk	15,080	14,431
Total risk weighted assets	85,877	64,624
Tier 1 capital	50,838	49,945
Tier 2 capital	4,144	3,269
Total regulatory capital	54,982	53,214
Capital adequacy ratio	64.02%	82.34%

Based on full year average balances

	2010	2009
Risk weighted exposure		
Credit risk	40,317	36,014
Market risk	17,099	34,719
Operational risk	15,080	14,431
Total risk weighted assets	72,496	85,164
Tier 1 Capital	51,119	49,517
Tier 2 Capital	2,511	1,546
Total regulatory capital	53,630	51,063
Capital adequacy ratio	74.79%	59.96%

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.

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

	2010	2009
Cash and bank balances	5,272	6,658
Call deposits	1,786	1,106
Short term placements with Banks	28,339	40,084
	35,397	47,848

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 12,570 (2009: 20,332) as mentioned in note 15.

7. TREASURY BILLS

Treasury bills comprise unquoted short-term treasury bills issued by the Central Bank of Bahrain. As of Dec 2010 the bank has NIL treasury bills (2009: 280).

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8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010	2009
Equity securities – at fair value		
- Listed	9,877	358
Funds – at fair value		
- Listed	1,369	2,488
Debt securities – at fair value		
- Listed	4,337	399
- Unquoted	1,060	3,015
	16,643	6,260

In 2008, investment in a fund amounting to BD1,909 has been fully provided for possible losses.

Investments at fair value through profit or loss at 31 December 2010 include securities amounting to BD 4,295 (31 December 2009; Nil) sold under agreement to repurchase.

9. AVAILABLE-FOR-SALE INVESTMENTS

	2010	2009
Equity securities – at fair value:		
- Listed	3,662	4,780
- Unquoted	377	377
Funds – at fair value:		
- Listed	869	1,899
- Quoted	7,641	-
- Unquoted	6,932	5,676
Debt securities – at fair value:		
- Listed	4,894	3,016
- Quoted	-	4,119
	24,375	19,867

Available for sale investments at 31 December 2010 include securities at fair value amounting to BD 4,284 (31 December 2009; Nil) sold under agreement to repurchase.

10. INVESTMENTS HELD TO MATURITY

	2010	2009
Debt securities at amortized cost		
-Listed	-	4,740
Allowance for impairment	-	-
	-	4,740
Fair value of Debt Securities held at cost	-	5,125

During the year, the Bank has transferred held to maturity investments (HTM) with an aggregate carrying amount of BD 6,171 to the Available-for-sale (AFS) category before their maturity. Consequently, and in accordance with International Accounting Standard (IAS) 39, the HTM investment portfolio of the Bank is tainted. Therefore, the Bank is prohibited from classifying investments in the HTM category during the year and for the next two financial years.

11. FURNITURE AND EQUIPMENT

	2010	2009
Cost as at 1 January	798	715
Additions	17	98
Disposals	(5)	(15)
Cost at 31 December	810	798
Depreciation as at 1 January	649	547
Charge for the year	88	116
Disposals	(5)	(14)
Depreciation as at 31 December	732	649
Net book value at 31 December	78	149
Cost of fully depreciated assets in use	520	446

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.

	2010	2009
Management Fees	277	255
Performance Fees	85	318
Custody Fees	96	87
Total	458	660

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13. OTHER ASSETS

	2010	2009
Receivables from clients and brokers	792	512
Guarantee deposit with the Bahrain Stock Exchange	500	500
Employee share incentive scheme	1,136	999
Prepaid expenses	1,170	330
Interest receivable	84	310
Other receivables	595	122
	4,277	2,773

14. SHORT-TERM BANK BORROWINGS

	2010	2009
Bank borrowings	9,285	1,131
As 31 December	9,285	1,131

Bank Borrowings include borrowings under repurchase agreements representing available-for-sale investments at fair value of BD 4,284 (2009; Nil) and fair value through profit and loss investments of BD 4,295 (2009: Nil) sold under agreement to repurchase.

15. PAYABLES TO CUSTOMERS

Payable to customers include settlement amounts for trades executed on behalf of customers.

16. DEPOSIT FROM CUSTOMERS

As at 31 December 2010, the Bank holds no deposits from customers (2009 5,314)

17. OTHER LIABILITIES

	2010	2009
Brokerage payable to counterparty	54	44
Accrued expenses	296	542
Provision for employee indemnities	270	220
Employee share incentive scheme liability	1,315	1,233
Other payables	692	7
	2,627	2,046

18. SHARE CAPITAL

	2010	2009
Authorised share capital		
1,000,000,000 (2009: 1000,000,000) shares of 100 fils each	100,000	100,000
Issued and fully paid		
At 1 January 424,200,000 ordinary shares of 100 fils each (2009: 423,460,000 ordinary shares of 100 fils each)	42,420	42,346
Issue of shares to employee share incentive scheme trustees during the year	108	74
At 31 December 2010: 425,283,688 ordinary shares of 100 fils each (2009: 424,200,000 ordinary shares of 100 fils each)	42,528	42,420

During the current year, the Bank issued 1,086,598 shares of BD 100 fils each under the employee share incentive scheme for the year 2009 to Volaw Trust & Corp service Ltd. at the 31 December 2009 NAV of 0.126 fils per share (2009: 739,104 shares of 100 fils each at the 31 December 2008 NAV of 0.118 fils per share). Accordingly the share capital was increased by BD 108 (2009: BD 74) to the extent of the nominal value of the shares of 100 fils each. The share Premium of BD 29 (2009: BD 13) relating to the issue of these shares at a premium of 26 fils per share has been credited to the statutory reserve.

Appropriations

	2010	2009
Proposed Dividend - 6% (2009 : 5%)	2,552	2,121
General Reserve	379	308

The shareholders are:	Nationality	2010		2009	
		Capital	% holding	Capital	% holding
Pension Fund Commission	Bahrain	9,322.5	21.92	9,322.5	21.98
General Org. for Social Insurance	Bahrain	6,600.0	15.52	6,600.0	15.56
National Bank of Bahrain BSC	Bahrain	5,362.5	12.61	5,362.5	12.64
Ahli United Bank (Bahrain) BSC	Bahrain	5,115.0	12.03	5,115.0	12.06
Bank of Bahrain and Kuwait BSC	Bahrain	4,125.0	9.70	4,125.0	9.72
Arab Investment Resources Co EC	Bahrain	3,300.0	7.76	3,300.0	7.78
Arab Banking Corporation BSC	Bahrain	3,300.0	7.76	3,300.0	7.78
Gulf Investment Corporation GSC	Kuwaiti	3,300.0	7.76	3,300.0	7.78
Bahraini Saudi Bank BSC	Bahrain	825.0	1.94	825.0	1.94
Volaw Trust & Corp Service Ltd.	Jersey	1,278.3	3.00	1,169.7	2.76
		42,528.3	100.0	42,419.7	100.0

Based on these financial statements, the Net Asset Value per share is BD 0.134 (2009: BD 0.126)

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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 379 (2009: BD 308).

The share premium of BD 29 (2009: BD 13) 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.

21. INTEREST INCOME/ EXPENSE

	2010	2009
Interest income		
Placements and call deposits	604	995
Interest on investments	876	736
Margin lending	44	23
	1,524	1,754
Interest expense		
Borrowings	65	22
Customer accounts	9	1
	74	23

22. FEE AND COMMISSION INCOME/ EXPENSE

	2010	2009
Fee and commission income from trust or other fiduciary activities		
- Management fee	1,934	1,834
- Performance fee	103	400
- Custody fee	336	318
	2,373	2,552
Fee and commission expense		
- Custody fee	(78)	(109)
- Collection fee	(4)	(86)
Net fee and commission income	2,291	2,357

23. NET INVESTMENT INCOME

	2010	2009
Net gain on investments carried at fair value through profit or loss	1,200	260
Realised gain on sale of available-for-sale investments	1,181	299
Dividend income on investments carried at fair value through profit or loss	164	123
Dividend income on available for sale investments	423	113
	2,968	795

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

	2010	2009
Realised gain on sale	879	170
Unrealised gain representing fair value adjustments	321	90
	1,200	260

24. BROKERAGE AND OTHER INCOME

	2010	2009
Brokerage income	632	987
Investment banking income	90	120
Marketing income	-	1
Foreign exchange gain	397	318
Other income	21	58
	1,140	1,484

25. STAFF AND RELATED EXPENSES

	2010	2009
Salaries and allowances	2,882	2,315
Social security costs	113	105
Other costs	52	44
	3,047	2,464

As at 31 December 2010, the Group employed 48 (2009: 52) Bahrainis and 27 (2009: 28) expatriates.

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25. STAFF AND RELATED EXPENSES (CONTINUED)

The Group's contributions for the year to the General Organisation for Social Insurance in respect of its employees amounted to BD 113 (2009: BD 105).

Other liabilities include a provision of BD 52 (2009: 179) for the unfunded obligation relating to leaving indemnities payable to expatriate employees.

26. GENERAL, ADMINISTRATION AND OTHER OPERATING EXPENSES

	2010	2009
Rent	106	103
Communication expenses	200	170
Marketing expenses	163	153
Professional fees	103	109
Other operating expenses	356	174
Depreciation	89	116
	1,017	825

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), SICO Funds Company III BSC (c), SICO Funds Company IV BSC, SICO Funds Company V BSC (c), SICO Funds Company VI BSC (c), SICO Funds Company VII BSC (c) and SICO Ventures Company SPC. In the ordinary course of business and also has investments in certain funds.

	2010	2009
Fee and commission income	745	767
Fee receivable	197	194
Investments:		
Available for sale investments		
- Khaleej Equity Fund	708	620
- SICO Selected Securities Fund	161	154
Investments carried at fair value through profit or loss		
- SICO Arab Financial Fund	-	732
- SICO Money Market Fund	1,141	-

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 2,943 (2009: 1,131). 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.

	2010	2009
Fee and commission income	273	257
Funds under management	36,998	33,692
Deposits	-	3,518
Borrowings as at 31 December	2,943	1,131
Borrowings obtained during the year	16,329	1,131-
Borrowings repaid during the year	14,517	-

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, chief corporate officer and head of departments.

Compensation to key management personnel is as follows:

	2010	2009
Short term benefits	829	954
Post employment benefits	35	33
Equity compensation benefits	161	81
	1,025	1,068

General and administrative expenses include BD 133 (2009: BD 10) towards attendance fees, remuneration fees and other related expenses for members of the Board and Executive Committee.

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28. EMPLOYEE SHARE OWNERSHIP PLAN

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 2010 amounted to BD 1,136 (2009: 998).

The Group has recognised an employee liability of BD 1,315 (2009: 1,233) 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 2010 in accordance with the rules of the Scheme.

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

	2010		2009	
	No. of shares issued	**Value**	No. of shares issued	Value
As at 1 January	**11,697,090**	**998**	10,957,986	911
Shares issued during the year	**1,086,598**	**1,136**	739,104	87
	12,783,688	**2,134**	11,697,090	998

During the year, the Bank issued 1,086,598 new shares under the Scheme for the year 2009 as approved by the Board of Directors and was approved at the Annual General meeting which was held on 18 March 2010. (1,309,810 eligible shares net of 223,212 shares pertaining to employees who left the Group in 2010 whose obligation was cash settled).

In 2009, the Bank issued 739,104 new shares under the Scheme for the year 2008 as approved by the Board of Directors at the Annual General meeting on 26 January 2009 (803,343 eligible shares net of 64,239 shares pertaining to employees who left the Group in 2009 whose obligation was cash settled).

29. CONTINGENCIES, COMMITMENTS AND MEMORANDUM ACCOUNTS

Investment commitment

The Group 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 Group has other investment commitments of BD 3,149 (2009: 1,210) and margin lending drawdown commitments of BD 605 (2009: 604).

	2010	2009
Funds under management (net asset value)		
SICO Selected Securities Fund	2,777	2,681
Khaleej Equity Fund	34,230	30,930
SICO Gulf Equity Fund	9,617	9,882
SICO Arab Financial Fund	3,541	3,696
SICO Money Market Fund	3,327	-
Discretionary Portfolio Management Account	147,602	103,332

The Group is the fund manager for 'SICO Selected Securities Fund' launched in June1998, 'Khaleej Equity Fund' launched in March 2004, 'SICO Gulf Equity Fund' launched in June 2008,'SICO Arab Financial Fund' launched in April 2009, 'SICO Money Market Fund' launched in August 2010, 'SICO Kingdom Fund' and 'SICO Simplex Fund' not launched yet. The net asset values of these funds are based on audited financial statements.

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 625 and in EURO for equivalent BD 1,955.

	2010	2009
Assets under management custody	1,278,039	1,092,094

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2010, assets amounting to BD1,278,039 (2009: BD 1,092,094) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 224,042 (2009: BD 158,886) were registered in the name of the Bank.

30. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

	2010	2009
QAR	14,619	24,233
US Dollar	17,735	12,886
KWD	1,655	1,802
SAR	8,831	5,996
AED	4,113	1,028

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

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31. BASIC EARNINGS PER SHARE

	2010	2009
Profit for the year	3,785	3,078
Weighted average number of equity shares (In 000s)	425,040	424,197
Earnings per share (in fils)	8.9	7

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 2010	Less than 1 year	1 to 5 Years	Above 5 Years	Total
Assets				
Cash and bank balances	35,397	-	-	35,397
Investments at fair value through profit or loss	11,357	2,961	2,325	16,643
Available-for-sale securities	2,447	20,699	1,229	24,375
Furniture and equipment	-	78	-	78
Fees receivable	457	1	-	458
Other assets	2,369	1,908	-	4,277
Total assets	52,027	25,647	3,554	81,228
Liabilities				
Short term borrowings	9,285	-	-	9,285
Payables to customers	12,570	-	-	12,570
Other liabilities	2,627	-	-	2,627
Total liabilities	24,482	-	-	24,482
Liquidity gap	27,545	25,647	3,554	56,746
Cumulative liquidity gap	27,545	53,192	56,746	56,746

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	-	280	-	280
Investments at fair value through profit or loss	1,909	4,351	-	6,260
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	51,683	30,894	-	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	22,860	30,894	-	53,574
Cumulative liquidity gap	22,860	53,754	-	53,754

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 2010	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	-	-	-	35,397	-	35,397	35,397
Investments at fair value through profit or loss	16,643	-	-	-	-	16,643	16,643
Available-for-sale investments	-	24,375	-	-	-	24,375	24,375
Investments held to maturity	-	-	-	-	-	-	-
Fees receivable	-	-	-	458	-	458	458
Other assets	-	-	-	1,971	-	1,971	1,971
	16,643	24,375	-	37,826	-	78,844	78,844
Short-term bank borrowings	-	-	-	-	9,285	9,285	9,285
Payables to customers	-	-	-	-	12,570	12,570	12,570
Deposits from customers	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	784	784	784
	-	-	-	-	22,639	22,639	22,639

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33. ACCOUNTING CLASSIFICATION AND FAIR VALUES (CONTINUED)

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

Included in AFS category are investments amounting to BD 962 (2009: BD 377) that are carried at cost in the absence of a reliable measure of fair value.

(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 categorized.

	Level 1	Level 2	Level 3	Total
As at 31 December 2010				
Available for sale investments				
Funds	869	14,573	-	15,442
Equities	3,662	-	377	4,039
Debt Instruments	4,894	-	-	4,894
Trading:				
Funds	1,369	-	-	1,369
Equity	9,877	-	-	9,877
Debt Instruments	4,337	1,060	-	5,397
Total	25,008	15,633	377	41,018

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

	Level 3 - 2010
At 1 January 2010	1,704
Total gains:	-
- in income statement	-
- in other comprehensive income	-
Purchases	-
Settlements	-
Transfers into / (out) of level 3	1,327
At 31 December 2010	377
Total gain / (loss) for the year included in income statement for assets / liabilities held as at 31 December 2010	-

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.

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33. ACCOUNTING CLASSIFICATION AND FAIR VALUES (CONTINUED)

	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	-

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
SICO Funds Company IV BSC (c)	1	15 November 2009	Umbrella company for SICO mutual funds
SICO Funds Company V BSC (c)	1	15 November 2009	Umbrella company for SICO mutual funds
SICO Funds Company VI BSC (c)	1	15 December 2009	Umbrella company for SICO mutual funds
SICO Funds Company VI BSC (c)	1	04 November 2010	Umbrella company for SICO mutual funds
SICO Ventures Company SPC	100	29 June 2010	To own the nominal shares in all other subsidiaries of SICO.

In addition, the Bank is in the process of incorporation of four new entities SICO Fund IV, V, VI at a capital of BD 1 each and SICO Ventures Company at a capital of BD 100.

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

Parent balance sheet as at 31 December:

As at 31 December	2010	2009
Assets		
Cash and bank	5,132	6,610
Call deposits	1,783	1,103
Placements with banks	26,169	38,048
Treasury bills	-	280
Investments at fair value through profit or loss	16,643	6,260
Available-for-sale investments	24,375	19,867
Held to maturity investments	-	4,740
Investment in subsidiaries	1,656	1,554
Furniture and equipment	76	147
Fees receivable	402	575
Other assets	4,264	2,762
Total assets	80,500	81,946
Liabilities		
Bank overdraft	-	-
Short term borrowings	9,285	1,131
Payables to customers	12,570	20,332
Deposits from customers	-	5,314
Other liabilities	2,600	2,041
Total liabilities	24,455	28,818
Equity		
Share capital	42,528	42,420
Statutory reserve	4,489	4,089
General reserve	1,295	1,000
Available-for-sale securities fair value reserve	1,410	154
Retained earnings	6,323	5,465
Total equity	56,045	53,128
Total liabilities and equity	80,500	81,946

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34. GROUP INFORMATION (CONTINUED)

Parent income statement for the year ended 31 December:

Year ended 31 December	2010	2009
Income		
Interest income	1,482	1,725
Interest expense	(73)	(23)
Net interest income	1,409	1,702
Net fee and commission income	1,998	2,117
Net investment (loss)/ income	2,969	795
Brokerage and other income	1,167	1,436
Operating income	7,543	6,050
Staff and related expenses	(2,860)	(2,307)
General, administrative and other operating expenses	(972)	(790)
Profit/(Loss) for the year	3,711	2,953

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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