

COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

The year started positively, supported by the ongoing growth momentum of the GCC economies, which was underlined by continued strong business fundamentals and renewed investor confidence. Accordingly, our firm reported a record performance for the first six months of 2008, both in terms of financial results and business achievements.

The second half of 2008, however, could not have been more different. The US sub-prime mortgage crisis and credit crunch escalated into one of the worst financial and economic meltdowns for the past seventy-five years, marked by the collapse of Lehman Brothers and ensuing government bail-outs and nationalizations of many major global financial institutions. The infection spread to Europe with similar consequences, before beginning to impact the GCC region more deeply than had been anticipated.

Most of the region's seven stock markets witnessed their worst year ever in 2008, slumping even more than the bourses in the West where the crisis began. Their combined market value dropped by about US\$ 500 billion to US\$ 570 billion compared to US\$ 1.1 trillion at the end of 2007.

The second half of 2008 also witnessed the price of crude oil plummeting from a record high of just under US\$ 150 per barrel in July to US\$ 38 at the end of the year. In addition, the GCC states experienced massive losses in their vast overseas investments, with an estimated drop of US\$ 350 billion in their total US\$ 1.3 trillion assets. With major international and regional banks unable to continue their project financing activities in the GCC, we seem to be going through a corrective phase with several planned large infrastructure and industrial projects in the region either cancelled or put on hold, while many existing projects experienced difficulty in securing refinancing facilities.

Following the significant and unprecedented deterioration in global and regional market conditions during the second half of the year, our firm reported a loss of BD 1.4 million for 2008, compared to a profit of BD 11.9 million for 2007. The results reflected our decision to make full provisions, amounting to BD 2.2 million, for



MESSAGE FROM THE CEO

I can best describe 2008 as a 'roller coaster' year, marked by the striking contrast in fortunes of the first and second halves of the year.

the impairment of equity securities negatively impacted by the current crisis.

Despite our early exit for some of our market positions during the middle of 2008, and which subsequently accelerated in September, the retrenchment across local markets saw our proprietary trading unit report a net loss of BD3 million, compared to BD5.9 million profit in the previous year. The 56% decline across GCC markets also meant our assets under management declined in value to BD152.5 million from BD229.8 million at the end of 2007.

We decreased our expenses for the year by 4.2% to BD3.9 million, but we intend to maintain our investment in our people and our infrastructure, particularly IT, to ensure we are well positioned for an improvement in the regional markets.

Our prudent financial management of the business meant that we closed the year with over 72 per cent of the balance sheet in cash and deposits. Our successful rights issue in June 2008 increased our Firm's capital to

over BD 42 million, illustrating the confidence of our shareholders and their continued financial support. SICO now has a strong balance sheet to weather the current economic downturn and will be ideally positioned to profit from an improvement in market conditions.

During the year we strengthened the Firm's senior management team in 2008 with the creation of a new post of Chief Corporate Officer (CCO), responsible for strategic and business development, as well as risk management.

As a client-driven organisation, committed to the highest standards of customer satisfaction, we established a new Client Relations Unit, which will act as the first point of contact for SICO clients in all non-trading issues.

We've also added fresh talent across the team with appointments to our research, internal audit, corporate finance, asset management and HR departments.

We must thank our support staff in operations, risk management, financial control, IT, HR, internal audit, our secretaries and to Abu Yousef, Jassim and Kamel, who have all contributed to the smooth running of our firm. Credit must also go to our subsidiary SICO Funds Services Company (SFS).

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of the balance sheet in cash
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MESSAGE FROM THE CEO CONTINUED

As we move into the first half of the year, we expect 2009 to be a very challenging year, marked by even greater uncertainty. The global financial crisis and the recessionary environment are far from over, and will continue to present a negative picture for the year (at least) ahead. I believe that comparatively higher economic growth post-2009, coupled with attractive regional demographics, is likely to keep the GCC growth engine working in the longer term for regional markets, which will have a positive effect on SICO's business activities.

There have also been a number of achievements from the team, both professionally and personally, that I would like to mark. On the personal front, one of the team was recently married: Aysha Abdulla and Hussain Najati got engaged. Two new babies also arrived, the happy mothers being Zain Al Zayani, and Nada Ahmadi

Several of the team excelled in professional development. Jithesh Gopi has passed levels I, II and III of CFA® study and Examination program and holds the Chartered Financial Analyst (CFA) designation. Zainab Mian and Nada Jamsheer completed and passed level I of the CFA, while Ali Marshad passed level II. We invest a lot of time and resources into developing our people at SICO, as it is our people who are our real assets, and ensure that we continue to offer our clients market leading services.

Let's now take a more detailed look at the achievements of the various parts of the business during the second half of the year 2008.

Anthony C. Mallis
Chief Executive Officer

Rights issue of ordinary shares
Bahrain Commercial Facilities Company

US\$ 68
million

Rights issue of newly issued shares
General Trading & Food Processing Company

US\$ 10
million

Primary Listing on Bahrain Stock Exchange
Khaleeji Commercial Bank

1 billion

Ordinary shares of nominal value BD 0.100

ASSET MANAGEMENT

We continued to grow our asset management business during 2008, winning several new mandates with prestigious regional and international financial institutions. SICO is also planning to introduce of a new Jersey-domiciled feeder fund for the Al Khaleej Equity Fund, which is expected to be launched during the second half of 2009.

Our firm's four equity funds continued to perform strongly until July 2008, substantially outperforming their respective benchmarks. Nonetheless, with the extensive GCC market falls from August onwards, these funds ended the year in negative territory, but having outperformed market indices, and just as importantly, our peers. Despite the adverse market conditions, the fund's assets had positive net inflows for the year.

CORPORATE FINANCE

During the past ten years, our Corporate Finance team managed and advised on the majority of equity capital raising exercises and conventional bond offerings in Bahrain.

SICO is one of the leading providers of Corporate Finance services in Bahrain, having successfully concluded several high profile domestic and regional offerings covering debt and equity capital markets. SICO offers a wide range of corporate finance services through debt and equity primary and secondary offerings including managing IPOs, M&As, privatizations, private placements, listings, rights and bonds issues.

During the past ten years, our Corporate Finance team managed and advised on the majority of equity capital raising exercises and conventional bond offerings in Bahrain. A few noteworthy transactions in 2007 were the Seef Properties IPO (US\$ 74 million), BBK 's Rights Issue (US\$ 133 million) and Bahrain Islamic Bank's Rights Issue (US\$ 225 million).

MARKET MAKING

We pioneered the market making concept on the Bahrain Stock Exchange (BSE) and since 1997 it has been the regional market maker. The objective behind this function is to provide depth and liquidity to the stock market reducing unnecessary short term price fluctuations and narrowing of spreads.

The firm's Market Making Function is recognized by the BSE as an independent function and at arm's length from SICO's Brokerage business with

A significant achievement during the year was the Khaleej Equity Fund winning the prestigious Lipper Fund Award for best GCC fund in the three-year category, and its rating being upgraded from 'A' to 'AA' by Standard & Poor's. The agency also assigned an 'AA' rating for the SICO Gulf Equity Fund, and 'A' ratings for the SICO Selected Securities Fund and the SICO Arab Financial Fund.

With the poor market conditions, our firm's assets under management decreased in 2008 to BD 152.5 million, compared to BD 229.8 million for the previous year. The level of redemptions was minimal, with the fall in assets under management reduced by market performance. Management fees were slightly higher than 2007, but performance fees declined.

Our Team has successfully concluded several equity capital markets transactions during 2008 which include the rights offerings of Bahrain Commercial Facility Company (BCFC) and General Trading and Food Processing Company (TRAFICO) (US\$ 68 million), listing of Khaleeji Commercial Bank's shares on the Bahrain Stock Exchange, the rights issue of Securities & Investments Company, and two financial advisory engagements.

SICO was also appointed as Lead Manager and Financial Advisor for a Sukuk Issue, an Initial Public Offering (IPO), a Convertible Bond Issue and a Private Placement that were supposed to be offered during the 4th quarter of 2008. However, due to adverse market conditions, the transactions were put on hold.

our firm having a dedicated Market Making team covering local and regional issues. We also make a market for post-IPO listings, cross listings, matured listings, and debt instruments listings.

As a result of the growing client interest, especially outside of Bahrain, our firm transacted Global Depository Receipts, and extended its "virtual" geographic reach during the year. These activities generated an increase in fee income for the year.

BROKERAGE

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SICO also offers its clients the means to benefit from listed investment opportunities available in the region. Our clients have been able to execute transactions in the various regional markets under one roof since 2002. This is made possible by the network of brokers SICO has established across the GCC and other regional markets.

One of the key activities during the second half of 2008 was in December 2008, when SICO, on behalf of a client, purchased \$157.8 million worth of BBK shares.

Also during the year, SICO increased its business with non-GCC clients, further enhancing its status as the 'broker of choice' on the BSE for international fund managers, prime brokers and banks. There was high interest by non-GCC

investors during the first half of the year, with the majority of trading being executed by our firm. To support the growth of such business and expand activities across the region, we introduced an Agency Brokerage Desk in collaboration with counter-brokers and institutional clients. This is the first of its kind in Bahrain and one of the first in the GCC.

SICO's pan-Gulf capabilities continued to complement the Firm's Bahrain-based brokerage activities. During 2008, an upgrade in coverage and service levels contributed to a substantial increase in cross-border activity on behalf of institutional and individual clients in GCC markets. At the same time, SICO expanded its brokerage coverage to Jordan and Egypt.

RESEARCH

SICO continues to enhance its research capabilities in line with its commitment to offer clients a superior platform and level of service. The firm's proprietary research database covers over 90 per cent of listed companies in the GCC, whose movements are constantly tracked and analyzed.

SICO's Research team published extensive reports on the following:

Real Estate: Dubai real estate sector and accounting practises followed by regional real estate companies

Banking: Bahrain and Oman banking sectors

Petrochemicals: SAFCO and SIPCHEM

Regular updates: Quarterly updates on companies under coverage

The focus of the research team during the recent months was to lay a good foundation for future growth by adding new resources to the team. The enhanced research capabilities will help the team to increase companies under coverage significantly during this year and to offer clients comprehensive thematic and strategic reports covering all the major sectors in the region

RATINGS & AWARDS

AA

SICO's flagship fund, Khaleeji Equity Fund received an upgraded rating of 'AA' by Standard & Poor's. It also received the **Lipper Award** in 2008.

Gulf Equity Fund was rated 'AA' as well.

A

SICO Selected Securities Fund and SICO Arab Financial Fund received 'A' rating from Standard & Poor's.

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The number 1 broker for the 10th year with 41% market share on BSE in 2008.

Total worth of BBK shares purchased

US\$ 157.8

million