

COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO



WELCOME TO THE FIRST ISSUE OF COMPASS 08

MESSAGE FROM THE CEO

Just as SICO finished last year with record profits, making 2007 our most successful year of operations since opening for business in 1996, the first six months of 2008 have seen the SICO team continuing to deliver significant results in the pursuit of our client focused strategy.

Although the strong recovery seen across GCC equity markets last year is now slowing, there still remains the case for sustained growth to continue across the region for the rest of the year (and we believe for a number of years going forward), despite the ongoing global concerns regarding the credit crisis, energy costs and inflation. The trends we witnessed throughout 2007, which continue to underpin regional growth, remain: the overall growth momentum of the GCC economies; continued strong business fundamentals and continuing investor confidence.

Of course, we should avoid complacency and avoid patting ourselves on the back too much. This is especially hard to do when things seem to be going our way, but increasingly necessary in an environment where competitors are more aggressive and diverse than ever.

The measures we set in place last year, with SICO now becoming a fully fledged wholesale bank, supported by a strong pipeline of business and an enhanced institutional capability has meant that we are performing well, with a net profit of BD5.758 million for the first half of this year, an increase of 61 percent when compared to 2007's second quarter profits of BD3.581 million.

Our net profit figure was delivered through a 52% increase in our total income for the first half of the year, which stood at BD7.6 million. We expect a good second half of the year, details of which I will

share with you in the second edition of Compass. We completed a rights issue at the end of June, with paid up capital increasing to BD 42.346 million, meaning shareholders' equity at mid-year reached BD61.335. The capital increase was to accommodate a number of strategic initiatives the firm is undertaking whilst meeting the CBB's wholesale banking licence capital requirements.

Our firm's financial performance is driven by our operational excellence and we continue to perform well across all areas of the business.

Proprietary Investments returns and Treasury activities witnessed another profitable first half of the year backed by strong performance of regional markets.

Asset Management increased its assets under management by 29% to \$771 million, up from \$596 million in December 2007. This increase has been driven by fresh inflows into our funds by investors as well as an organic increase in values due to positive returns. I'm proud of the fact that SICO, despite the overall negative performance of regional markets in the first half of the year, delivered positive returns for our clients. Our in-house range of funds goes from strength to strength, and this has been underlined by various awards that our funds have received, the latest being LIPPER'S award for the Khaleej Equity Fund ("KEF") for being the best GCC performing fund over three years. The LIPPER Award followed on from Standard & Poor's awarding KEF an 'A' rating, one of the first funds in the region to receive this level of award by S&P. KEF has now reached over US\$140 million in assets, underlining the attractiveness of its out-performance to investors.

The Corporate Finance team was kept busy over the past couple of months with TRAFCO's Rights

Issue, which raised BD3.7 million and was 22% over subscribed, a testament to the work the team put together in structuring and managing the issue successfully. I'm pleased to say that the team also has a very impressive pipeline of mandates they are working on with expectations of much of the business being closed during the second half of the year.

SICO was also the largest broker on the Bahrain Stock Exchange in 2007 for the ninth year running, with 48% of market share. Our leading position in the market means that our clients benefit from best prices and discrete and professional execution. I firmly believe that we will remain the leading broker on the exchange for the second half of this year. Fundamental to SICO's past and future success is our Research team. Our in-depth, proprietary research is what defines our performance in the market. Investment decisions based on our unique insight and understanding of specific stocks, sectoral and macro trends helps SICO to deliver market beating returns to our clients. SICO now maintains a research data base on more than 90% of all listed GCC companies.

We must also thank our hidden soldiers in the 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) which also supported our Brokerage, Asset Management and Proprietary investments achievements, without them we would not have been able to achieve all that we have done as a firm.

As we move into the second half of the year, we have seen SICO achieve a number of important financial and business goals. We are now well placed to

MESSAGE FROM THE CEO CONTINUED

build on these achievements to deliver further value for clients and shareholders alike in the second half of the year. 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 three of the team were recently married: David Halstead; Fatima Haidari and Hussain Abdul Hadi. Four new babies also arrived, the happy mothers being Wafa Al Bastaki, Ayda Najeeb and Najla Al Shirawi – Mabrouk.

Najla was also honoured to receive an award from Her Highness Shaikha Sabika's personal programme to honour Bahraini women's achievements in the corporate sector. It is vital that we encourage as many women as possible to participate actively and fully in the Bahraini economy, and Najla is an excellent role model. Several of the team excelled in professional development. Abdul Rahman Saif and Ramy Echo both secured places on INSEAD business courses, one of the world's leading business schools. Walaa Al Fardan passed the Series 7 professional exam, enabling her to offer investment advice professionally. 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 offer our clients market leading services.

We've also added fresh talent to the team with the appointment of Bassam Khoury as Principal, Head of Brokerage. Fadhel Makhlouq is now Head of Treasury & Investments and Abdul Rahman Saif is Head of the Investments Unit. We also recognised the professional achievements of Mariam Isa with her well-earned promotion to Chief Broker. As we welcome new members to the team, we should also mark the tenth anniversaries of the following SICO employees: Hanan Yousif Sater; Hussain Abdul Hadi Isa; Ali Ahmed Al Asfoor; Sreenivasan Konnat; Abdul Rahim Mukhtar Mohammed; Amal Ahmed Al Nasser; Jassim Abdul Hussain Kadhém and Nadia Hassan Khalil. Their dedication to the company is testament to the kind of culture we are building within SICO.

Now let's take a more detailed look at the achievements of the various parts of the business during the first half of the year.

Anthony C. Mallis
Chief Executive Officer

ASSET MANAGEMENT

The Firm's asset management business performed well in the first half of 2008, Assets under management increased to over US\$ 771 million vs. US\$ 596 million in December 2007.

This increase can be attributed to fresh investments and an increase in positive returns. Accordingly, management fees contributed approximately 15% to SICO's bottom line. One of the major achievements during the first half of this year is that despite negative performance of the regional markets, we have been able to produce positive returns for our investors.

Our in-house funds have performed very well during this period. One of the top performers was Khaleej Equity Fund ("KEF"). There were inflows to the tune of USD 58 million into KEF which has increased the size of the fund to USD 142 million compared to USD 72 million in December 2007. With a year-to-date return of 14.3% compared to a benchmark return of -9.4%, KEF has performed significantly better than the benchmark and its peers in the region and is among the top quartile in the region. KEF won the LIPPER Fund Award for 2008 for its outstanding risk adjusted performance over three years. Moreover, KEF is also one of the first Gulf-based funds to be awarded an "A" rating by Standard & Poor's last year.

The size of SICO Gulf Equity Fund stands now at USD 60 million compared to USD 45 million in December 2007 and it also has performed very well. The fund's year to date (as at June 2008) return is 18.5% compared to a benchmark return of 1.6%. SICO Arab Financial Fund, which was launched in August 2007, has produced a 37.9% return since its inception and a 14.2% year to date (as at June 2008) return.

In addition, SICO Selected Securities Fund, a country fund which invests exclusively in Bahrain, also outperformed the benchmark by approximately 770 bps. The fund's year to date return (as at June 2008) and since inception returns were 11.5% and 247.7% respectively compared to benchmark returns of 3.8% and 126.4% for the same periods.

The performance of our external funds during the period was also good despite there being redemption pressures. Al Aseel Islamic Equity Fund and Al Islami GCC Equity Fund produced year to date returns of 10.2% and 13.6% respectively compared to the benchmark return of -6.8%.

CORPORATE FINANCE

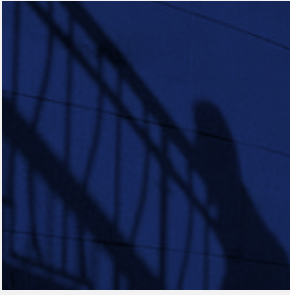
SICO is one of the leading providers of Corporate Finance services in Bahrain, having successfully concluded several high profile domestic and regional offerings covering debt and equity capital markets. SICO offers a wide range of corporate finance services through debt and equity primary and secondary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

During the past ten years, SICO's Corporate Finance team managed and advised on the majority of equity capital raising exercises and conventional bond offerings on the Bahrain Stock Exchange. A few noteworthy transactions in 2007 are: Seef Properties IPO (US\$ 74 million); BBK Rights Issue (US\$ 133 million) and Bahrain Islamic Bank Rights Issue (US\$ 225 million). In 2008 SICO acted as an issue manager for TRAFICO's rights issue (US\$ 10 million). SICO was also the listing advisor for the primary listing of Khaleeji Commercial Bank on the Bahrain Stock Exchange in June 2008.

MARKET MAKING

SICO 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. SICO has a dedicated Market Making team covering local and regional issues. SICO makes a market for post-IPO listings, cross listings, matured listings, and debt instruments listings.



BROKERAGE

For the ninth consecutive year, SICO was the largest broker on the Bahrain Stock Exchange (BSE) in 2007, with over 48% market share by value of stocks traded.

For the first half of 2008 SICO brokerage continued to lead the market with over 42% market share by value of stocks traded. Our brokerage team is experienced in securities trading and endeavors to execute transactions efficiently and at the best available market prices for our clients.

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

SICO also increased its business with non-Bahraini clients, further enhancing its status as the "broker of choice" on the BSE for international fund managers, prime brokers and banks.

Over 50 percent of the BSE's turnover is generated by foreign investors, with the majority of trading being executed by SICO.

Some of the key activities during the first six months of the year were the purchase of \$318 million of BBK shares in February, followed by a subsequent purchase of \$105.5 million worth of BBK shares in May 2008. The Brokerage team also purchased \$47 million worth of Ithmaar Bank shares in March 2008 and the team also purchased \$64.7 million worth of Zain KSA shares in March 2008, in one of its more notable cross-border transactions.

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 Bahraini Banking Sector, as well as Emaar Properties recently. The Bahrain banking sector report, which was well received by the investment community, discussed in detail various macro and micro factors affecting Bahrain's banking sector, which is considered to be the hub of region's financial activities.

SICO also initiated coverage of Seef Properties, which has become one of the most successful

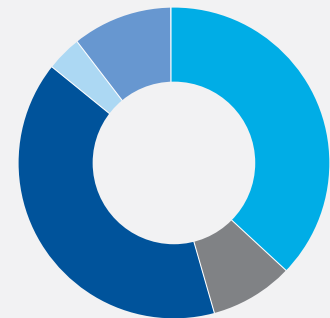
IPO stories in Bahrain and a leading example of successful privatization effort of the Bahraini government.

The research team's report on Khaleeji Commercial Bank, which was recently listed in Bahrain Stock Exchange, is intended to give investors an overview of the bank's operations and various valuation scenarios.

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 team is set to leverage its enhanced capabilities and is confident of producing more quality reports to help support SICO's business and its clients.

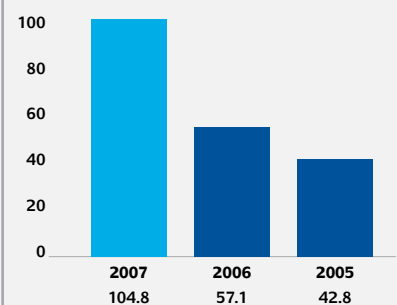
STATS

TOTAL REVENUE 2007
BD Millions
Year ended 31 December 2007



- Investments BD 5.9m
- Brokerage BD 1.4m
- Asset Management BD 6.4m
- Corporate Finance BD 0.6m
- Other BD 1.7m

TOTAL ASSETS
BD Millions



423.5
million US \$
worth of BBK shares purchased

64.7
million US \$
worth of Zain KSA shares purchased