

COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

Net profit of BD 2.74 million in 2012 increases more than five-fold

SICO's financial performance in 2012 showed a significant improvement over the previous year. Net profit grew more than five-fold to BD 2.74 million compared to BD 488 thousand in 2011; while operating income increased to BD 7.35 million (2011: BD 4.63 million), with basic earnings per share rising to 6.41 Bahraini fils (2011: 1.14 fils). As at 31 December 2012, total balance-sheet footings had grown by over 11 per cent to BD 78.36 million, from BD 70.64 million at the end of 2011.

A strong performance by SICO's asset management business resulted in total assets under management increasing to BD 228.2 million (2011: BD 206 million); while securities under custody with the Bank's wholly-owned subsidiary, SICO Funds Services Company remained strong at BD 824 million (2011: BD 864 million), due to the success of concerted marketing activities.

Net interest income, net fee and commission income, and brokerage and other income during 2012 contributed BD 1.29 million, BD 2.25 million and BD 668 thousand respectively to operating income. Net investment income grew substantially to BD 3.13 million compared with BD 318 thousand the previous

year. Operating expenses, which include staff overheads, general administration and other expenses, rose to BD 4.43 million compared with BD 3.98 million for 2011, due largely to the establishment of SICO UAE; while impairment on available-for-sale investments remained modest at BD 184 thousand (2011: BD 154 thousand).

The Bank continued to maintain a strong capital base, ending the year with BD 57.29 million in shareholders' equity and a very strong consolidated capital adequacy ratio of 77.28 per cent, substantially higher than the Central Bank of Bahrain requirement. SICO currently has 41.5 per cent (or BD 32.52 million) of its balance sheet in cash and deposits, compared with 28.3 per cent (or BD 19.96 million) at the end of 2011. Available-for-sale securities at the end of December 2012 stood at BD 23.15 million (end-2011: BD 27.04 million), while investments at fair value through profit or loss were BD 14.73 million (end-2011: BD 16.74 million). A significant amount of SICO's market risk exposure continues to be in short duration investment-rated corporate, bank and GCC government fixed income instruments.

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BD 7.35
million
Operating income

BD 78.36
million
Total assets

11 per cent
Balance sheet growth

New asset management accolades

SICO was a double winner at the fourth annual MENA Fund Manager Performance Awards ceremony held in Dubai in January 2013.

The Bank was named 'Bahrain Asset Manager of the Year' for the second consecutive year; while the Khaleej Equity Fund was singled out for the 'Outstanding Fund Performance & Innovation' award.

The Fund - one of the few in the region to be graded 'Gold' by Standard & Poor's Capital IQ - posted an annual return of 5.9 per cent in 2012 compared with the 3.2 per cent return by its benchmark S&P GCC Index.



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Mr. Adrian King, Head of Asset Management Sales receives the MENA FM award

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Chairman: 'A year of consistent strategic progress'



Commenting on the Bank's 2012 financial results, Shaikh Abdulla bin Khalifa Al-Khalifa, the Chairman of the Board of SICO, said: "Set against a very challenging economic and market background in 2012, this is a creditable performance. These financial results reflect the success of SICO's long-held prudent risk philosophy, which seeks to capture new business opportunities while limiting undue risk; combined with carefully aligning the Bank's interests with those of clients. We continued to focus on addressing our clients' GCC investment requirements, both in the equity and fixed income spaces. In addition, through our wholly-owned subsidiary – SICO Funds Services Company (SFS) – we continue to offer a distinct and service-oriented product for custody and administration."

Strategic progress

Shaikh Abdulla pointed out: "Growing and diversifying our business lines and revenue

streams, extending our regional footprint, and enhancing client service remain key pillars of our consistent strategy; and in this respect, we made good progress during 2012. Examples include the start of operations by the Bank's new brokerage subsidiary in the UAE in September, which is opening up new business opportunities in this very important market; the winning of new mandates in the areas of agency brokerage, asset management, and custody and administration; approval from the Central Bank of Bahrain for the launch of a new Fixed Income Fund in early 2013; and the enhancement of SICO's highly-regarded independent research services."

Growing the business

"While it is relatively easy to develop a strategy, it can prove difficult to implement it, especially in the light of challenging market conditions and increasing regulation," explained Shaikh Abdulla. "Nevertheless, SICO continues to seek new ways to grow and enhance our business, either organically or through mergers and acquisitions, in a cautious and cost-efficient manner. We will maximise synergies and economies of scale afforded by the benefits of being headquartered in Bahrain, and capitalise on our core competencies, while extending our regional footprint to provide clients with local access to products and services."

Looking ahead

Regarding the future, the Chairman commented: "The Board is cautiously optimistic about prospects for SICO in 2013, although we recognise that it will be another challenging and unpredictable year, with sluggish global economic growth, regional geo-political instability, and volatile international markets that characterised 2012. However, events towards the end of the year, especially in the US and Europe, provided a slightly more optimistic outlook for the future."

The continued stability of oil prices has further strengthened the robust underlying macroeconomic fundamentals and demographics of the GCC, and the long-term economic outlook for the region remains positive. Based on SICO's proven track record, the Board continues to have full confidence in the ability of the management team to capture new business opportunities as markets recover, and to continue providing shareholders with an acceptable risk-adjusted return."

Acknowledgements

"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 the management and staff of SICO, I convey my best wishes and sincere 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," concluded Shaikh Abdulla.

"Our financial results for 2012 reflect the success of SICO's long-held prudent risk philosophy."

Net investment income soars to over BD 3 million

Proactive management and a prudent approach resulted in SICO's net investment income increasing substantially to BD 3.13 million in 2012 from BD 318 thousand the previous year. The Bank's investment portfolio started 2012 aggressively positioned, with an overweight towards GCC and global bonds and equities. However, as the year progressed and economic conditions deteriorated, a more defensive stance was adopted, with fixed income dominating the portfolio allocation by the end of the first six months. With a subsequent improvement in market conditions towards the end of the year, the allocation of equities was again

expanded. At the end of 2012, 30 per cent of the portfolio was invested in GCC and global equities, while fixed income through direct and indirect investment accounted for 31 per cent of the portfolio.

Treasury

SICO's treasury business posted another profitable year in 2012, with net interest income remaining healthy at BD 1.29 million. The Bank continued to adopt a cautious approach, maintaining deposits with high quality financial institutions on short-term placements. The provision of repos and

reverse repos, which comprise the majority of short-term funding, was expanded to clients. SICO continued to maintain a sound and liquid balance sheet, with a strong consolidated capital adequacy ratio of 77.28 per cent, which is substantially higher than the CBB requirement. The Bank ended the year with 41.5 per cent (or BD 32.55 million) of its balance sheet in cash and deposits.

Fixed Income Desk

Demand for fixed income securities continued to grow during 2012, due to low interest rates and asset diversification,

with investors seeking better yields without excessive risk. This resulted in an increased trading flow by SICO's new Fixed Income Desk during its first full year of operations, during which it expanded its team and increased the number of counterparties. As part of its service, the Desk provides international and regional clients with a daily GCC fixed income run, which includes the indicative prices and yields of most issues in the region. In addition, a weekly commentary is provided for clients, indicating trade flow and market interest.

41.5%

Balance sheet in cash & deposits

77.28%

Capital Adequacy Ratio

BD 3.13

million

Net investment income

Compass celebrates fifth anniversary with publication of 10th issue

This 10th issue of SICO's regular eNewsletter marks the fifth anniversary of Compass, which commenced publication in June 2008. Compass is published every six months, and reports the latest news and views from SICO. Content includes financial results; business and support divisions' achievements; corporate governance and risk management

developments; corporate social responsibility activities; and personal news about SICO staff. We would be delighted to receive your feedback – please contact the editor, Ms Nadeen Oweis, Head of Corporate Communications with your comments and ideas at Nadeen.Oweis@sicobahrain.com.



Ms Nadeen Oweis, Head of Corporate Communications

Asset Management posts 'superior performance'

Despite markets remaining lacklustre for most of the year, SICO's asset management business posted a superior performance in 2012. At the end of the year, total assets under management had increased by 11 per cent to BD 228 million; with the Bank maintaining its status as the largest regional equity asset manager in Bahrain.

Funds

SICO's managed equity and money market funds all recorded positive returns in 2012, and continued to outperform their respective benchmarks (see table). The funds also continued to maintain their high ratings – the Khaleej Equity Fund, SICO Gulf Equity Fund and SICO Arab Financial Fund were each accorded a 'Gold' fund grading by Standard

& Poor's Capital IQ; while the SICO Kingdom Equity Fund, which was launched in 2011, was graded 'Silver'. At the fourth annual MENA Fund Manager Performance Awards ceremony in January 2013, the Khaleej Equity Fund received the 'Outstanding Fund Performance & Innovation' award.

Endorsement

Of the 140 or so funds investing in the MENA region, only 23 have achieved a Standard & Poor's Capital IQ grading, with seven having a 'Gold' grading and 16 with 'Silver' status. According to Mr Peter Fuller, Head of European Fund Research at S&P Capital IQ, "Perhaps the most important commonality that distinguishes graded funds is process. Gold-rated funds, such as SICO's Khaleej

Equity Fund, Arab Financial Fund and Gulf Equity Fund, benefit from a clear and disciplined investment process, providing structure in the advent of adverse market conditions or staff departures in a region where team turnover is often high."

Fixed income

During the year, SICO successfully added fixed income investment management to its scope of activities, winning a number of regional mandates.

Portfolio management

The Discretionary Portfolio Management Accounts (DPMAs) offered by SICO continued to attract increased interest. The Bank won new mandates from regional and

international clients for GCC fixed income and equities; while additional mandates are in the pipeline for 2013. In the light of increasing volatility and uncertainty, special focus was placed on risk management – with systems, processes and procedures being further strengthened during the year – illustrating the Bank's inherent prudent approach.

BD 228.2
million
Assets under management

SICO Funds strongly outperformed their respective benchmarks in 2012, posting positive returns

SICO Fund	Fund Return	Benchmark Return	Benchmark Index
Khaleej Equity Fund	5.9%	3.2%	S&P GCC
Gulf Equity Fund	6.1%	1.4%	S&P CCG Ex Saudi
Arab Financial Fund	2.9%	2.4%	S&P Pan Arab Financial
Kingdom Equity Fund	8.7%	6.0%	Tadawul
Selected Securities Fund	1.2%	- 6.8%	Bahrain All Share
Money Market Fund	0.99%	0.35%	2 Months LIBOR

SICO retains its leading position on the Bahrain Bourse

The continuation of challenging market conditions resulted in lower trading volumes on the Bahrain Bourse in 2012 than the previous year. Very few large transactions were conducted, and foreign institutions were net sellers. Nevertheless, SICO maintained its status as a leading broker on the Bourse, handling 27.59 per cent of all transactions, representing 23.44 per cent by total market volume and 27.61 per cent by value of shares traded. The Bank also continued to be the preferred broker of choice for larger trades, and for foreign institutions conducting business on the Bahrain Bourse.

SICO's Agency Brokerage Desk, which is one of the very few in the GCC, continued to progress well in 2012. The desk enables clients to trade listed investment opportunities across the MENA region. During the year, the Bank achieved an increase in volumes, expanded its regional network of correspondent brokers, and signed up new clients. Having established a significant share of overall GCC market trades, SICO is firmly placed among the leading brokers in the region.

Fixed debt and sukuk activities

SICO continued to benefit from investors' growing popularity with sukuk and fixed income in 2012, placing a number of sovereign and corporate issues. SICO's growing strength in this area stems from

its in-house research capability, and its cost-effective one-stop-shop service that provides end-to-end solutions for an increasing number of sukuk and fixed income investors.

New CFA Charter Holder

Senior Research Analyst, Ambereen Jiwani, is the latest member of the SICO team to become a CFA Charter Holder. She was formally inducted at the annual CFA Bahrain Annual Forecast Dinner and Charter Award ceremony in 2012, of which the Bank was again a sponsor.



Ambereen Jiwani

MALLIS AFORETHOUGHT



Yet again, it proved necessary to dust off that familiar and overused cliché – ‘challenging, volatile and unpredictable’ – with which to describe 2012. The year was marked by the same volatility and uncertainty as 2011; and it remained difficult to forecast and plan with any degree of accuracy or clarity. As one investment banking colleague very aptly put it: ‘We’ve been there, seen that, and used up all the well-worn postcards!’

Since the game-changing events of 2008, the world has witnessed a four-year downward trend, with all major economies in relative states of stagnation and stress; and with international and regional equity markets continuing to be exceptionally unpredictable. As for the previous year, 2012 opened with optimistic expectations of revival, but ended with a ‘batten down the hatches’ attitude once again being a more realistic measure of success. Despite such an overcast backdrop it was ‘business as usual’ for SICO; and I am pleased to report that the Bank posted an improved financial performance, and made encouraging strategic and operational progress during 2012.

The financial and investment environment continued to be challenging, both regionally and globally, with heightened volatility and uncertainty leading to a substantial fall in GCC stock market volumes. While the investment business in general was muted, the debt market, particularly for GCC investors has increasingly been recognised as an alternative source of asset allocation

throughout the region. In response to this trend, we were able to actively establish SICO as a leading Bahrain-based regional player in the fixed income and sukuk space. With clients’ appetite for fixed income and Sharia-compliant debt instruments as an asset class increasing, the Bank’s new Fixed Income Desk witnessed active trading in its first full year of operations.

Since the firm’s inception, we have constantly sought to set a benchmark for the regional investment banking industry in the areas of market making, brokerage, asset management, corporate finance, custody and administration, and research. I am pleased to report that 2012 was no exception. In a key strategic initiative, SICO successfully extended its regional footprint during the year with the launch of a new UAE-based brokerage subsidiary in September. SICO UAE is now fully operational and trading on the Abu Dhabi and Dubai stock exchanges, and we anticipate dynamic growth for the future. As well as expanding the scope of our brokerage business, and opening up cross-selling opportunities for other business lines, it gives SICO additional access to one of the region’s dynamic and growing economies.

Despite difficult market conditions, SICO was successful in securing new business for its agency brokerage, asset management, custody and administration, and treasury operations in 2012. In particular, the Bank’s asset management business posted another successful year. SICO’s managed funds continued to perform strongly against their respective benchmarks and peers, and also achieved high gradings from S&P Capital IQ Research. Additionally, new regional mandates were received for fixed income business and discretionary portfolio managed accounts services.

Also during the year, we continued to enhance the institutional capability and organisational

strength of SICO. In the face of increasingly challenging market conditions, we further strengthened our corporate governance and risk management framework. We also continued our substantial investment in human capital, recruiting and training a younger generation of high-calibre Bahraini graduates; and implemented the first phase of our new core banking system, with resulting benefits for the both the Bank and our clients.

As I pointed out earlier, it is difficult to predict the future with any degree of accuracy or certainty. Judging from recent actions, the consensus outlook for the medium-term is less positive on a macro-economic level. It is evident on the basis of economic models, and realities, that global growth will fall below the high rates seen during the past two decades. Previously, one could reasonably expect the economic downswing of one country to be offset by the economic upswing of others. This is no longer apparently the case, with major economies appearing to have moderated their long-term potential growth dynamics. But with the likely resolution of the US fiscal cliff, and the Greek financial bail-out finally being agreed, the year ended on a slightly more optimistic note.

But concerns still remain about medium-term prospects for recovery of the US economy and its subsequent global impact; the continued economic slowdown in China and India; and the long-term financial issues facing Europe. However, the GCC economies, with their strong underlying energy-based fundamentals, continued to perform well and grow at a faster rate than the global average. The fly in the ointment, so to speak, is the long-term outlook for energy prices, which may see a major re-adjustment in prices as unconventional oil and gas is brought on-stream in some of the major economies. Looking ahead, we believe that the GCC will continue to deliver

strong and sustainable growth, and thereby benefit our business.

Our successful overall performance in 2012 underscores the continued effectiveness of SICO’s consistent strategy, and sensible management principles based on product and asset diversification. It also highlights the dedicated commitment of the SICO team to deliver high quality and innovative services with integrity and professionalism, while retaining the confidence, trust and loyalty of our clients. We will continue to focus on serving our clients’ needs while managing shareholders’ capital prudently – a commitment which is central to our long-term value proposition.

Despite the challenges that lie ahead, we remain optimistic about the medium- and long-term outlook for SICO. We have identified promising business opportunities in all our core business lines, and we are strongly positioned to capture such opportunities as and when the markets recover. In the meantime, until we see greater clarity, SICO will continue to stay on track, focus on what we do best, and try to do it better; always acting in the best interests of our clients, shareholders and employees.

I would like to take this opportunity to thank all our stakeholders for their contributions during the year. 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 for their active support; and to our staff for their continued loyalty, commitment and professionalism.

Anthony C. Mallis
Chief Executive Officer

Phase one of new core banking system successfully implemented

The final stage of phase one of SICO’s new core banking system (CBS) was successfully implemented during 2012. The project involved upgrading many elements of the Bank’s operating infrastructure, including information technology, operations, communications and the disaster recovery site. With a total investment exceeding BD 1.5 million, the CBS project is the largest

capital expenditure incurred to date by SICO. The impact of the new system has already produced clear benefits in terms of efficiency, productivity and client service. To assess the robustness and functionality of the new system, the Audit Committee commissioned a review by an independent party during the year.

SFS signs new regional mandates

During 2012, SICO Funds Services Company (SFS) – the Bank’s wholly-owned custody and fund administration subsidiary – continued to benefit from cost-containment measures introduced the previous year. A concerted marketing campaign resulted in the signing of new mandates with prominent regional institutions to provide custody and administration for their funds and portfolios. Steps were also taken to enhance existing client relationships through accurate and timely reporting, and the provision of value-added services such as research and market information.

Electronic trading remained a key area of growth for SFS in 2012. The Company expanded safe-keeping and over-the-counter settlements with various global institutions to include instruments such as electronically traded funds (ETFs). At the end of 2012, assets under custody totalled BD 824 million compared with BD 864.15 million at the end of 2011.

BD 824
million
Total assets under custody

SICO continues to enhance its independent research activities

SICO continued to enhance its provision of in-depth proprietary research, which provides clients with an independent, value-added service. With the addition of four new companies in the banking, telecoms, industrial and real estate sectors in 2012, the Bank expanded its coverage universe to 51 listed companies and financial institutions. In response to feedback, a new daily GCC ‘Morning Call’ service was introduced for SICO’s investment banking clients, with coverage including company updates, regional news, stock recommendations, market performance and extracts from latest published reports. During the year, SICO increased the number of published reports to 452, of which 349 were periodical reports, and 103 were detailed company/sector reports and strategy notes.

The Bank’s new research publishing platform, which is a dedicated software system that automates the equity research

process, was fully implemented in 2012. The system’s database (one of the most comprehensive in the region) will form the basis of a new interactive website to be launched in early 2013. This will feature more screens with specific country and company pages, plus comparisons and recommendations.

452

Research reports
published in 2012



SICO people in the news

HAPPY OCCASIONS

Congratulations to the following SICO staff members:

Engagements

- Zahra Mandi of SFS
- Talha Naushahi of IT
- Hamad Al Hiddi of Risk Management

Marriage

- Ali A. Karim of Financial Control

Births

- Binsu Thomas of Asset Management – a baby girl

PROMOTIONS

Congratulations to the following promoted staff:

- Mohammed Ibrahim from IT – Principal

NEW JOINERS

Welcome to the following people who recently joined the SICO team:

- Nadia Mahmood Hasan Qamber – Brokerage
- Manuel Shaker Khalil Al Mutawa – Investments & Treasury
- Sobhan Donprabhu Chandran – IT
- Noor Abdulla Ahmed Al Bastaki – Operations
- Fatema Faisal A.Rahman Al Doseri – Research
- Noor Wajdi Mohamed Al Shirawi – SFS
- Zahra Abbas Mandi Abdulrasool – SFS