

**SECURITIES AND INVESTMENT COMPANY  
BSC (c)  
RISK AND CAPITAL MANAGEMENT  
DISCLOSURES  
FOR THE SIX MONTH PERIOD ENDED  
30 June 2010**

*These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-3.1.6, CBB Rule Book, Volume I for Conventional Banks. These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank's Financial Statements for the year ended 31 December 2008.*

*These disclosures have been reviewed by the Bank's external auditors KPMG based upon agreed upon procedures as required under Para PD-A.2.4 of the PD Module.*

**RISK AND CAPITAL MANAGEMENT DISCLOSURES**

**For the six month period ended 30 June 2010**

BD '000

**1. OVERVIEW**

The Central Bank of Bahrain's (CBB) Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These semi-annual disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-3.1.6: Additional Requirements for Semi Annual Disclosures, CBB Rule Book, Volume I for Conventional Banks. These semi-annual quantitative disclosure requirements follow the requirements of Basel II - Pillar 3.

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 Assessment Process
- Pillar 3 - Describes Market discipline which includes disclosure of risk management process and capital adequacy information

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 2009**.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

As at 30 June 2010, the Bank's total risk weighted assets amounted to **BD 62,266**; Tier 1 Capital amounted to **BD 51,021** and total regulatory capital amounted to **BD 52,623**. Accordingly, Tier 1 and Total Capital Adequacy Ratio was **81.94%** and **84.51%** respectively. These ratios exceed the minimum capital requirements under the CBB's Basel II framework.

Unless otherwise stated, all figures are as at **30 June 2010**.

**1.2 Scope**

SICO is a wholesale bank incorporated in Bahrain and is regulated by the CBB. 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.

**RISK AND CAPITAL MANAGEMENT DISCLOSURES**

For the six month period ended 30 June 2010

BD '000

**2. CAPITAL STRUCTURE, RISK WEIGHTED ASSETS AND CAPITAL ADEQUACY****2.1 Capital Structure**

	<b>30 June 2010</b>
<b>Tier 1 Capital</b>	
Issued and fully paid ordinary shares	42,528
Statutory Reserve	3,594
General Reserve	1,359
Share Premium	588
Retained Earnings Brought forward	3,483
Gross unrealised loss arising from fair valuing equity securities	(431)
Securitisation exposures subject to deduction	(100)
<b>Total Tier 1 capital (A)</b>	<b>51,021</b>
<b>Tier 2 Capital</b>	
Current Interim Profits (reviewed by External Auditors)	1,531
45% of gross unrealised gains arising from fair valuing equity securities	171
Securitisation exposures subject to deduction	(100)
<b>Total Tier 2 capital (B)</b>	<b>1,602</b>
<b>Total regulatory capital (C) = (A) + (B)</b>	<b>52,623</b>
Credit risk	39,292
Market risk	7,894
Operational risk	15,080
<b>Total risk weighted exposures (D)</b>	<b>62,266</b>
<b>Tier 1 Capital Adequacy Ratio (A)/(D)</b>	<b>81.94%</b>
<b>Total Capital Adequacy Ratio (C)/(D)</b>	<b>84.51%</b>

**2.2 Changes to Capital Structure**

During the six months period ended 30 June 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.

**RISK AND CAPITAL MANAGEMENT DISCLOSURES**

For the six month period ended 30 June 2010

BD '000

**3. RISK EXPOSURES****3.1 Credit Risk***3.1.1 Gross credit exposures*

As at 30 June 2010

	Gross credit exposure			Credit risk weighted assets	Capital requirement @ 12%
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)	Total		
Cash items	427	-	427	-	-
Claims on Sovereigns	3,555	-	3,555	-	-
Claims on Bahraini Public Sector Entities	500	-	500	-	-
Claims on Banks	46,833	-	46,833	16,807	2,017
Claims on Corporates	6,729	-	6,729	2,973	357
Investments in Securities	13,622	293	13,915	15,851	1,902
Holdings in Real Estate	930	125	1,055	2,112	253
Other Assets	1,185	364	1,549	1,549	186
<b>Total</b>	<b>73,781</b>	<b>782</b>	<b>74,563</b>	<b>39,292</b>	<b>4,715</b>

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 balances above are representative of the position during the period; hence the average balances for the period is not separately disclosed.

The exposures are not backed by collaterals and hence no benefit for credit risk mitigation is applicable.

*3.1.2 Large exposure limits*

As at 30 June 2010, the following exposures exceeded the single obligor limit (15 per cent of the Bank's regulatory capital base) as defined in the CM Module of the CBB:

Counterparty	Country	Amount	Exposure as a % to the eligible capital base
Counterparty A	Bahrain	8,205	15.60%

The above exposure qualifies as exempt exposure as it is in the nature of short term inter-bank exposures and hence no regulatory capital deduction is considered necessary.

**RISK AND CAPITAL MANAGEMENT DISCLOSURES**

For the six month period ended 30 June 2010

BD '000

## 3. RISK EXPOSURES (continued)

## 3.1 Credit Risk (continued)

## 3.1.3 Maturity profile

As at 30 June 2010

	Less than 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
Cash and Bank balances	37,931	-	-	-	-	-	37,931
Investments at fair value through profit or loss	1,815	-	3,955	-	-	-	5,770
Available-for-sale investments	2,545	-	395	16,670	-	-	19,610
Held-to-maturity investments	1,751	-	6,203	-	-	-	7,954
Other assets	455	525	652	384	500	-	2,516
<b>Total gross credit exposures</b>	<b>44,497</b>	<b>525</b>	<b>11,205</b>	<b>17,054</b>	<b>500</b>	<b>-</b>	<b>73,781</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>-</b>	<b>125</b>	<b>657</b>	<b>-</b>	<b>-</b>	<b>782</b>

None of the exposures have a maturity period in excess of ten years.

The Trading, AFS & HTM investments as of 30-Jun-2010 include repo transactions of BD 6,111.

## 3.1.4 Sectoral distribution

As at 30 June 2010

	Commercial banks	Other banks	Services	Managed funds	Others	Total
Cash and Bank balances	37,931	-	-	-	-	37,931
Investments at fair value through profit or loss	-	1,815	-	-	3,955	5,770
Available-for-sale investments	812	2,950	2,599	2,492	10,757	19,610
Held-to-maturity investments	2,237	1,751	624	-	3,342	7,954
Other assets	-	-	-	-	2,516	2,516
<b>Total gross credit exposures</b>	<b>40,980</b>	<b>6,516</b>	<b>3,223</b>	<b>2,492</b>	<b>20,570</b>	<b>73,781</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>189</b>	<b>-</b>	<b>-</b>	<b>593</b>	<b>782</b>

**RISK AND CAPITAL MANAGEMENT DISCLOSURES**

For the six month period ended 30 June 2010

BD '000

3. *RISK EXPOSURES (continued)*3.1 *Credit Risk (continued)*3.1.5 *Geographical distribution*

As at 30 June 2010

	<b>GCC countries</b>	<b>USA</b>	<b>Europe</b>	<b>Australia</b>	<b>Total</b>
Cash and Bank balances	37,931	-	-	-	37,931
Investments at fair value through profit or loss	1,887	-	3,883	-	5,770
Available-for-sale investments	9,492	2,492	7,256	370	19,610
Held-to-maturity investments	5,851	-	2,103	-	7,954
Other assets	2,516	-	-	-	2,516
<b>Total gross credit exposures</b>	<b>57,677</b>	<b>2,492</b>	<b>13,242</b>	<b>370</b>	<b>73,781</b>
<b>Commitments and contingencies</b>	<b>657</b>	<b>-</b>	<b>125</b>	<b>-</b>	<b>782</b>

3.1.6 *Impairment on available-for-sale investment securities*

No impairment of assets during the period.

3. *RISK EXPOSURES (continued)*3.2 **Market Risk**

The market risk weighted assets and the capital requirement is computed as follows:

	<b>Market risk weighted assets</b>			<b>Capital requirement @ 12% of (A)</b>
	<b>During the period ended 30 June 2010</b>		<b>As at 30 June 2010 (A)</b>	
	<b>Minimum</b>	<b>Maximum</b>		
Interest Rate Position Risk	397	564	397	48
Equities Position Risk	4	611	52	6
Foreign Exchange Risk	182	294	182	22
<b>Total minimum capital required for market risk</b>			<b>632</b>	<b>76</b>
Multiplier			12.5	12.5
<b>Total</b>			<b>7,894</b>	<b>950</b>

**RISK AND CAPITAL MANAGEMENT DISCLOSURES**

For the six month period ended 30 June 2010

BD '000

**3.3 Operational risk**

The operational risk weighted assets are computed as per the guidelines of the CBB which are as follows:

Average gross income for the past 3 years \* 15% \* 12.5  
(Excluding extraordinary and exceptional income)

	2009	2008	2007
Gross income	6,068	3,031	15,029
Average gross income (A)			8,043
Alpha (B)			15%
(C) = (A) * (B)			1,206
<b>Risk weighted exposures (D) = ((C) * 12.5)</b>			<b>15,080</b>
<b>Capital requirement @ 12% of (D)</b>			<b>1,810</b>

The Bank did not have any material legal contingencies during the six months period ended 30 June 2010.

**4 INTEREST RATE RISK IN THE BANKING BOOK**

A 200 bps increase or decrease in market interest rates would affect the value of the fixed income securities in the available-for-sale and held-to-maturity portfolios as follows:-

200 bp increase	200 bp decrease
(824)	914

As at 30 June 2010

The interest rate risk on the Bank's placements is considered minimal and hence no sensitivity analysis has been presented.

**5 EQUITY POSITIONS IN THE BANKING BOOK**

As at 30 June 2010

	Gross exposure	Risk Weighted assets (A)	Capital requirement @ 12% of (A)
Equity investments			
- Listed	1,155	1,155	139
- Unlisted	1,479	2,218	266
Investment in rated funds	3,418	683	82
Investment in unrated funds			
- Listed/Unlisted	7,863	11,795	1,415
<b>Total</b>	<b>13,915</b>	<b>15,851</b>	<b>1,902</b>

During the period ended 30 June 2010

	Amount
Realised net gain during the period	198
Dividend income during the period	329
Unrealised net gain/loss recognised in equity as at 30 June 2010	132
Gross unrealised losses deducted from Tier 1 capital	431
45% of unrealized gains recognised under Tier 2 capital	171

**RISK AND CAPITAL MANAGEMENT DISCLOSURES**  
**For the six month period ended 30 June 2010**

BD '000

**6 RELATED PARTY TRANSACTIONS**

The following are the related party transactions during the period. All these transactions are in the ordinary course of business and on normal commercial terms.

Transactions with funds owned by the Subsidiary Company namely SICO Funds Company BSC (c), SICO Funds Company II BSC (c) and SICO Funds Company III BSC (c).

	<b>Six months ended 30 June 2010</b>
Fee Income	364

	<b>As at 30 June 2010</b>
Other assets	191
Funds under management	50,811
Investments in own funds	2,650

## Transactions with shareholders

	<b>Six months ended 30 June 2010</b>
Fee Income	135

	<b>As at 30 June 2010</b>
Funds under management	33,241
Deposits	-

The Group has banking relationships, makes deposits and placements and has unutilised credit facilities with certain of its shareholders that are local banks.