

**SECURITIES AND INVESTMENT COMPANY  
BSC (c)**

**RISK AND CAPITAL MANAGEMENT  
DISCLOSURES**

**FOR THE SIX MONTH PERIOD ENDED**

**30 June 2009**

*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.*

## **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 2008.

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 2009, the Bank's total risk weighted assets amounted to BD 92,818; Tier 1 Capital amounted to BD 49,669 and total regulatory capital amounted to BD 50,805. Accordingly, Tier 1 and Total Capital Adequacy Ratio was 53.51% and 54.74% 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 2009.

### **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.

## Securities and Investment Company BSC (c)

### RISK AND CAPITAL MANAGEMENT DISCLOSURES for the six month period ended 30 June 2009

BD '000

## 2. CAPITAL STRUCTURE, RISK WEIGHTED ASSETS AND CAPITAL ADEQUACY

### 2.1 Capital Structure

	30 June 2009
<b>Tier 1 Capital</b>	
Issued and fully paid ordinary shares	42,420
Statutory Reserve	3,285
General Reserve	1,051
Share Premium	560
Retained Earnings Brought forward	3,206
Gross unrealised loss arising from fair valuing equity securities	(753)
Securitisation exposures subject to deduction	(100)
<b>Total Tier 1 capital (A)</b>	<b>49,669</b>
<b>Tier 2 Capital</b>	
Current Interim Profits (reviewed by External Auditors)	935
45% of gross unrealised gains arising from fair valuing equity securities	301
Securitisation exposures subject to deduction	(100)
<b>Total Tier 2 capital (B)</b>	<b>1,136</b>
<b>Total regulatory capital (C) = (A) + (B)</b>	<b>50,805</b>
Credit risk	33,162
Market risk	45,225
Operational risk	14,431
<b>Total risk weighted exposures (D)</b>	<b>92,818</b>
<b>Tier 1 Capital Adequacy Ratio (A)/(D)</b>	<b>53.51%</b>
<b>Total Capital Adequacy Ratio (C)/(D)</b>	<b>54.74%</b>

### 2.2 Changes to Capital Structure

During the six months period ended 30 June 2009, the share capital of the Bank increased by BD 74 thousand pursuant to allocation of 739,104 shares under the Employee Stock Option Plan (ESOP) for the year 2008.

**3. RISK EXPOSURES**

**3.1 Credit Risk**

*3.1.1 Gross credit exposures*

As at 30 June 2009

	Gross credit exposure			Credit risk weighted assets	Capital requirement @ 12%
	On-balance sheet (Funded)	Off-balance sheet (Unfunded)	Total		
Cash items	544	-	544	2	-
Claims on Sovereigns	2,881	-	2,881	-	-
Claims on Bahraini Public Sector Entities	500	-	500	-	-
Claims on Banks	77,434	-	77,434	16,990	2,039
Claims on Corporates	1,824	-	1,824	1,824	219
Investments in Securities	9,216	603	9,819	11,635	1,396
Holdings in Real Estate	363	-	363	726	87
Other Assets	1,985	-	1,985	1,985	238
<b>Total</b>	<b>94,747</b>	<b>603</b>	<b>95,350</b>	<b>33,162</b>	<b>3,979</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 2009, 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	14,975	29%
Counterparty B	Kuwait	14,592	28%
Counterparty C	Qatar	10,526	21%
Counterparty D	Bahrain	8,565	17%

These exposures qualify as exempt exposures as they are in the nature of short term inter-bank exposures and hence no regulatory capital deduction is considered necessary.

## Securities and Investment Company BSC (c)

### RISK AND CAPITAL MANAGEMENT DISCLOSURES for the six month period ended 30 June 2009

BD '000

#### 3. RISK EXPOSURES (continued)

##### 3.1 Credit Risk (continued)

##### 3.1.3 Maturity profile

As at 30 June 2009

	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	No fixed maturity	Total
Cash and Bank balances	56,559	15,777	-	-	-	-	72,336
Investments at fair value through profit or loss	-	-	-	-	-	709	709
Available-for-sale investments	378	-	-	5,046	-	8,868	14,292
Held-to-maturity investments	-	-	-	3,354	938	-	4,292
Other assets	977	40	415	1,012	-	500	2,944
Furniture and equipment	-	-	-	-	-	174	174
<b>Total gross credit exposures</b>	<b>57,914</b>	<b>15,817</b>	<b>415</b>	<b>9,412</b>	<b>938</b>	<b>10,251</b>	<b>94,747</b>
<b>Commitments and contingencies</b>	-	-	-	<b>603</b>	-	-	<b>603</b>

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

##### 3.1.4 Sectoral distribution

As at 30 June 2009

	Commercial banks	Other banks	Services	Managed funds	Others	Total
Cash and Bank balances	72,336	-	-	-	-	72,336
Investments at fair value through profit or loss	-	-	-	709	-	709
Available-for-sale investments	1,087	4,258	1,725	6,241	981	14,292
Held-to-maturity investments	968	-	825	-	2,499	4,292
Other assets	-	-	-	-	2,944	2,944
Furniture and equipment	-	-	-	-	174	174
<b>Total gross credit exposures</b>	<b>74,391</b>	<b>4,258</b>	<b>2,550</b>	<b>6,950</b>	<b>6,598</b>	<b>94,747</b>
<b>Commitments and contingencies</b>	-	-	-	<b>603</b>	-	<b>603</b>

## Securities and Investment Company BSC (c)

### RISK AND CAPITAL MANAGEMENT DISCLOSURES for the six month period ended 30 June 2009

BD '000

#### 3. RISK EXPOSURES (continued)

##### 3.1 Credit Risk (continued)

##### 3.1.5 Geographical distribution

##### As at 30 June 2009

	GCC countries	USA	Europe	Australia	Total
Cash and Bank balances	72,336	-	-	-	72,336
Investments at fair value through profit or loss	709	-	-	-	709
Available-for-sale investments	6,582	4,571	2,373	766	14,292
Held-to-maturity investments	4,292	-	-	-	4,292
Other assets	2,944	-	-	-	2,944
Furniture and equipment	174	-	-	-	174
<b>Total gross credit exposures</b>	<b>87,037</b>	<b>4,571</b>	<b>2,373</b>	<b>766</b>	<b>94,747</b>
<b>Commitments and contingencies</b>	<b>603</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>603</b>

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

As at 1 January 2009, the Bank had an impairment provision of BD 2,173 on its available-for-sale investment securities.

During the period ended 30 June 2009, the provision of BD 1,807 was charged off on sale of the respective securities.

	Impairment provision		
	As at 1 January 2009	Charge off during the period	As at 30 June 2009
Commercial banks	84	(84)	-
Other banks	144	(8)	136
Services	669	(669)	-
Managed funds	612	(382)	230
Others	664	(664)	-
<b>Total</b>	<b>2,173</b>	<b>(1,807)</b>	<b>366</b>

	Impairment provision		
	As at 1 January 2009	Charge off during the period	As at 30 June 2009
GCC countries	1,425	(1,425)	-
USA	612	(382)	230
Europe	136	-	136
<b>Total</b>	<b>2,173</b>	<b>(1,807)</b>	<b>366</b>

None of the other exposures as at 30 June 2009 are either past due, impaired or restructured.

## Securities and Investment Company BSC (c)

### RISK AND CAPITAL MANAGEMENT DISCLOSURES for the six month period ended 30 June 2009

BD '000

#### 3. RISK EXPOSURES (continued)

##### 3.2 Market Risk

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

	Market risk weighted assets			Capital requirement @ 12% of (A)
	During the period ended 30 June 2009		As at 30 June 2009 (A)	
	Minimum	Maximum		
Interest Rate Position Risk	105	786	105	13
Equities Position Risk	203	598	297	36
Foreign Exchange Risk	1,838	3,421	3,216	386
<b>Total minimum capital required for market risk</b>			<b>3,618</b>	<b>435</b>
Multiplier			12.5	12.5
<b>Total</b>			<b>45,225</b>	<b>5,438</b>

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

##### 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)

	2008	2007	2006
Gross income	3,031	15,029	5,029
Average gross income (A)			7,696
Alpha (B)			15%
(C) = (A) * (B)			1,154
<b>Risk weighted exposures (D) = ((C) * 12.5)</b>			<b>14,431</b>
<b>Capital requirement @ 12% of (D)</b>			<b>1,732</b>

The Bank did not have any material legal contingencies during the six months period ended 30 June 2009.

#### 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
As at 30 June 2009	(371)	404

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

## Securities and Investment Company BSC (c)

### RISK AND CAPITAL MANAGEMENT DISCLOSURES for the six month period ended 30 June 2009

BD '000

#### 5 EQUITY POSITIONS IN THE BANKING BOOK

As at 30 June 2009

	Gross exposure	Risk Weighted assets (A)	Capital requirement @ 12% of (A)
Equity investments			
- Listed	2,250	2,208	265
- Unlisted	377	566	68
Investment in rated funds	610	228	27
Investment in unrated funds			
- Listed	1,142	1,059	127
- Unlisted	5,440	7,574	909
<b>Total</b>	<b>9,819</b>	<b>11,635</b>	<b>1,396</b>

During the period ended 30 June 2009

	Amount
Realised net loss during the period	394
Dividend income during the period	57
Unrealised net loss recognised in equity as at 30 June 2009	83
Gross unrealised losses deducted from Tier 1 capital	753
45% of unrealized gains recognised under Tier 2 capital	301

#### 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).

	Six months ended 30 June 2009
Fee Income	370

	As at 30 June 2009
Other assets	199
Funds under management	51,332
Investments in own funds	1,752

Transactions with shareholders

	Six months ended 30 June 2009
Fee Income	118

	As at 30 June 2009
Funds under management	39,962
Deposits	10,538

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