

# COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

## Najla Al Shirawi promoted to Deputy Chief Executive Officer



**Najla Al Shirawi**  
Deputy Chief Executive Officer  
and Chief Operating Officer

Chief Operating Officer Najla Al Shirawi has been promoted to the newly-created post of Deputy Chief Executive Officer. The Bank's Chairman, Shaikh Abdulla bin Khalifa Al-Khalifa, said: "The creation of this new position is in line with SICO's adherence to corporate governance global best practice. As Deputy CEO, Ms Al-Shirawi will add depth and continuity to the Bank's management team, and play an even closer role in the evolving strategic development of SICO across the GCC region."

The promotion highlights the Bank's continuous commitment to strengthening its senior management team, corporate structure and succession planning in preparation for a time when the baton is transferred to a younger generation. Currently Chief Operating Officer with responsibility for managing the Bank's day-to-day operations, Ms Al Shirawi will retain her existing role alongside her new position as Deputy CEO.

A seasoned professional, Ms Al Shirawi's extensive experience includes over 16 years in investment banking. She is one of SICO's longest-serving employees, joining the Bank in 1997, and held the posts of Head of Asset Management and Head of Investments & Treasury prior to her promotion to Chief Operating Officer in December 2006.

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## Net profit rises to BD 1.92 million for the first six months of 2013

SICO's net profit for the first half of 2013 increased by 71% to BD 1.92 million compared with BD 1.12 million for the corresponding period in 2012, while operating income grew by 26% to BD 4.4 million from BD 3.5 million a year earlier. Basic earnings per share rose to 4.49 Bahraini fils from 2.63 fils.

As at 30 June 2013, total balance sheet footings increased by 27% to BD 94.96 million from BD 74.45 million at the end of 2012. Assets under management grew by 14% to BD 257 million (BD 226m at end-2012); while assets under custody with

the Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – increased by 50% to BD1.24 billion (BD 824m at end-2012). SICO continued to maintain a strong capital base, ending the first six months of the year with shareholders' equity of BD 57.2 million, and a strong consolidated capital adequacy ratio of 59.6%.

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**71%**  
Increase in net profit  
for HY1

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# Regional 'first' for SICO's flagship Khaleej Equity Fund



**Shakeel Sarwar**  
Head of Asset Management

SICO's Khaleej Equity Fund is one of the first two funds in the MENA region to be awarded a 'Long-term Grading' (LTG) in the latest annual survey of regional funds by Standard & Poor's Capital IQ. Significantly, it is the only fund to achieve both 'Gold' and 'LTG' gradings.

The international rating agency introduced LTGs in 2010 to recognise funds whose long-term consistency of style, approach and performance had enabled them to achieve an S&P Capital IQ grading for a minimum of five consecutive years. Fewer than 20 per cent of all mutual funds graded by the agency currently hold LTG status, which means that the Khaleej Equity Fund now joins an elite number of funds worldwide.

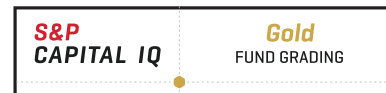
According to Peter Fuller, Fund Analyst and Head of European Research at S&P

Capital IQ, what sets LTG-graded funds apart from the competition is nearly always consistency. "Successful funds usually, but not necessarily, have the same manager throughout the review period, typically enjoy the support of a stable team, but always have a consistent investment approach.

"Funds managed with stylistic consistency, applied as part of a disciplined investment process, tend to prove at least as successful as similarly-invested competitor funds when markets favour that style of investing and, more importantly, lose less when markets are moving against them. Their returns have positive asymmetry and an above-average information ratio," he explained.

"The Khaleej Equity Fund clearly demonstrates the kind of characteristics

we look for to support an LTG grading," he added. "SICO has a dedicated asset management arm led by a dynamic head of investment. Shakeel Sarwar has been allowed the freedom and support to build the resources required to manage a range of mandates of significant size. Since joining SICO in late 2004, he has built an investment team that has kept its key players and has expanded in recent years to help broaden coverage and add mandates," Peter Fuller pointed out.



## New Deputy CEO promotion (Continued from front page)

CEO Anthony Mallis congratulated Ms Al Shirawi on her new appointment. "During her long tenure with SICO, Najja has made a very significant contribution to the growth of the Bank, in terms of both core business activities and support operations. Her well-deserved appointment to Deputy CEO reflects her professional attitude, disciplined intelligence, solid management skills and hands-on approach, and her loyalty to SICO; not to mention the successful and very agreeable working relationship between us for the past 12 years," he said.

Commenting on her promotion, Najja Al Shirawi said: "It is a great honour to be given the opportunity to be involved more closely in SICO's future strategic growth. I am highly appreciative of the trust placed in me by the Board and Tony through this appointment as the Bank's first Deputy CEO. I look forward to using my knowledge and experience gained as COO for the past seven years, including many cross-functional responsibilities, to help SICO grow and develop its unique offering while maintaining its market leadership."

## Research output rises

SICO expanded its research output during the first half of 2013 with the publication of 335 reports. These comprised 39 company coverage and initiation reports, one strategy-related report, 170 periodical reports and 125 issues of the new Morning Call service, which has been well received by clients. Morning Call coverage includes company updates, regional news, market performance, stock recommendations, and extracts from latest published reports. SICO also added one new company to its coverage universe of over 50 GCC-listed stocks.

## Core banking system goes live

The first phase of SICO's new Temenos T24 core banking system went live in February 2013 after successful final testing. A total of 24 modules have been implemented, focusing initially on core business activities such as Asset Management, Brokerage, Treasury, and Custody & Fund Administration. All functionalities of the system are designed to operate in a front-to-back automated process on a single integrated platform. SICO also revamped its networking solutions infrastructure to support future growth.

## RECENT APPOINTMENTS

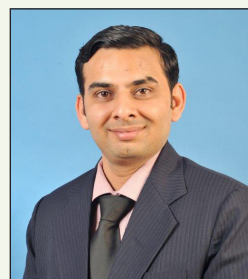
### SICO UAE General Manager



**Bassam Khoury**  
General Manager of  
SICO UAE

Bassam Khoury has been appointed General Manager of the Bank's Abu Dhabi-based brokerage subsidiary SICO UAE. Bassam has over 25 years' international experience in brokerage, investments and financial consultancy. He was Head of Brokerage at SICO from 2008 to 2010, before leaving to join QInvest, Qatar as Head of Regional Brokerage. Prior to rejoining SICO in 2013, Bassam was Chief Executive Officer of Bahrain-based ABC Securities. Previously, he worked with Banque Saudi Fransi in Saudi Arabia; BMB Investment Bank and Lehman Brothers in Bahrain; a private family office in Paris; and M Sternburg & Company in the USA. Bassam holds a BSc degree in Business Administration & Economics from King's College, New York, USA.

### Compliance Officer & MLRO



**Sumit Dhadha**  
Compliance Officer and  
MLRO

Sumit Dhadha joined SICO in March 2013 as Compliance Officer and Money Laundering Reporting Officer (MLRO). He has more than 10 years' experience in the financial services sector, working with auditing firms Pricewaterhouse Coopers (PWC) and KPMG. A graduate of the Institute of Chartered Accountants India (ICAI), Sumit holds a Company Secretary degree, and a Diploma in Information Systems Audit and Risk Management.

# Volatility in global fixed income and equity markets impacts second quarter results (Continued from front page)

International and regional markets started the year on a positive note, with confidence levels increasing as a result of a brighter global economic outlook, particularly in the GCC and the United States of America. However, a volatility event in the global fixed income and equity markets which started in May and seems to have culminated in

June, affected SICO's second quarter results through losses in its trading book, which is marked to market and thus impacts the income statement.

SICO reported a net profit of BD 1.02 million for the first quarter of 2013, compared with BD 1.58 million for the corresponding

period in 2012. For the second quarter of 2013, net profit improved to BD 900 thousand, compared with a loss of BD 457 thousand for the second quarter of 2012.

**BD 94.96**  
million  
Total assets grew by 27%

# Continued strong performance by Asset Management during first half of 2013

## TOTAL AUM RISES

SICO benefited from the improved performance of GCC stock markets during the first half of 2013. With total assets under management rising 14% to BD 257 million at the end of June compared with BD 226 million at the end of 2012, SICO maintained its status as a leading institutionally-focused GCC public markets asset manager.

**BD 257**  
million  
Assets under management  
increased by 14%

## HIGHEST GRADINGS

SICO's equity funds received the highest grading in the MENA region in the latest annual review of some 150 funds investing in the MENA region by Standard & Poor's Capital IQ. The Khaleej Equity Fund, SICO Gulf Equity Fund and SICO Arab Financial Fund were each graded 'Gold' (the only such graded funds in MENA); while the SICO Selected Securities Fund and SICO Kingdom Equity Fund were graded 'Silver' out of a total of 15 funds achieving this status.

In addition, the Khaleej Equity Fund is one of the first two funds in the MENA region to be awarded a '5-Year Long-term Grading' (LTG) by S&P Capital IQ. An LTG grading recognises

a fund's proven long-term consistency of style, approach and performance.

## LATEST ENDORSEMENT

According to S&P Capital IQ, the underlying factors for SICO's high fund gradings included: "A strong and growing investment team with relatively modest staff turnover; the development of disciplined risk monitoring procedures compared to its peers; and a consistent track record with continuing outperformance of funds relative to their benchmarks and peers."

## NEW FUND LAUNCHED

The SICO Fixed Income Fund – the first of its kind to be managed by a Bahraini fund

manager - was launched in April 2013. The Fund actively invests in government and corporate fixed income, sukuk, money market and other fixed income instruments. The primary objective is to generate income and seek capital appreciation over the medium- and long-term. The Fund was listed on the Bahrain Bourse in July 2013, bringing the number of SICO funds listed on the Bourse to 7 out of a total of 27 mutual funds.

## STRONG PERFORMANCE

SICO funds posted a superior performance for the first half of 2013, with all but one substantially outperforming their respective benchmarks and peers.

SICO Fund	YTD 2013 (Jan-June)	Index / Benchmark	YTD 2013 (Jan-June)
Khaleej Equity Fund	17.2%	S&P GCC	9.4%
Gulf Equity Fund	20.7%	S&P GCC Ex Saudi	12.1%
Selected Securities Fund	11.1%	Bahrain All Share	11.5%
Kingdom Equity Fund	20.8%	Tadawul	10.2%
Money Market Fund	0.87%	2 Months LIBOR	0.27%

## SICO's prudent investment approach pays off

Continued proactive management and a traditionally prudent approach resulted in SICO's net investment income growing by 35% to BD 1.92 million during the first half of the year. The Bank's investment portfolio started 2013 with an overweight position towards fixed income, but with improved performance by international and regional markets, the portfolio allocation was gradually changed to being overweight in equities. The Bank increased its direct investments in regional equities, and added equity positions in Europe and Asia; and also enhanced its private equity portfolio.



**Abdulrahman Saif**  
Head of Investments & Treasury

According to Abdulrahman Saif, Head of Investments & Treasury at SICO, "The first quarter witnessed a considerable number of primary issues in fixed income, with a particular increase in activity by Turkish corporate issuers. However, we believe the fixed income market will see a re-assessment and is heading for a correction. As fewer opportunities become available in fixed income, we see a shift towards high dividend-yielding stocks. GCC markets, which are now outperforming emerging markets, look set to continue their upward trend for the rest of the year, and should also outperform US stocks, reversing last year's situation."

### Treasury

The year started on a slow note for treasury activities, with the abundant liquidity in the financial system resulting in a drop in deposit rates. Foreign exchange transactions across the GCC were also subdued, but began to pick up towards the end of the first quarter. Despite these challenging conditions, SICO's treasury business posted another profitable performance during the first half of 2013, with net interest income rising by 13%. The Bank maintained a sound and liquid balance sheet, with a capital adequacy ratio of 59.6%, which is considerably higher than the requirements of the Central Bank of Bahrain.

### Fixed Income Desk

Due to the large number of primary issues during the first quarter of 2013, and regional entities increasing their exposure to fixed income, SICO's Fixed Income Desk was particularly active, and witnessed an increased trading flow. The number of discretionary mandates also increased during the period. A number of high-yielding papers came to the market, with some long-tenor issues and perpetual sukuk also being issued.

**BD 1.92**  
million  
Net investment  
income rises by 13%

**40.6%**  
Balance sheet  
in cash and deposits

## Market making activities increase

During the first six months of 2013, the Bank's market making activities increased on the back of higher volumes in the market and a turnaround in investors' risk appetite. SICO continued to improve spreads and boost liquidity on selective stocks listed on the Bahrain Bourse, and on a number of GCC fixed income names. On the back of a very active primary fixed income market and high demand for GCC issues, high flow levels were witnessed with strong demand for investment grade credit.

## Assets under Custody with SFS rise by 50%

The Bank's wholly-owned subsidiary – SICO Funds Services Company (SFS) – enjoyed a successful first six months of the year, winning a number of new regional mandates, and continuing to contribute to the bottom line. Assets under custody with SFS increased by 50% to BD1.24 billion at the end of June 2013 compared with BD 824 million at the end of 2012.

**BD 1.24** billion  
Total Assets under  
Custody with SFS

## MALLIS AFORETHOUGHT



We started 2013 on a positive note, taking advantage of buoyant international and regional capital market conditions and a more benign global economic environment, which resulted in improved confidence levels, particularly in the GCC and USA. For the first quarter of the year, SICO reported operating income of BD 2.24 million and a net profit of BD 1.02 million.

However, a volatility event in the global fixed income and equity markets, which started in May and seems to have culminated in June, affected directly our second quarter results through losses in our trading book, which is marked to market and thus impacts the income statement. As a result, SICO reported a slightly reduced quarterly operating income of BD 2.13 million and net profits of BD 900 thousand. Overall, trading activities for the second three months were substantially profitable.

Our financial performance for the first six months of 2013 is encouraging. Highlights include substantial increases in net profit

and operating income with, interestingly, all business lines contributing positively to the bottom line. In particular, brokerage and other income grew by over 70%, while net investment income increased by 35%.

It is particularly encouraging that non-trading activities now account for over 35% of net income, which shows we are moving closer to what I believe is an optimum 50-50 balance between proprietary income and fee-based revenue, which the Bank enjoyed prior to the 2008 financial crisis. Balanced and diversified revenue generators will enable SICO to better accommodate market volatility. On the down side, total expenses continued to rise, reaching BD 2.39 million at the end of the period, and now accounting for nearly 55% of total income. Effectively controlling costs remains a pressing management objective.

Operational highlights include the promotion of Najla Al Shirawi to the new post of Deputy CEO, which has enhanced our corporate structure and succession planning in preparation for a time when the baton is transferred to a younger generation. SICO's status as a leading institutionally-focused GCC public markets asset manager was reinforced by receipt of the highest MENA equity fund gradings from S&P Capital IQ, with the Khaleeji Equity Fund uniquely achieving both Gold and Long-term Grading (LTG) status. We also launched a new Fixed Income Fund during the second quarter. In addition, the first and most important phase

of the new core banking system became fully operational, which will enhance overall effectiveness, efficiency and productivity; facilitate the expansion of business activities; and improve client service.

Looking ahead, on balance we expect the positive momentum of the first six months to continue for the rest of the year – with increased revenues in all income-generating areas, which include asset management, brokerage, corporate finance and trading. The first three of these business lines have built up an attractive pipeline of transactions and mandates that should materialise hopefully in the near future.

GCC equities are predicted to continue generating attractive returns for the rest of the year, as regional and international investors are likely to deploy additional funds into our regional markets – helped by the robust interest in the 'frontier' markets – in contrast to the recent lacklustre performance of emerging markets which fell by 11% during the first half of the year, and which are now being outperformed by the GCC markets.

The global economy is still a case of déjà vu, with the same issues facing the USA, Europe and China. However, there are nascent and strong signs of a moderate revival in the USA, signs of things bottoming out in Europe, while China is seeing a slowdown from its previously supercharged GDP pace. The GCC

economies are expected to outperform the rest of the region, with overall economic growth averaging around 4% in 2013, compared with 2.5% for MENA region and just over 3% for global economy. The strong underlying macroeconomic fundamentals of the GCC have been further strengthened by stable high oil prices, with NYMEX crude now joining Brent crude at over US\$ 100 per barrel. That being said, alarm bells have started to sound in terms of future oil prices, as North American production is seen to substantially increase over the next few years, thanks in no small way to new technologies.

Closer to home, the Bahrain Economic Development Board predicts the Kingdom's GDP to grow by 5% this year, driven by a rebound in oil production, ongoing expansion of the non-oil sector, and robust private sector growth.

Given this encouraging economic outlook, and our equally encouraging financial performance and operational achievements during the first half of the year, we are positive about SICO's prospects for the rest of 2013; provided of course that there are no unforeseen events that could muddy the waters.

**Anthony C. Mallis**  
Chief Executive Officer

## M&A activity picks up in Bahrain, with new mandates for Corporate Finance

M&A activity picked up in Bahrain during the first half of 2013 compared with the previous year, with three significant inbound deals being concluded. In January, Kuwait Finance House announced completion of the first-ever three-way Islamic banking merger of Elaf Bank, Capital Management House and Capinvest, forming a new Islamic financial institution with total assets in excess of US\$ 400 million. In March, SIO Asset Management Company (SIOAM) and National Bank of Bahrain each acquired 25.8% of Bahrain Islamic Bank's shares from The Investment Dar Company in a deal valued at around US\$ 93 million. In May, SICO was additionally mandated by a leading bank to express a fair opinion on a potential merger.

There was one significant outbound deal from Bahrain, in which Ahli United Bank sold its 29.4% stake in a Qatari lender to the Qatar Foundation for US\$ 615.9 million.

Regional M&A deals held steady from the previous year, with values reaching US\$ 8.39 billion during the first half of 2013. The largest deal was the merger between Aldar Properties and Sorouh Real Estate Company valued at US\$ 1.5 billion. The largest M&A market in the GCC remains the UAE, which witnessed

the most inbound deals in both value and number. It is worth noting that Bahrain witnessed a comeback during the period, led by consolidation in the financial services sector.

Equity raised during the first six months of 2013 reached US\$ 4 billion, but this was mostly in secondary issues which constituted 82% of the total, while initial public offerings (IPOs) contributed US\$ 730 million. Saudi Arabia remains the dominant centre of primary issues in the GCC, accounting for four of the six issues in the first half of 2013. Nevertheless, the UAE-based Al Noor Hospital IPO of US\$ 341 million almost equalled the total equity raised in the Kingdom; while one IPO in Oman contributed US\$ 6.3 million to the total. Secondary issues came out of Kuwait, Qatar and the UAE, with the Bahrain equity market still lagging behind.

According to Samer Taleb, Head of SICO Corporate Finance, "Based on discussion with a number of institutions during the first half of 2013, we expect several Bahrain-based issuers to test the market next year. SICO is currently advising a client on evaluating the viability of one of the expected IPOs scheduled for 2014."



**Samer M. Taleb**  
Head of Corporate Finance

## SICO maintains focus on sound corporate governance

"During the first half of 2013, SICO maintained its focus on risk management and compliance to ensure that the Bank remains strong, methodical and consistent in the face of the current challenging and unpredictable economic and financial environment," reported Chief Corporate Officer Samir Sami. Key developments during the period are listed below.

### Risk Management

- Maintained cautious low-risk investment strategy aimed at preserving SICO's strong capital base and maintaining a safe, liquid and profitable portfolio.
- Developed an improved process for pre- and post-trade daily monitoring to ensure early detection and adherence to the assigned investment guidelines and risk parameters.
- Enhanced monitoring of fiduciary portfolios to ensure compliance with investment guidelines.
- Expanded the scope and regularity of risk management to the Board of Directors.
- Regularly monitored and reported ICAAP, regulatory CAR and operational risk incidents to Management and the Board.

### Compliance

- Appointed new Compliance Officer and MLRO for SICO and its subsidiaries.
- Complied with the CBB's new Rulebook Volume 7 for Collective Investment Undertakings.
- Completed a Group-wide assessment of the impact of the Foreign Account Tax Compliance Act (FATCA) on SICO and its subsidiaries; and implemented an action plan to ensure compliance by 25 October 2013.
- Responded to the CBB on the following consultations:
  - ◆ Credit grading classification system
  - ◆ Proposed directive on the internal audit function in banks
  - ◆ Sound remuneration practices for banks
  - ◆ Procedures for obtaining approval for controlled functions within licencees
  - ◆ Proposed module on training and competency for banks



**Samir Sami**  
Chief Corporate Officer

## Brokerage activities gain momentum

During the first half of 2013, SICO maintained its status as a leading broker on the Bahrain Bourse. The Bank was again number one for both the total volume and value of all transactions handled, with a market share of 34.5% and 32.6% respectively. Large

transactions executed by SICO during the period include the buy/sell of 484 million shares of Bahrain Islamic Bank with a total value of BD 34.85 million, and the sale of 45 million preferred shares of Ahli United Bank worth BD 7 million.

## New clients and services for SICO UAE

SICO UAE, the Bank's new wholly-owned brokerage subsidiary based in Abu Dhabi, witnessed an active first half year in 2013. The Company gained a number of new major accounts, including clients from Dubai and Kuwait. Following successful testing, SICO UAE launched its new Online Trading service; and commenced the process for obtaining approval from the Emirates Securities & Commodities Authority (ESCA) for the introduction of Margin Trading.

# SICO people in the news

## HAPPY OCCASIONS

**Congratulations to the following SICO staff members:**

### Engagements

- Hamad Al Hiddi from Risk Management

### Marriage

- Talha Naushahi from IT

### Births

- Basel A. Karim from Operations – a baby girl
- Fatima Haidari from Financial Control – a baby girl

## PROMOTIONS

**Congratulations to the following staff who were promoted during the first six months of 2013:**

- Najla Al Shirawi – Deputy Chief Executive Officer
- Haifa Ajlan – Principal, HR & Administration
- Ali Al Asfoor – Principal, Operations

## LATEST HEADCOUNT

At the end of June 2013, headcount for the Group totalled 92 people compared with 90 at the end of December 2012. The total comprised 70 people with SICO, 12 with SICO UAE and 10 with SFS.

## NEW JOINERS

**Welcome to the following people who joined the SICO team during the first half of the year:**

- Sumaya Ali Ahmed – Analyst, Research on 19 January 2013. (Sumaya originally joined the SICO Executive Training Programme during the first half of 2012.)
- Sumit Dhadda – Compliance Officer & MLRO, Risk Management on 24 March 2013. (See profile on page 2.)
- Bassam Khoury – General Manager, SICO UAE on 28 April 2013. (See profile on page 2.)

## EDUCATIONAL QUALIFICATIONS

**Congratulations to the following staff on their newly-acquired higher educational qualifications:**

- Abdulrahman Saif – Head of Investments & Treasury: MSc in Finance
- Haifa Ajlan – Principal, HR & Administration: MBA

## STUDENT INTERNSHIPS / WORK PLACEMENTS

**SICO is pleased to be providing the following students with work experience:**

- Sara A. Qader – with Customer Relations
- Syed Saif Shah – with Investments & Treasury