

COMPASS

YOUR INSIDE GUIDE TO WHAT'S GOING ON IN SICO

CHIEF EXECUTIVE'S UPDATE

“SICO’s prudent and conservative approach enabled the Firm to report a good performance for the first half of 2009, despite challenging market conditions.”



Welcome to this latest issue of Compass, which provides an overview of SICO’s achievements and developments during the first six months of 2009, and takes a look at the prospects for the rest of the year.

Market Background

The global financial meltdown, with its subsequent adverse effect on the GCC, which started September 2008, carried through to the first quarter of 2009.

The second quarter of the year, however, witnessed a mild revival in the worldwide economy, and an improvement in global business confidence. This triggered significant overall reductions in bank borrowing costs, an improvement in liquidity levels, and signs of renewed investor confidence. With most major economies beginning to register modest growth, oil prices more than doubled from their low of USD 33 per barrel at the end of 2008. This increase helped to reduce concerns across the GCC about budget deficits, liquidity, government support, and major slow-downs in development activities by regional governments.

Financial Highlights

Our Firm’s focused and consistent strategy helped us to benefit from the moderate revival in global and regional markets seen during the second quarter. Consequently, I am pleased to report that SICO posted encouraging financial results for the first half of 2009. Following the loss of BD 167 thousand for the first quarter,

we generated a net profit of BD 1.10 million for the second quarter. For the first six months of the year, net profit totalled BD 935 thousand, compared to BD 5.76 million for the first half of 2008; an achievement considering the prudent and conservative approach taken by the Firm.

The Firm’s balance sheet further strengthened during the period, with emphasis put on liquidity and protecting our equity position. SICO has consistently operated on a ‘fortress balance sheet’ basis, protecting ‘clients’ and ‘shareholders’ assets. Although the Firm was, and still is, impacted by the turmoil in the global financial markets, and its adverse effect on the GCC equity markets, SICO performed in an exceptionally responsive manner to unfolding events, always putting clients’ interests first.

[For full details, check the 2009 HY1 Financial Statements on the Firm’s website.]

Business Divisions

Our financial performance is driven by our operational excellence, and we continued to perform well across all areas of the business during the first half of 2009. Our Firm’s business performance is detailed

separately in this issue, but I would like to highlight some of the key achievements:

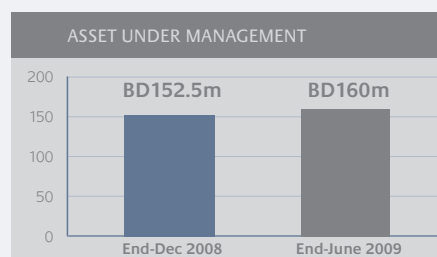
- Proprietary Investments returns and Treasury activities witnessed a profitable first half of the year, backed by the mild revival of regional markets.
- Assets under Management increased by 5 per cent to BD 160 million, compared to BD 152.5 million at the end of 2008.
- SICO’s Equity Funds continued to significantly outperform their market indices and peers, and received further industry recognition during the period.
- The Corporate Finance team was mandated to manage and advise on a high profile capital raising initiative.
- SICO maintained its status as the largest Broker on the Bahrain Stock Exchange, and was involved in all major transactions, that crossed the floor.
- The Firm expanded further its research coverage and increased the number of reports issued, including annual and quarterly GCC market outlooks, analysis of key sectors, and coverage of several leading regional corporates and financial institutions.
- The Firm’s subsidiary, SICO Funds Services Company (SFS), expanded its marketing activities, broadened its customer base, grew its funds under custody, and increased its contribution to SICO’s bottom line.

Mid/Back Office

During the first six months of 2009, we continued to enhance our organisational capabilities to ensure the company’s smooth and efficient running. In this respect, I would like to acknowledge the great efforts of our ‘behind the scene’ staff in the various corporate and support functions. These cover Strategic & Business Development, Client Relations, Risk Management, Compliance, Internal Audit, Financial Control, Information Technology, Human Resources, and Operations. Special thanks are also due to our secretaries, and to Abu Yousef, Jassim and Kamel, for their contributions.

Our People

There have also been a number of achievements from the team, both professionally and personally, which I would like to highlight.



CHIEF EXECUTIVE'S UPDATE CONTINUED

On the personal front, Basel Mohsen got engaged, while two new babies also arrived, the happy parents being Fatima Haidari and Hassan Abdulla. Several of the team excelled in professional development. Nada Jamsheer and Ankit Gupta completed and passed level II of CFA® study and examination program while Mariam Isa graduated from University College of Bahrain with a Master's degree in Islamic Finance. We invest considerable time and resources into developing our staff, since it is our people who are our real assets, and who ensure that SICO continues to offer clients a world class service.

Outlook

Although we believe that the worst is over globally; we are not yet out of the maze in the GCC – the markets will continue being very volatile for the rest of the year. There are a great number of challenges faced including a real estate bubble that has imploded, a banking environment that is stressed and a private sector that is impacted by reduced economic growth and liquidity. The silver lining is that oil prices have picked up well from their lows of year-end '08 and their relative stability in the past six months. Expectations are that these oil prices will remain stable, giving GCC Governments the ability to withstand a slowed world economy.

SICO has a cautiously optimistic outlook for itself for the rest of the year. Our strategy is supported by a unique corporate culture that embraces a prudent business approach and an enduring commitment to the values of consistency, confidentiality, integrity, and transparency. These have served us well during the recent challenging market conditions by helping us to weather the worst of the storm. Profitable, highly liquid, strongly capitalised and unleveraged, SICO is well positioned to take advantage of new business opportunities that are expected to result from the ongoing improvement in the markets during the second half of 2009. The next nine months will be a period when we see a further rebuilding our profitability and our equity capital position.

Anthony C. Mallis
Chief Executive Officer

ASSET MANAGEMENT

During the first half of 2009, SICO's assets under management increased by 5% to BD 160 million, compared to BD 152.5 million at the end of 2008.

The Firm's Asset Management business performed well during the first half of 2009. As part of our continuing due diligence process, we met the management of key companies across the region, which enabled us to identify fundamentally sound companies with good long term prospects. The Gulf markets started on a negative trend in 2009 but recovered during the second quarter, primarily due to an improvement in oil prices and renewed investor confidence. Assets under management stood at BD 160 million at the end of June 2009 compared to BD 152.5 million at the end of December 2008, an increase of 5 per cent.

During the first half of the year, we were awarded the mandate to manage the Saudi component for a Kuwait bank's GCC fund. In addition, we started investing for the "Arabia Inside Fund", a Luxemburg domiciled UCITS III Compliant Fund. This mandate was awarded to us by Aquila Capital, a German based alternative investment boutique. We are also in the process of setting up three new funds.

SICO's equity funds have continued to perform well. Khaleej Equity Fund (KEF) continued its superior performance during the first half of the year, up 15% for the year as compared to a 12.7% rise in the benchmark. KEF has performed significantly better than the benchmark and its

peers in the region and is among the top quartile of GCC funds. In March 2009, the Fund completed five years since its launch, during which time it has produced a return of 57.4% versus -25.4% of the benchmark, which is a testament to our long term value investment style. KEF is one of the few Gulf-based funds to be assigned an "AA" rating by Standard & Poor's. It received the Lipper Award for the best GCC fund in a three-year category in 2008, and was recently rated second by Zawya Funds Monitor for the GCC Equity Fund category for the period 2005-2008.

SICO Gulf Equity Fund (SGEF) was up 16.4% for the first half of the year, compared to a 5.9% rise in the benchmark. In March 2009, SGEF completed its three year anniversary and during this period, the fund significantly outperformed the benchmark. SGEF has been assigned an "AA" rating by Standard & Poor's. SICO Arab Financial Fund (SAFF) was up 11.2% for the first half of the year compared to a 2.6% rise in the benchmark. SICO Selected Securities Fund (SSS Fund) was down 10% for the year, compared to a 12.3% decline in the benchmark. Both SAFF and SSS have been assigned an "A" rating by Standard & Poor's.

Our external funds also performed well during the first half of the year. Al Aseel Islamic Equity Fund was up 13.7% while Al Islami GCC Equity Fund was up 12.9% for the period.

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. The Firm offers a wide range of corporate finance services through debt and equity primary and secondary offerings, including IPOs and private placements, mergers & acquisitions, privatisations, listings, and rights and bond issues.

During the past 10 years, SICO's Corporate Finance team have managed and advised on the majority of equity capital raising exercises and conventional bond offerings on the Bahrain

Stock Exchange (BSE). Noteworthy transactions in 2007 include 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) and was also the listing adviser for the primary listing of Khaleeji Commercial Bank on the BSE.

During the first half of 2009, SICO won the mandate to manage and advise on a high profile capital raising initiative (US\$ 250 million). The Corporate Finance team also continued to provide sell-buy side advisory services to corporate clients across the region.

BROKERAGE

For the tenth consecutive year, SICO was the largest broker on the Bahrain Stock Exchange in 2008, with over 41% market share by value of stocks traded.

SICO is the largest broker on the Bahrain Stock Exchange (BSE) as measured in terms of volume, value and number of trades, and the number one choice for larger trades. During 2008, the Firm completed a total of 21,744 transactions, equalling almost 25% of the total transactions completed on the BSE during the year. This represented a total trade volume of 1.35 billion shares equating to a total value of over BD651 million (USD1.7 billion), representing a market share of 41.4% of the total value of all shares transacted on the BSE in 2008.

SICO continued to offer its clients the ability to trade listed investment opportunities available in the region. Our clients are able to execute transactions in the various regional markets

MARKET MAKING

SICO pioneered the market making concept on the Bahrain Stock Exchange (BSE) with the objective to provide greater depth and liquidity to the stock market, and reducing unnecessary short term price fluctuations and narrowing of spreads.

During the first half of 2009, the Firm maintained its status as the leading market maker on the BSE since 1997, and also consolidated its position as one of the region's premier market makers.

SICO's dedicated Market Marking function is recognised by the BSE as an independent function, operating at arm's length from the

RESEARCH

The provision of in-depth, proprietary research, offering an independent, value-added service for our clients, is a key differentiating factor of SICO.

SICO continues to enhance its research capabilities in line with its commitment to offer clients a superior platform and level of service. Members of the Research team now account for almost 10 per cent of total employees.

In 2008, the Research team published a range of thought-provoking and insightful reports, including coverage of the Dubai real estate sector, Bahrain and Omani banking sectors, and two petrochemicals companies – SAFCO and SIPCHEM. In addition, a timely GCC Market

under one roof. This is made possible by the network of brokers SICO has established across the GCC and other regional markets.

The Firm 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.

Key achievements during the first six months of 2009 include the execution of a block trade on Ahli United Bank shares, whereby SICO bought and sold on behalf of clients 180,000,000 shares, with a total value of US\$ 99 million.

Firm's Brokerage business. The Market Making team covers local and regional issues, and makes a market for post-IPO listings, cross listings, matured listings, and debt instruments listings.

In the past SICO has advised, managed and placed, various local fixed income issues and recently has extended its coverage to the entire GCC markets, mainly acting as brokers and market makers on the various GCC issues. Our strength stems from our in-house research capabilities as well as being a one-stop-shop that seeks to provide an end-to-end solution to fixed income investors.

Outlook 2009 report highlighted SICO's cautiously positive outlook for the year, and assessed that markets will react positively on more clarity on global economic outlook.

In 2009, this was followed by a GCC Market Outlook 2H09 report. This noted that since the first quarter of the year, a mild revival has been observed in the global macro economic picture, which has led to an improvement in global business confidence.

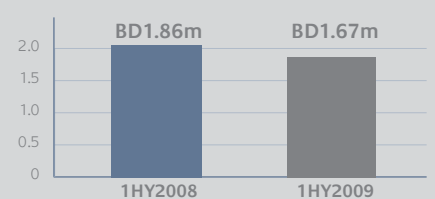
SICO FUNDS SERVICES COMPANY

SFS, a wholly-owned subsidiary of SICO, is a leading regional provider of sophisticated and integrated custody and fund administration solutions. The core solutions provided by SFS cover all aspects of custody and fund administration, including registrar functions and customised reporting services. The operations and services of SFS are totally independent and fully segregated from its parent company. Its relationship with SICO as a broker and asset manager is conducted strictly on an 'arm's length' basis.

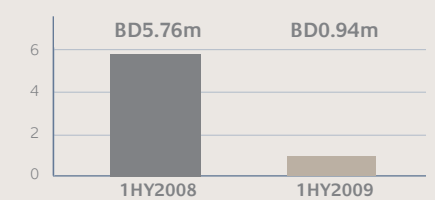
During the first half of 2009, SFS launched a marketing campaign to increase its profile. The Company successfully broadened its customer base, grew its funds under custody, and increased its contribution to SICO's bottom line.

SFS is also the custodian of choice for equity funds and portfolios, and have recently increased their business in fixed income by winning a number of mandates for fixed income custody.

TOTAL EXPENSES



NET PROFIT



Total worth of Ahli United Bank shares transacted

US\$ 99m