

# Board of Directors' Report

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We are pleased to present Unicorn Investment Bank B.S.C. (c)'s financial statements for the first full year of its operations. 2005 has been an outstanding year for UIB in building its track record with a consistently strong performance. The bank has not only exceeded its financial targets but has also been successful in further developing an excellent team, completing a smooth transition to new premises and implementing a robust IT system. Management continues to build the bank's internal procedures that are benchmarked to international best practices.

## Financial Results

Net income for 2005 was US\$ 24m versus US\$ 17m reported for the first eight months of its operations in 2004. This reflected a well-defined and clearly executed business strategy that resulted in a strong business performance and improved shareholders' value in the Bank.

Total revenues for the year stood at US\$ 52.6m versus US\$ 36.3m in the previous period. This was achieved through the successful closure of various transactions – stemming from different business lines, with a major emphasis on advisory, placement fees and favorable investment portfolio returns – total revenues for the year stood at US\$ 52.6m versus US\$ 36.3m in the previous period.

The Bank's product teams are engaged with newly developed business relations that are expected to have a positive impact on the Bank's future performance and a reflection of its continued growth. Thus, enabling UIB to meet and exceed its record-level return on equity of 20% for 2005.

UIB has been successful in closing its first US\$ 52.5 million KSA-1 fund that provided investment opportunities to non-Saudi investors, to invest in a booming Saudi real estate investment market. Furthermore, the Bank was successful in selling off its 51% real estate investment in Orange County, California, US, to a strategic investor.

During 2005, UIB was focused on establishing its market position for delivering innovative Shari'ah-compliant products, positioning itself to a more expanded role of diversifying its client base and its revenue streams. The return on equity of 20% for the first full year of its operation, speaks to UIB's competitive advantage compared to well-established banks in the market.

## Appropriation of Income

The Board of Directors recommends that the net income for the year ended shall be appropriated as follows:

	US\$ million
Net income for the year	24.232
Transfer to statutory reserves	(2.423)
Transfer to transaction cost	(7.577)
Shari'ah Supervisory Board remuneration	(0.220)
Director's remuneration	(0.375)
Proposed dividend	(11.288)
Balance transfer to retained earnings	<u>2,349</u>

I am very grateful for the trust and support that the Bank has received from its stakeholders during 2005 and look forward to further strengthen this relationship to the best interest of our clients, shareholders and employees.

Wassalamu Alaykum



Yousef A. Al-Shelash  
Chairman

# Auditors' Report

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We have audited the accompanying balance sheet of Unicorn Investment Bank B.S.C. (c) ("the Bank") as of December 31, 2005, and the related statements of income, cash flows, changes in equity, and sources and uses of charity funds for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'ah rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with both Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2005, and the results of its operations, changes in its cash flows, equity, and sources and uses of charity funds for the year then ended in accordance with International Financial Reporting Standards, Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, and the Islamic Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Bank.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Bahrain Monetary Agency Law, nor of the Memorandum and Articles of Association of the Bank, have occurred during the year ended December 31, 2005 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Ernst & Young

February 16, 2006  
Manama, Kingdom of Bahrain

# Shari'ah Supervisory Board Report

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Asslam A'laikum Wa Rahmat Allah Wa Barakatuh

In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed the principles and the contracts relating to the transactions conducted by the Unicorn Investment Bank B.S.C. (c) ("the Bank") during the year ended December 31, 2005. We have conducted our review with a view to form an opinion as to whether the Bank has complied with rules and principles of Islamic Shari'ah and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with the rules and principles of Islamic Shari'ah. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We conducted our review that included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Bank has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

- a) The contracts, transactions and dealings entered into by the Bank during the year ended December 31, 2005 are in compliance with the rules and principles of Islamic Shari'ah;
- b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles;
- c) All earnings that have been realized from sources or by means prohibited by rules and principles of Islamic Shari'ah have been disposed off to charitable causes; and
- d) The calculation of Zakat is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and the straight path.

Wassalam A'laikum Wa Rahmat Allah Wa Barakatuh.



Dr. Khalid Mathkooor Al-Mathkooor  
Chairman of the Shari'ah Supervisory Board

22 Muharram 1427 H  
21 February 2006 G

# Balance Sheet

At December 31, 2005

(Amounts in United States Dollars thousands)

	Notes	2005	2004
<b>ASSETS</b>			
Cash and balances with banks		8,874	828
Due from financial institutions	3	51,729	69,993
Available for sale investments	4	31,398	44,000
Other assets	5	54,506	2,171
Fixed assets		2,882	525
		<b>149,389</b>	<b>117,517</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT AND EQUITY</b>			
<b>LIABILITIES</b>			
Other liabilities	6	18,739	10,698
<b>UNRESTRICTED INVESTMENT ACCOUNT</b>			
		-	1,006
<b>EQUITY</b>			
Share capital	7	112,884	111,234
Statutory reserve	8	4,129	1,706
Transaction costs		-	(7,127)
Retained earnings		2,349	-
Proposed dividend		11,288	-
		<b>130,650</b>	<b>105,813</b>
		<b>149,389</b>	<b>117,517</b>

The financial statements were authorised for issue by the Board of Directors on 16th February 2006 and signed on their behalf by:



**Yousef A. Al-Shelash**  
Chairman



**Majid Al Sayed Bader Al-Refai**  
Managing Director &  
Chief Executive Officer

The attached notes 1 to 22 form an integral part of these financial statements.

# Statement of Income

For the year ended December 31, 2005

(Amounts in United States Dollars thousands)

	Notes	Year ended December 31, 2005	May 5, 2004 to December 31, 2004
Advisory and placement fees	9	16,519	35,600
Gain on sale of available for sale investments		33,019	-
Income from financial institutions, net		1,468	776
Dividend income		978	-
Other operating income		664	-
<b>OPERATING INCOME</b>		<b>52,648</b>	<b>36,376</b>
Staff costs		17,230	8,337
Other operating expenses	10	11,186	3,091
<b>OPERATING EXPENSES</b>		<b>28,416</b>	<b>11,428</b>
<b>NET OPERATING INCOME</b>		<b>24,232</b>	<b>24,948</b>
Pre-incorporation expenses		-	7,892
<b>NET PROFIT FOR THE YEAR / PERIOD</b>		<b>24,232</b>	<b>17,056</b>

The attached notes 1 to 22 form an integral part of these financial statements.

# Statement of Cash Flows

For the year ended December 31, 2005

(Amounts in United States Dollars thousands)

	Year ended December 31, 2005	May 5, 2004 to December 31, 2004
<b>OPERATING ACTIVITIES</b>		
Net profit for the year / period	24,232	17,056
Adjustments for:		
Depreciation	259	22
Gain on sale of available for sale investments	(33,019)	-
Fair value gain on investments	(32)	-
Placement fees	(14,672)	(34,000)
	(23,232)	(16,922)
Changes in:		
Other assets	(1,335)	(2,171)
Other liabilities	4,808	6,106
Net cash used in operating activities	(19,759)	(12,987)
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(2,616)	(547)
Due from financial institutions	18,264	(69,993)
Purchase of available for sale investments	(11,500)	(10,000)
Proceeds from sale of available for sale investments	26,376	-
Net cash from (used in) investing activities	30,524	(80,540)
<b>FINANCING ACTIVITIES</b>		
Unrestricted investment account	(1,000)	1,006
Proceeds from issue of share capital	1,000	101,000
Transaction costs paid	(2,719)	(7,651)
Net cash (used in) from financing activities	(2,719)	94,355
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>8,046</b>	<b>828</b>
Cash and cash equivalents at the beginning of the year / period	828	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD</b>	<b>8,874</b>	<b>828</b>
Cash and balances with banks	8,874	828

The attached notes 1 to 22 form an integral part of these financial statements.

# Statement of Changes in Shareholders' Equity

For the year ended December 31, 2005

(Amounts in United States Dollars thousands)

	Share capital	Statutory reserve	Transaction costs	Retained earnings	Proposed dividend	Total
Issue of share capital	111,234	-	-	-	-	111,234
Transaction costs	-	-	(22,257)	-	-	(22,257)
Net profit for the period	-	-	-	17,056	-	17,056
Transfer to statutory reserve	-	1,706	-	(1,706)	-	-
Transfer to transaction costs	-	-	15,130	(15,130)	-	-
Shari'ah Supervisory Board remuneration	-	-	-	(220)	-	(220)
Balance at December 31, 2004	111,234	1,706	(7,127)	-	-	105,813
Issue of additional shares	1,650	-	(450)	-	-	1,200
Net profit for the year	-	-	-	24,232	-	24,232
Transfer to statutory reserve	-	2,423	-	(2,423)	-	-
Transfer to transaction costs	-	-	7,577	(7,577)	-	-
Shari'ah Supervisory Board remuneration	-	-	-	(220)	-	(220)
Directors' remuneration	-	-	-	(375)	-	(375)
Proposed dividend	-	-	-	(11,288)	11,288	-
<b>Balance at December 31, 2005</b>	<b>112,884</b>	<b>4,129</b>	<b>-</b>	<b>2,349</b>	<b>11,288</b>	<b>130,650</b>

# Statement of Sources and Uses of Charity Funds

For the year ended December 31, 2005

(Amounts in United States Dollars thousands)

	Year ended December 31, 2005	May 5, 2004 to December 31, 2004
<b>SOURCES OF CHARITY FUNDS</b>		
Contribution by the Bank	200	39
Non Shari'ah compliant income	-	1
	<b>200</b>	<b>40</b>
<b>USES OF CHARITY FUNDS</b>		
Charitable contributions	(200)	(40)
<b>UNDISTRIBUTED CHARITY FUNDS AT DECEMBER 31, 2005</b>	<b>-</b>	<b>-</b>

The attached notes 1 to 22 form an integral part of these financial statements.

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

Unicorn Investment Bank B.S.C.(c) ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No 12/1978, and registered with the Ministry of Industry and Commerce under Commercial Registration No 53462 on April 29, 2004 and on May 5, 2004 was granted an Islamic investment banking licence by the Bahrain Monetary Agency. The Bank's registered office is at the 2nd and 3rd floor of Building No. 2495, Road no. 2832, Seef district 428, Kingdom of Bahrain.

The Bank aims to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Bank are:

- financial advisory;
- equity structuring, private placements and initial public offerings;
- debt structuring, restructuring and placement including project finance, securitisation and sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management that meet specific investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers;
- mergers and acquisitions – including deal sourcing, structuring, valuations, and advisory; and
- developing and managing liquidity products.

The Bank's Shari'ah Supervisory Board consists of seven Islamic scholars who review the Bank's compliance with general Shari'ah principles and guidelines. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with these principles.

The Bank employed 71 staff as of December 31, 2005 (2004: 34).

## 2 SIGNIFICANT ACCOUNTING POLICIES

Following are the significant accounting policies adopted in preparing these financial statements. These accounting policies are consistent with those used in the previous year.

### **Basis of preparation**

The financial statements of the Bank are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards (IFRS), and are in conformity with the Bahrain Commercial Companies Law and the Bahrain Monetary Agency Law.

The financial statements are prepared under the historical cost convention as modified by the measurement at fair value of available for sale investments.

The financial statements have been presented in United States Dollars, being the functional currency of the Bank's operations.



# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

At the date of authorisation of these financial statements certain International Financial Reporting Interpretations and IFRS were in issue but not effective. The Bank's management believes that adoption of those standards and Interpretations in future periods will have no material impact on the Bank's financial statements.

### **Financial instruments**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and balances with banks, due from financial institutions, available for sale investments and accrued income. Financial liabilities consist of other liabilities.

### **Due from financial institutions**

Due from financial institutions are stated net of deferred profits and provision for impairment, if any.

### **Investments**

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

#### *Investments carried at fair value through statement of income*

Investments are classified as fair value through statement of income if they are either held for trading or designated on the date of acquisition as carried at fair value through statement of income. Investments are classified as held for trading if they are acquired for the purpose of selling in the short term or they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit taking. These are subsequently measured at fair value and unrealised and realised gains or losses are recognised in the statement of income for the year in which they arise.

#### *Investments held to maturity*

Investments which have fixed or determinable payments and fixed maturity where the Bank has both an intention and ability to hold these to maturity are classified as held to maturity. These investments are carried at amortised cost less provision for any impairment in value.

#### *Available for sale investments*

Investments are classified as available for sale if they are not classified as carried at fair value through statement of income or held to maturity. These are subsequently measured at fair value and any unrealised gains or losses arising from changes in fair value are directly recognised in cumulative changes in fair value reserve included in equity till such time the investment is either derecognised or impaired, at which time these cumulative gains or losses are transferred to the statement of income for the year.

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Fair value**

For investments that are traded in organised financial markets, fair value is determined by reference to the market price prevailing on the balance sheet date.

For unquoted investments, fair value is determined by a recent significant buy or sell transaction with a third party that is either completed or in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments, adjusted for any material differences in the characteristics of these investments.

For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Bank using current profit rates for investments with similar terms and risk characteristics.

Investments in funds, unit trusts, or similar investment entities are carried at the latest asset valuation provided by the fund administrator.

Investments which cannot be re-measured to fair value using any of the above techniques are carried at cost or at a previously re-valued amount, less provision for any impairment.

### **Impairment of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

- (a) for assets carried at fair value, impairment is the difference between cost and fair value.
- (b) for assets carried at cost, impairment is the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset.

For available for sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

### **Fixed assets**

These are recorded at cost and comprise of equipment.

Depreciation is provided on a straight line basis on all fixed assets.

### **Revenue recognition**

Revenues earned by the Bank are recognised on the following bases:

#### *Advisory and placement fees*

Advisory and placement fees are recognised when the related services are rendered.

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

#### *Income from financial institutions*

This is recognised on a time apportioned basis taking account of principal outstanding and the applicable profit rate.

#### *Dividend income*

Dividend income is recognised when the Bank's right to receive the dividend is established.

#### *Other operating income*

Where income is quantifiable and contractually determinable, it is recognised on a time-apportioned basis; otherwise it is recognised when realised.

### Income allocation

Income to unrestricted investment account holders is allocated on the basis of their daily balances in proportion to shareholders' balances.

### Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the balance sheet date. Bahraini employees are covered under the General Organisation for Social Insurance Scheme.

### Zakah

In accordance with its Articles of Association, the Bank does not pay Zakah on behalf of its shareholders.

### Foreign currencies

Transactions denominated in foreign currencies are translated into United States Dollars at the rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the rate of exchange prevailing on the date of financial statements. Gains or losses resulting from retranslation of monetary assets and liabilities are taken to the statement of income.

### Offsetting

Financial assets and financial liabilities can only be offset with the net amount being reported in the balance sheet, when there is a legally enforceable right to set off the recognised amounts of financial assets and liabilities and the Bank intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

### Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Judgements (continued)**

#### *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as held to maturity, carried at fair value through profit and loss account, or available for sale.

#### *Impairment of investments*

The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on one of the following:

- recent significant arm's length transactions;
- current fair value of another instrument that is substantially the same; or
- the expected cash flows profit at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash and balances with banks.

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 3 DUE FROM FINANCIAL INSTITUTIONS

	2005			2004		
	Self financed	Jointly financed	Total	Self financed	Jointly financed	Total
Murabaha receivables	51,898	-	51,898	69,188	1,011	70,199
Less: deferred profits	(169)	-	(169)	(205)	(1)	(206)
	51,729	-	51,729	68,983	1,010	69,993

"Self financed" represents Murabaha receivables financed solely by the Bank's own funds. "Jointly financed" represents Murabaha receivables that are jointly owned by the Bank and unrestricted investment account holders.

The profit on these balances as of December 31, 2005 was equivalent to an average rate of 3.3% (2004: 2.4%).

## 4 AVAILABLE FOR SALE INVESTMENTS

<i>Unquoted - at cost</i>	2005	2004
Trust certificates - note 4.1	4,900	10,000
Others - note 4.2	26,498	34,000
	31,398	44,000

4.1 The underlying investment represents the Bank's participation in four assisted living properties located in California, USA. These properties are managed by Wilkinson Corporation, a leading firm that specialises in the management of such properties.

4.2 Others include an amount of US\$ 26.19 million (2004: US\$ 34 million) representing the Bank's beneficial interest in ordinary shares of an unquoted real estate development company ("the client"). This interest was acquired in consideration of the provision of financial advisory services to the client and is held through a Mudaraba financing arrangement with a real estate investment company. During the year the Bank acquired additional beneficial interest in ordinary shares of US\$ 14.67 million in consideration of financial advisory services rendered and disposed of US\$ 22.47 million of this beneficial interest.

## 5 OTHER ASSETS

	2005	2004
Receivables against sale of available for sale investments	51,000	-
Other assets	3,506	2,171
	54,506	2,171

As on the date of approval of these financial statements, the Bank received US\$ 51 million in cash from its clients.

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 6 OTHER LIABILITIES

	2005	2004
Staff related payable	7,221	3,424
Deal related payable	7,446	-
Accrued expenses	1,738	703
Transaction costs	1,513	4,372
Other payables	821	2,199
	<b>18,739</b>	<b>10,698</b>

## 7 SHARE CAPITAL

	2005	2004
Authorised:		
750,000,000 ordinary shares of US\$ 1 each	<b>750,000</b>	750,000
Issued and fully paid:		
102,000,000 (2004: 101,000,000) ordinary shares		
of US\$ 1 each, issued against cash	<b>102,000</b>	101,000
10,884,000 (2004: 10,234,000) ordinary shares		
of US\$ 1 each, issued in kind	<b>10,884</b>	10,234
	<b>112,884</b>	<b>111,234</b>

	No. of shares (Thousands)	Nominal value
At May 4, 2004	-	-
Issued during the period	<b>111,234</b>	111,234
At January 1, 2005	<b>111,234</b>	111,234
Issued during the year	<b>1,650</b>	1,650
At December 31, 2005	<b>112,884</b>	<b>112,884</b>

## 8 STATUTORY RESERVE

In accordance with the requirements of Bahrain Commercial Companies Law and the Bahrain Monetary Agency (BMA) regulations, 10% of the net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but can be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

## 9 ADVISORY AND PLACEMENT FEES

Advisory and placement fees have been earned by the Bank under the terms of mandates whereby it has assisted its clients in balance sheet restructuring, capital raising through private placement and by providing other financial advisory services. Included in the fees is an amount of US\$ 14.67 million (2004: US\$ 34 million), which was settled in kind by granting an interest in an unquoted equity investment. The consideration was based on share value agreed with the clients (note 4.2).

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 10 OTHER OPERATING EXPENSES

	2005	2004
General and administrative expenses	1,187	720
Business development expenses	1,830	1,148
Premises expenses	1,227	311
Deal related expenses	1,300	-
Legal and professional expenses	3,273	885
Advertising expenses	963	-
Others	1,147	5
Depreciation expenses	259	22
	<b>11,186</b>	<b>3,091</b>

## 11 CONTINGENT LIABILITIES AND COMMITMENTS

### *Contingent liabilities*

The Bank has given a guarantee on behalf of a related party against payments by the related party amounting to US\$ 4.5 million and US\$ 7.3 million due by July 12, 2006 and July 12, 2007, respectively (2004: Nil).

### *Commitments*

At December 31, 2005, the Bank had the following capital commitments:

	2005	2004
Investment related	4,800	-
Premises related	-	1,000
	<b>4,800</b>	<b>1,000</b>

The Bank's investment related commitment is dependent upon the successful closing of the related fund.

## 12 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise major shareholders, directors, members of Shari'ah Supervisory Board of the Bank, close members of their families, entities owned or controlled by them. The Bank enters into a number of transactions with its related parties in the normal course of business and all these transactions are priced at an arm's length.

The significant balances with related parties as of December 31, 2005 were as follows:

	2005			2004		
	Key management/			Key management/		
	Shareholders	Directors	Others	Shareholders	Directors	Others
Available for sale investments	-	-	26,338	-	-	34,000
Others assets (net of provision of US\$ 1.07 million)	-	206	1,894	-	-	1,283
	-	206	28,232	-	-	35,283
<b>Other liabilities</b>	<b>11</b>	<b>-</b>	<b>345</b>	<b>-</b>	<b>-</b>	<b>2,600</b>

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 12 TRANSACTIONS WITH RELATED PARTIES (continued)

Transactions with related parties included in the statement of income are as follows:

	Year ended December 31, 2005	May 5, 2004 to December 31, 2004
Advisory and placement fees	16,037	35,600

Key management personnel are those that possess significant decision making and direction setting responsibilities in each team, at different grades within the Bank.

Compensation of these key management personnel is as follows:

	2005	2004
Short term employee benefits	3,683	2,814
Post employment benefits	240	127
	3,923	2,941

## 13 CREDIT RISK AND CONCENTRATION OF ASSETS AND LIABILITIES

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages its credit risk by monitoring its exposure to various investments, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The distribution of assets and liabilities by geographic region and industry sector was as follows:

	December 31, 2005		December 31, 2004	
	Assets	Liabilities and unrestricted investment account	Assets	Liabilities and unrestricted investment account
Geographic regions				
Middle East	140,632	18,573	107,197	11,704
North America	7,060	83	10,320	-
Far East	1,697	83	-	-
	149,389	18,739	117,517	11,704
Industry sectors				
Banks and financial institutions	60,763	920	70,821	-
Others	88,626	17,819	46,696	11,704
	149,389	18,739	117,517	11,704



# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 14 MARKET RISK

Market risk arises from fluctuations in profit rates, foreign exchange rates and equity prices. The Bank's management has set limits on the amount of risk that may be accepted. This is monitored on a monthly basis by the Asset and Liability Committee of the Bank.

## 15 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is not exposed to currency risk as majority of its assets and liabilities are denominated in the reporting currency.

## 16 PROFIT RATE RISK

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is not exposed to any significant profit rate risk as a result of fluctuation in profit rates or mismatch of assets and liabilities.

The Bank's profit rate sensitivity position based on contractual repricing arrangements or maturities as at December 31, 2005 is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates.

December 31, 2005	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Non profit bearing	Total
<b>ASSETS</b>							
Cash and balances with banks	-	-	-	-	-	8,874	8,874
Due from financial institutions	38,644	13,085	-	-	-	-	51,729
Available for sale investment	-	-	-	-	-	31,398	31,398
Other assets	-	-	-	-	-	54,506	54,506
Fixed assets	-	-	-	-	-	2,882	2,882
<b>Total assets</b>	<b>38,644</b>	<b>13,085</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97,660</b>	<b>149,389</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT AND EQUITY</b>							
Other liabilities	-	-	-	-	-	18,739	18,739
Equity	-	-	-	-	-	130,650	130,650
<b>Total liabilities, unrestricted investment account and equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>149,389</b>	<b>149,389</b>
<b>Profit rate sensitivity gap</b>	<b>38,644</b>	<b>13,085</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Cumulative profit rate sensitivity gap</b>	<b>38,644</b>	<b>51,729</b>	<b>51,729</b>	<b>51,729</b>	<b>51,729</b>		

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 16 PROFIT RATE RISK (continued)

December 31, 2004	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Non profit bearing	Total
<b>ASSETS</b>							
Cash and balances with banks	-	-	-	-	-	828	828
Due from financial institutions	23,141	46,852	-	-	-	-	69,993
Available for sale investment	-	-	-	-	-	44,000	44,000
Other assets	-	-	-	-	-	2,171	2,171
Fixed assets	-	-	-	-	-	525	525
<b>Total assets</b>	<b>23,141</b>	<b>46,852</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,524</b>	<b>117,517</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT AND EQUITY</b>							
Other liabilities	-	-	-	-	-	10,698	10,698
Unrestricted investment account	-	-	-	-	1,006	-	1,006
Equity	-	-	-	-	-	105,813	105,813
<b>Total liabilities, unrestricted investment account and equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,006</b>	<b>116,511</b>	<b>117,517</b>
Profit rate sensitivity gap	23,141	46,852	-	-	(1,006)		
Cumulative profit rate sensitivity gap	23,141	69,993	69,993	69,993	68,987		

## 17 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, the Bank monitors its funding requirements on a regular basis and thus manages its assets by maintaining an appropriate balance of cash and cash equivalents.

The table on the next page, summarises the maturity profile of the Bank's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities at the balance sheet date have been determined on the basis of the remaining contractual period. Maturity periods for receivable are determined on the basis of agreed collection dates with third parties. Maturity periods for available for sale investment are determined based on the planned exit dates.

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## 17 LIQUIDITY RISK (continued)

December 31, 2005	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Undated	Total
<b>ASSETS</b>							
Cash and balances with banks	8,874	-	-	-	-	-	8,874
Due from financial institutions	38,644	13,085	-	-	-	-	51,729
Available for sale investment	-	20,920	-	-	10,478	-	31,398
Other assets	21,162	30,000	-	1,496	1,848	-	54,506
Fixed assets	-	-	-	-	-	2,882	2,882
<b>Total assets</b>	<b>68,680</b>	<b>64,005</b>	<b>-</b>	<b>1,496</b>	<b>12,326</b>	<b>2,882</b>	<b>149,389</b>

### LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNT

Other liabilities	1,305	9,429	-	-	6,579	1,426	18,739
<b>Total liabilities and unrestricted investment account</b>	<b>1,305</b>	<b>9,429</b>	<b>-</b>	<b>-</b>	<b>6,579</b>	<b>1,426</b>	<b>18,739</b>

December 31, 2004	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Undated	Total
<b>ASSETS</b>							
Cash and balances with banks	828	-	-	-	-	-	828
Due from financial institutions	23,141	46,852	-	-	-	-	69,993
Available for sale investment	-	-	-	5,000	39,000	-	44,000
Other assets	-	334	1,028	309	500	-	2,171
Fixed assets	-	-	-	-	-	525	525
<b>Total assets</b>	<b>23,969</b>	<b>47,186</b>	<b>1,028</b>	<b>5,309</b>	<b>39,500</b>	<b>525</b>	<b>117,517</b>

### LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNT

Other liabilities	898	920	4,212	2,445	1,322	901	10,698
Unrestricted investment account	-	-	-	-	1,006	-	1,006
<b>Total liabilities and unrestricted investment account</b>	<b>898</b>	<b>920</b>	<b>4,212</b>	<b>2,445</b>	<b>2,328</b>	<b>901</b>	<b>11,704</b>

# Notes to the Financial Statements

December 31, 2005

(Amounts in United States Dollars thousands)

## **18 EQUITY PRICE RISK**

Equity price risk arises from changes in fair values of equity investments. The Bank manages this risk through diversification of its investments in terms of geographical distribution and industry concentration.

## **19 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value of financial instruments as of the balance sheet date approximates their carrying values except for investment in unquoted equity investments included in investment available for sale, which cannot be reliably estimated and, as a result, all available for sale investments are carried at cost. The Bank's management believes that the fair value of these ranges from US\$ 57.3 million to US\$ 85.6 million.

## **20 SOCIAL RESPONSIBILITIES**

The Bank discharges its social responsibility through donations to good faith charity funds.

## **21 ZAKAH**

The Bank does not pay Zakah on behalf of its shareholders. Zakah payable by shareholders on their holdings in the Bank is calculated by the Bank on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended December 31, 2005 was 2 cents per share.

## **22 COMPARATIVE FIGURES**

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not have any effect on the last year reported figures.

The Bank commenced its operations from May 5, 2004, therefore, comparative information for the statements of income, cash flows and changes in equity has been presented only for the period from May 5, 2004 to December 31, 2004.