Financial Statements

for the year ended 31 December 2006

ERNST & YOUNG

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Independent Auditors' Report to the shareholders of Unicorn Investment Bank B.S.C. (c)

We have audited the accompanying consolidated financial statements of Unicorn Investment Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated statement of income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows, the consolidated statement of sources and uses of charity funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with both the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, to operate in accordance with Islamic Shari'ah and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In addition, the Board of Directors is responsible for the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with both the International Standards on Auditing and Auditing Standards for Islamic Financial Institutions. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and of its financial performance, its cash flows and sources and uses of charity funds for the period then ended in accordance with the 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 Group.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated 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 Central Bank of Bahrain and Financial Institutions of Law, nor of the Memorandum and Articles of Association of the Bank have occurred during the year ended 31 December 2006 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.

Ernst + Young

Ernst & Young

12 February 2007
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

At 31 December 2006
(Amounts in United States Dollars thousands)

	Notes	31 December 2006	31 December 2005
ASSETS			
Cash and balances with banks		15,137	8,874
Due from financial institutions	3	89,803	51,729
Due from non banks		27,883	-
Investment securities	4	123,456	31,398
Investments in associates	5	11,124	-
Assets held for sale	6	17,437	-
Other assets	7	5,408	54,506
Premises and equipment		3,094	2,882
TOTAL ASSETS		293,342	149,389
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Liabilities	8	23,851	18,739
SHAREHOLDERS' EQUITY			
Share capital	9	154,201	112,884
Share premium	10	69,268	-
Statutory reserve	11	7,143	4,129
Fair value reserve		22,315	-
Retained earnings		1,144	2,349
		254,071	119,362
Proposed dividend	12	15,420	11,288
		269,491	130,650
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		293,342	149,389

These consolidated financial statements were authorised for issue by the Board of Directors on 12 February 2007 and signed on their behalf by:

Yousef Abdullah Al-Shelash
Chairman

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

The attached notes 1 to 28 form an integral part of these financial statements.

Consolidated Statement of Income

For the year ended 31 December 2006
(Amounts in United States Dollars thousands)

	Notes	2006	2005
Advisory and placement fees	13	**16,360**	16,519
Income from financial institutions		**6,358**	1,468
Income from non banks		**1,080**	-
Gain on sale of investment securities		**24,018**	33,019
Unrealised gain on investments carried at fair value through statement of income		**12,910**	-
Dividend income		**2,172**	978
Management fees		**1,952**	449
Other income		**2,092**	215
TOTAL INCOME		**66,942**	52,648
Staff costs		**24,565**	17,230
Other operating expenses	14	**11,643**	11,186
TOTAL EXPENSES		**36,208**	28,416
NET PROFIT BEFORE BOARD REMUNERATION		**30,734**	24,232
Board remuneration		**595**	595
NET PROFIT FOR THE YEAR		**30,139**	23,637
Earnings per share - US cents	15	**23.5**	21.1

The attached notes 1 to 28 form an integral part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2006
(Amounts in United States Dollars thousands)

	Share capital	Share premium	Statutory reserve	Equity transaction costs	Fair value reserve	Retained earnings	Proposed dividend	Total
Balance at 1 January 2006	**112,884**	-	**4,129**	-	-	**2,349**	**11,288**	**130,650**
Cumulative changes in fair value	-	-	-	-	**9,405**	-	-	**9,405**
Income recognised directly in equity	-	-	-	-	**9,405**	-	-	**9,405**
Net profit for the year	-	-	-	-	-	**30,139**	-	**30,139**
Total income and expenses recognised during the year	-	-	-	-	**9,405**	**30,139**	-	**39,544**
Dividend paid	-	-	-	-	-	-	**(11,288)**	**(11,288)**
Transfer to statutory reserve	-	-	**3,014**	-	-	**(3,014)**	-	-
Transfer to fair value reserve	-	-	-	-	**12,910**	**(12,910)**	-	-
Issue of additional shares	**41,317**	**80,408**	-	-	-	-	-	**121,725**
Equity transaction costs incurred (note 16)	-	-	-	**(11,140)**	-	-	-	**(11,140)**
Transfer of equity transaction costs to share premium	-	**(11,140)**	-	**11,140**	-	-	-	-
Proposed dividend (note 12)	-	-	-	-	-	**(15,420)**	**15,420**	-
Balance at 31 December 2006	**154,201**	**69,268**	**7,143**	-	**22,315**	**1,144**	**15,420**	**269,491**
Balance at 1 January 2005	111,234	-	1,706	(7,127)	-	-	-	105,813
Net profit for the year	-	-	-	-	-	23,637	-	23,637
Transfer to statutory reserve	-	-	2,423	-	-	(2,423)	-	-
Issue of additional shares	1,650	-	-	-	-	-	-	1,650
Equity transaction costs incurred	-	-	-	(450)	-	-	-	(450)
Transfer of equity transaction costs to retained earnings	-	-	-	7,577	-	(7,577)	-	-
Proposed dividend	-	-	-	-	-	(11,288)	11,288	-
Balance at 31 December 2005	112,884	-	4,129	-	-	2,349	11,288	130,650

The attached notes 1 to 28 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2006
(Amounts in United States Dollars thousands)

	2006	2005
OPERATING ACTIVITIES		
Net profit for the year	30,139	23,637
Adjustments for:		
Advisory and placement fees	(13,767)	(14,672)
Gain on sale of investment securities	(24,018)	(33,019)
Unrealised gain on investments carried at fair value through statement of income	(12,910)	(32)
Depreciation	646	259
	(19,910)	(23,827)
Changes in:		
Due from non banks	(27,883)	-
Other assets	47,431	(1,335)
Liabilities	6,593	5,403
Net cash from (used in) operating activities	6,231	(19,759)
INVESTING ACTIVITIES		
Purchase of investments and assets held for sale	(105,547)	(11,500)
Proceeds from sale of investment securities	46,659	26,376
Purchase of premises and equipment	(858)	(2,616)
Net cash (used in) from investing activities	(59,746)	12,260
FINANCING ACTIVITIES		
Unrestricted investment accounts	-	(1,000)
Issue of additional shares	116,777	1,000
Equity transaction costs on issue of shares	(7,637)	(2,719)
Dividends paid	(11,288)	-
Net cash from (used in) financing activities	97,852	(2,719)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,337	(10,218)
Cash and cash equivalents at the beginning of the year	60,603	70,821
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	104,940	60,603
Cash and cash equivalents comprise:		
Cash and balances with banks	15,137	8,874
Due from financial institutions	89,803	51,729
	104,940	60,603

The attached notes 1 to 28 form an integral part of these financial statements.

Statement of Sources and Uses of Charity Funds

For the year ended 31 December 2006
(Amounts in United States Dollars thousands)

	2006	2005
SOURCES OF CHARITY FUNDS		
Contribution by the Bank	49	200
Non Shari'ah-compliant income	-	-
USES OF CHARITY FUNDS		
Charitable contributions	(49)	(200)
UNDISTRIBUTED CHARITY FUNDS AT 31 DECEMBER	-	-

The attached notes 1 to 28 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2006

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 29 April 2004 and on 5 May 2004 was granted an Islamic investment banking licence by the Central Bank of Bahrain (formerly the Bahrain Monetary Agency). In accordance with the new banking regulations of the Central Bank of Bahrain, the Bank has applied for a Wholesale Banking licence. The Bank's registered office is at the 2nd and 3rd floors of Building No. 2495, Road No. 2832, Seef District 428, Kingdom of Bahrain.

The Bank and its wholly owned subsidiaries (together referred to as "the Group") aim 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 Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- debt structuring, restructuring and placement including project finance, securitisation and sukuks;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management that meets 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 Group's Shari'ah Supervisory Board consists of seven Islamic scholars who review the Group's compliance with general Shari'ah principles and guidelines. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with these principles.

The number of Group employees as of 31 December 2006 was 103 (2005: 71)

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These accounting policies are consistent with those used in the previous year.

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments at fair value.

The consolidated financial statements are presented in United States Dollars, this being the functional currency of the Group's operations.

The following relevant International Financial Reporting Standards and Interpretations have been issued during the year and will be applied to the financial statements when applicable: IFRS 7 Financial Instruments: Disclosures and consequent amendments to IAS 1 - Capital Disclosures; IFRS 8 Operating Segments; IFRIC Interpretation 8 Scope of IFRS 2; and IFRIC Interpretation 11 IFRS 2 - Group and Treasury Share Transactions. The directors do not anticipate that the adoption of these Standards and Interpretations will have a material impact on the financial statements in the period of initial application.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, including certain special purpose entities where appropriate. Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. Subsidiaries are fully consolidated from the date that control is transferred to the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are reported for the same reporting year as the Group's, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated on consolidation.

The following are the principal subsidiaries of the Bank that are consolidated:

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiary	Ownership	Year of incorporation	Country of incorporation
UIB Capital Inc Its main activities are to source investment opportunities in the USA and monitor the performance of the acquired companies on behalf of the Bank and investors.	100%	2004	United States of America
UIB Capital Sdn Bhd Its main activities are to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.	100%	2004	Malaysia
UIB Capital Limited UIB Capital Limited was granted a Commercial Licence by the Dubai International Financial Centre (DIFC) in September 2006. Its main activities are to source investment opportunities in the Middle East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.	100%	2006	United Arab Emirates

Subsequent to the consolidated balance sheet date, the Group acquired a 75% equity interest in Inter Yatirim Menkul Degerler A.S., a brokerage and asset management company based in Turkey.

Financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and balances with banks, due from financial institutions, due from non banks, investment securities and receivables from clients. Financial liabilities consist of liabilities.

Due from financial institutions

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

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Murabaha receivables are sales on deferred terms. The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period.

Due from non banks

Securities purchased from a customer other than a financial institution under an irrevocable promise to repurchase at a specified future date are recognised in the consolidated balance sheet as "due from non banks".

Investment securities

Investment securities are initially recognised at cost, being the fair value of the consideration given and are classified as either "carried at fair value through statement of income" or "available for sale".

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

Investments carried at fair value through statement of income

Investments are classified as "carried at 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. In addition, the Group's venture capital (VC) investments that fall under IAS 28 are classified under IAS 39 as "investments carried at fair value through statement of income" by utilising the VC exemption in IAS 28.

Investments classified as "carried at fair value through statement of income" are subsequently remeasured at fair value.

The unrealised gains and losses arising from the re-measurement to fair value are included in the statement of income as 'unrealised gain on investments carried at fair valued through statement of income' and appropriated to the fair value reserve in accordance with AAOIFI accounting standards. Upon realisation, the gains and losses are transferred to retained earnings.

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.

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative change in fair value is included in the consolidated statement of income for the year.

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity in which the Group has significant influence over the operating and financial policy decisions of the entity and is neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method of accounting.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The determination of fair value is done for each investment individually in accordance with the valuation policies set out below:

- For investments that are traded in organised financial markets, fair value is determined by reference to the market price prevailing on the consolidated balance sheet date.
- For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to similar investments where market observable prices exist, adjusted for any material differences in the characteristics of these investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- 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 Group 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 remeasured to fair value using any of the above techniques are carried at cost or at a previously revalued amount, less provision for any impairment.

Impairment of financial assets

An assessment is made at each consolidated 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 consolidated statement of income.

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

In the case of available for sale investment securities, reversals of previously recognised impairment losses are recorded as increases in fair value reserve 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.

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation. They comprise: computers, office equipment, fixtures and fittings and vehicles.

Depreciation is provided on a straight line basis over the estimated useful life of the asset.

Income recognition

Income earned by the Group is recognised on the following bases:

Advisory and placement fees

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

Income from financial institutions

Income from financial institutions is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Income from non banks

Income from non banks is recognised on a time-apportioned basis taking account of the principal outstanding and the applicable profit amount.

Dividend income

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

Management fees

Management fees represent a recurring fee earned by the Group for rendering management and administrative services to funds managed by the Group. Management fees are recognised as and when services are rendered.

Other income

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

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated balance sheet date.

Bahraini employees are covered under the General Organisation for Social Insurance (GOSI) Scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Zakah

In accordance with its Articles of Association, the Group is not required to pay Zakah on behalf of its shareholders. However, the Group is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable amount.

The Shari'ah Supervisory Board approves these calculations.

Taxation

There is no tax on corporate income in the Kingdom of Bahrain.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the right to receive cash flows from the asset has expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are translated into United States Dollars at the rate of exchange prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the rate of exchange prevailing on the date of the consolidated financial statements.

Gains or losses resulting from the retranslation of monetary assets and liabilities are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated into United States Dollars using the rate of exchange at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated into United States Dollars using the rate of exchange at the date the fair value was determined.

Offsetting

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as "carried at fair value through statement of income" or "available for sale". Investments are classified as carried at fair value through statement of income when they are held for trading or are designated as at fair value on initial recognition. All other investments are classified as "available for sale".

Impairment of investments

The Group 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. The determination of what is "significant" or "prolonged" requires considerable judgment.

Notes to the Consolidated Financial Statements

At 31 December 2006

(Amounts in United States Dollars thousands)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the conslidated 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;
- the expected cash flows at current profit rates applicable for items with similar terms and risk;
- net asset value; or
- other valuation models.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments in private equities.

Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with banks, and amounts due from financial institutions maturing within 90 days.

3 DUE FROM FINANCIAL INSTITUTIONS

	2006	2005
Murabaha receivables	90,502	51,898
Less: deferred profits	(699)	(169)
	89,803	51,729

Due from financial institutions represents murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2006 was equivalent to an average rate of 5.0% (2005: 3.3%).

4 INVESTMENT SECURITIES

	2006	2005
Carried at fair value through statement of income (note 4.1)	68,526	-
Available for sale investments at fair value		
Quoted (note 4.2)	23,192	-
Unquoted (note 4.3)	31,738	31,398
	123,456	31,398

Notes to the Consolidated Financial Statements

At 31 December 2006
(Amounts in United States Dollars thousands)

4 INVESTMENT SECURITIES (continued)

4.1 Investments carried at fair value through statement of income include an amount of US$38.525 million (2005: nil) invested in a listed company developing a real estate project in the Kingdom of Jordan.

4.2 Quoted available for sale investments comprise equity securities of a financial institution based in the Gulf Corporation Council (GCC) and investments in GCC sukuks.

4.3 Unquoted available for sale investments represent the Group's investment in unlisted securities of non financial institutions, predominantly in the GCC.

These investments include an amount of US$30.752 million (2005: US$26.196 million) for the Group's beneficial interest in the 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 that was revalued and redesignated from cost to fair value during the current year.

During the year, the Group acquired an additional beneficial interest of US$13.767 million (2005: US$14.672 million) in the ordinary shares of the company in consideration of further financial advisory services rendered, and disposed of US$16.733 million (2005: US$22.476 million) of its beneficial interest in the ordinary shares of the company.

5 INVESTMENTS IN ASSOCIATES

The Group has a 22.22% interest in First Dawood Islamic Bank (FDIB), an unlisted bank recently incorporated in Pakistan. FDIB was granted the Certificate of Commencement of Business by the Securities and Exchange Commission of Pakistan on 21 November 2006.

6 ASSETS HELD FOR SALE

Assets held for sale comprise the Group's interests in US-based non financial institutions. Subsequent to the consolidated balance sheet date, the Group disposed off its US$10.179 million investment in four assisted living properties located in California, USA.

7 OTHER ASSETS

	2006	2005
Receivables against sale of available for sale investments	-	51,000
Receivables from clients	**3,443**	2,011
Prepayments	**1,186**	868
Other	**779**	627
	5,408	54,506

Notes to the Consolidated Financial Statements

At 31 December 2006
(Amounts in United States Dollars thousands)

8 LIABILITIES

	2006	2005
Staff-related payables	10,577	7,221
Deal-related payables	10,399	7,446
Accrued expenses	1,762	1,738
Transaction costs payable	22	1,513
Other payables	1,091	821
	23,851	18,739

9 SHARE CAPITAL

	2006	2005
Authorised:		
750,000,000 ordinary shares of US$1 each	750,000	750,000
Issued and fully paid:		
140,304,361 (2005: 102,000,000) ordinary shares of US$1 each, issued against cash	140,305	102,000
13,896,151 (2005: 10,884,000) ordinary shares of US$1 each, issued in kind	13,896	10,884
	154,201	112,884

	No. of shares (thousands)	Nominal value
At 1 January 2006	112,884	112,884
Issued during the year	41,317	41,317
At 31 December 2006	154,201	154,201

10 SHARE PREMIUM

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

The net share premium (after equity transaction costs) from the issue of shares during the year amounted to US$69.268 million (2005: nil).

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11 STATUTORY RESERVE

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net income for the year is transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

12 PROPOSED DIVIDEND

At 31 December 2006 a cash dividend of US$0.10 per share (totalling US$15.420 million) has been proposed and will be submitted for formal approval by the shareholders at the Annual General Meeting.

A cash dividend of US$0.10 per share (totalling US$11.288 million) was approved at the 2005 Annual General Meeting and was paid in 2006 following that approval.

13 ADVISORY AND PLACEMENT FEES

Advisory and placement fees have been earned by the Bank under the terms of mandates whereby it has assisted 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$13.767 million (2005: US$14.672 million), that was settled in kind by granting a beneficial interest in the ordinary shares of an unquoted real estate development company (see note 4.3). The consideration was based on a share value agreed with the client.

14 OTHER OPERATING EXPENSES

	2006	2005
General and administrative	2,276	1,187
Business development	1,610	1,830
Premises	1,168	1,227
Deal-related	1,068	1,300
Legal and professional	3,320	3,273
Advertising	1,356	963
Other expenses	199	1,147
Depreciation	646	259
	11,643	11,186

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15 EARNINGS PER SHARE

The calculation of earnings per share (both basic and diluted) is based on the net profit attributable to the Banks' shareholders and the weighted average number of shares outstanding during the year.

	2006	2005
Net profit for the year	**30,139**	23,637
Weighted average number of shares outstanding during the year (thousands)	**128,339**	112,201
Earnings per share (US cents)	**23.5**	21.1

16 EQUITY TRANSACTION COSTS

Equity transaction costs represent costs incurred by the Group that are directly related to the raising of capital. These amounts are included in the consolidated statement of changes in shareholders' equity.

	In cash	**In kind**	**Total**
Sponsors	**-**	**7,015**	**7,015**
Founder members	**1,782**	**1,762**	**3,544**
Other	**581**	**-**	**581**
	2,363	**8,777**	**11,140**

Equity transaction costs incurred in kind represent shares given to certain sponsors and founder members of the Bank, in relation to capital raised during the year.

'Other' represents fees paid to various consultants for services rendered that were directly related to the raising of capital.

In 2005, US$7.577 million of equity transaction costs were transferred to retained earnings.

Notes to the Consolidated Financial Statements

At 31 December 2006

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17 ASSETS UNDER MANAGEMENT

	2006	2005
Proprietary	58,630	153
Client	118,971	56,274
	177,601	56,427

Proprietary assets are included in the consolidated balance sheet under 'investment securities'. Client assets are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated balance sheet.

18 COMMITMENTS

	2006	2005
Investment related	4,062	4,800
Other	7,300	11,800
	11,362	16,600

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

'Other' represents the Bank's commitment of US$7.3 million given to a third party on behalf of a related party. This commitment will expire on 12 July 2007.

19 RELATED PARTY TRANSACTIONS

Compensation of senior management personnel

Senior management personnel are those that possess significant decision making and direction setting responsibilities within the Group.

	2006	2005
Short term employee benefits	4,783	2,814
Post employment benefits	668	127
	5,451	2,941

Transactions, arrangements and agreements involving related parties

Related parties comprise major shareholders, directors and entities owned or controlled by them. The Group enters into a number of transactions with its related parties in the normal course of business and all these transactions are priced on an 'arm's length' basis.

Notes to the Consolidated Financial Statements

At 31 December 2006

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19 RELATED PARTY TRANSACTIONS (continued)

The significant balances included in the consolidated balance sheet with related parties are as follows:

	2006			2005		
	Shareholders	Senior management	Other	Shareholders	Senior management	Other
Assets						
Due from non banks	-	-	27,883	-	-	-
Investment securities	-	-	30,752	-	-	26,338
Investment in associates	-	-	11,124	-	-	-
Other assets	-	138	372	-	206	1,894
Liabilities	9	-	10,412	11	-	6,491
Shareholders' equity						
Equity transaction costs	7,972	1,417	-	-	-	-

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

	2006	2005
Advisory and placement fees	14,672	16,037
Income from non banks	1,080	-
Directors' remuneration	375	375

20 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 Group manages its credit risk by monitoring its exposure to various investments, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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 Group's performance to developments affecting a particular industry or geographic location.

Notes to the Consolidated Financial Statements

At 31 December 2006

(Amounts in United States Dollars thousands)

20 CREDIT RISK AND CONCENTRATION OF ASSETS AND LIABILITIES (continued)

The distribution of assets and liabilities by geographical region and industry sector is as follows:

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
Geographical region				
Bahrain	**116,628**	**13,219**	61,565	11,259
Other Middle East	**133,266**	**10,406**	79,067	7,314
North America	**30,596**	**150**	7,060	83
Asia Pacific	**12,852**	**76**	1,697	83
	293,342	**23,851**	149,389	18,739
Industry sector				
Banks and financial institutions	**116,056**	**-**	60,763	920
Other	**177,286**	**23,851**	88,626	17,819
	293,342	**23,851**	149,389	18,739

21 MARKET RISK

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

22 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The majority of the Group's business is conducted in United States Dollars. However, certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

The Group had the following significant net exposures denominated in foreign currencies at the consolidated balance sheet date:

	2006 US$ equivalent	2005 US$ equivalent
Net assets		
Jordanian Dinar	**38,526**	-
Euro	**5,683**	3,466
Pakistan Rupee	**11,124**	-

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At 31 December 2006

(Amounts in United States Dollars thousands)

23 PROFIT RATE RISK

Profit rate risk arises from the possibility that changes in profit rates will affect the Group's future profitability or the fair value of financial instruments. The table below depicts the financial instruments that may be affected by changes in profit rates and the range of their profit rates.

	2006	2005
	Profit rate	Profit rate
Due from financial institutions	**5% - 5.5%**	3% - 4.5%
Due from non banks	**15%**	-
Investment securities	**10% - 20%**	10% - 20%

24 EQUITY PRICE RISK

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

25 LIQUIDITY RISK

Liquidity risk is the risk that the Group 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 Group 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 below summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities at the consolidated balance sheet date have been determined on the basis of the remaining contractual period. Maturity periods for receivables are determined on the basis of agreed collection dates with third parties. Maturity periods for investments are determined based on the planned exit dates.

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25 LIQUIDITY RISK (continued)

31 December 2006	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Undated	Total
ASSETS							
Cash and balances with banks	15,137	-	-	-	-	-	15,137
Due from financial institutions	16,521	73,282	-	-	-	-	89,803
Due from non banks	-	-	-	-	27,883	-	27,883
Investment securities	-	5,083	10,000	38,417	69,956	-	123,456
Investments in associates	-	-	-	-	-	11,124	11,124
Assets held for sale	10,179	7,258	-	-	-	-	17,437
Other assets	126	3,839	-	60	863	520	5,408
Premises and equipment	-	-	-	-	-	3,094	3,094
Total assets	41,963	89,462	10,000	38,477	98,702	14,738	293,342
LIABILITIES							
Liabilities	139	11,118	-	-	11,265	1,329	23,851
Total liabilities	139	11,118	-	-	11,265	1,329	23,851
Net liquidity gap	41,824	78,344	10,000	38,477	87,437	13,409	269,491

31 December 2005	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Undated	Total
ASSETS							
Cash and balances with banks	8,874	-	-	-	-	-	8,874
Due from financial institutions	38,644	13,085	-	-	-	-	51,729
Due from non banks	-	-	-	-	-	-	-
Investment securities	-	20,920	-	-	10,478	-	31,398
Investments in associates	-	-	-	-	-	-	-
Assets held for sale	-	-	-	-	-	-	-
Other assets	21,162	30,000	-	1,496	1,848	-	54,506
Premises and equipment	-	-	-	-	-	2,882	2,882
Total assets	68,680	64,005	-	1,496	12,326	2,882	149,389
LIABILITIES							
Liabilities	1,305	9,429	-	-	6,579	1,426	18,739
Total liabilities	1,305	9,429	-	-	6,579	1,426	18,739
Net liquidity gap	67,375	54,576	-	1,496	5,747	1,456	130,650

Notes to the Consolidated Financial Statements

At 31 December 2006

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments as of the consolidated balance sheet date approximates to their carrying values.

27 SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

28 ZAKAH

The Group does not pay Zakah on behalf of its shareholders. Zakah payable by shareholders on their holdings in the Group is calculated on the basis of a method prescribed by the Group's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2006 was US$0.02 per share (31 December 2005: US$0.02 per share).