Consolidated Financial Statements

for the year ended 31 December 2007

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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 2007 and the consolidated statement of income, the consolidated statement of changes in equity, the consolidated statement of cash flows 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 comply with relevant ethical requirements and 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' judgment, 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 2007 and of its financial performance and its cash flows for the year then ended in accordance with 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 2007 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 Law, nor of the Memorandum and Articles of Association of the Bank have occurred during the year ended 31 December 2007 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.

Ernst & Young

13 February 2008
Manama, Kingdom of Bahrain

Shari'ah Supervisory Board Report

to the Shareholders of Unicorn Investment Bank B.S.C. (c)

ASSLAMO A'LAIKOM WA RAHMATU 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 Unicorn Investment Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2007. We have conducted our review with a view to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwas, rulings and guidelines issued by us.

The Group's management is responsible for ensuring that the Group 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 Group, 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 Group.

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 Group has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2007 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) During the year, the Group has realized no earnings from sources prohibited by Shari'ah.

d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah.

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

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

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

2nd Rabi'e Al-Awal 1429 H
10th March 2008 G

Consolidated Balance Sheet

At 31 December 2007

(Amounts in United States Dollars thousands)

	Notes	31 December 2007	31 December 2006
ASSETS			
Cash and balances with banks	3	**9,291**	15,137
Due from financial institutions	4	**72,480**	89,803
Due from non banks	5	**43,158**	27,883
Investment securities	6	**211, 393**	123,456
Investments in associates	7	**28,284**	11,124
Assets held for sale	8	**23,032**	17,437
Other assets	9	**19,600**	5,408
Premises and equipment	10	**37,272**	3,094
Goodwill	11	**2,159**	-
TOTAL ASSETS		**446,669**	293,342
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	12	**70,371**	-
Other liabilities	13	**34,813**	23,851
TOTAL LIABILITIES		**105,184**	23,851
EQUITY			
Share capital	14	**174,704**	154,201
Share premium	15	**70,495**	69,268
Statutory reserve	16	**12,153**	7,143
Fair value reserve		**36,777**	22,315
Foreign currency translation reserve		**277**	-
Retained earnings		**20,027**	1,144
		314,433	254,071
Proposed dividend	17	**26,206**	15,420
Total equity attributable to shareholders of the parent		**340,639**	269,491
Minority interests		**846**	-
TOTAL EQUITY		**341,485**	269,491
TOTAL LIABILITIES AND EQUITY		**446,669**	293,342

These consolidated financial statements were authorised for issue by the Board of Directors on 13 February 2008 and signed on their behalf by:

Yousef Abdullah Al-Shelash
Chairman

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

The attached explanatory notes 1 to 36 form part of the consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

	Notes	2007	2006
Investment banking fees	18	**93,775**	16,360
Net income from financial institutions	19	**2,986**	6,358
Income from non banks		**5,067**	1,080
Gain on sale of investment securities		**11,851**	24,018
Gain on sale of assets held for sale		**1,335**	-
(Loss)/gain on investments carried at fair value through statement of income		**(844)**	12,910
Dividend income		**2,793**	2,172
Management fees		**2,751**	1,952
Share of profit of associates	7	**181**	-
Other income		**2,146**	2,092
TOTAL INCOME		**122,041**	66,942
Staff costs	20	**53,679**	24,565
Other operating expenses	21	**18,771**	12,238
TOTAL EXPENSES		**72,450**	36,803
NET PROFIT		**49,591**	30,139
Attributable to:			
Shareholders of the parent		**50,099**	30,139
Minority interests		**(508)**	-
		49,591	30,139
Earnings per share – US cents	22		
Basic earnings per share		**29.7**	23.5
Diluted earnings per share		**29.7**	23.5

The attached explanatory notes 1 to 36 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

	Attributable to shareholders of the parent									Minority interests	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Equity transaction costs	Proposed dividend	Total		
Balance at 1 January 2007	154,201	69,268	7,143	22,315	-	1,144	-	15,420	269,491	-	269,491
Cumulative changes in investment securities fair value	-	-	-	20,555	-	-	-	-	20,555	-	20,555
Transfer to consolidated statement of income on sale	-	-	-	(6,550)	-	-	-	-	(6,550)	-	(6,550)
Premises revaluation (note 10)	-	-	-	408	-	-	-	-	408	-	408
Currency translation differences on consolidation	-	-	-	-	277	-	-	-	277	134	411
Share of changes recognised directly in associate's equity	-	-	-	49	-	-	-	-	49	-	49
Income recognised directly in equity	-	-	-	14,462	277	-	-	-	14,739	134	14,873
Net profit (loss)	-	-	-	-	-	50,099	-	-	50,099	(508)	49,591
Total income and expenses for the year	-	-	-	14,462	277	50,099	-	-	64,838	(374)	64,464
Dividend paid	-	-	-	-	-	-	-	(15,420)	(15,420)	-	(15,420)
Transfer to statutory reserve	-	-	5,010	-	-	(5,010)	-	-	-	-	-
Issuance of additional shares	20,503	2,667	-	-	-	-	-	-	23,170	-	23,170
Equity transaction costs incurred (note 23)	-	-	-	-	-	-	(1,440)	-	(1,440)	-	(1,440)
Transfer of equity transaction costs to share premium	-	(1,440)	-	-	-	-	1,440	-	-	-	-
Proposed dividend (note 17)	-	-	-	-	-	(26,206)	-	26,206	-	-	-
Minority interests arising on business combination	-	-	-	-	-	-	-	-	-	1,220	1,220
Balance at 31 December 2007	174,704	70,495	12,153	36,777	277	20,027	-	26,206	340,639	846	341,485
Balance at 1 January 2006	112,884	-	4,129	-	-	2,349	-	11,288	130,650	-	130,650
Cumulative changes in fair value	-	-	-	9,405	-	-	-	-	9,405	-	9,405
Income recognised directly in equity	-	-	-	9,405	-	-	-	-	9,405	-	9,405
Net profit	-	-	-	-	-	30,139	-	-	30,139	-	30,139
Total income and expenses for the year	-	-	-	9,405	-	30,139	-	-	39,544	-	39,544
Dividend paid	-	-	-	-	-	-	-	(11,288)	(11,288)	-	(11,288)
Transfer to statutory reserve	-	-	3,014	-	-	(3,014)	-	-	-	-	-
Transfer to fair value reserve	-	-	-	12,910	-	(12,910)	-	-	-	-	-
Issuance of additional shares	41,317	80,408	-	-	-	-	-	-	121,725	-	121,725
Equity transaction costs incurred (note 23)	-	-	-	-	-	-	(11,140)	-	(11,140)	-	(11,140)
Transfer of equity transaction costs to share premium	-	(11,140)	-	-	-	-	11,140	-	-	-	-
Proposed dividend (note 17)	-	-	-	-	-	(15,420)	-	15,420	-	-	-
Balance at 31 December 2006	154,201	69,268	7,143	22,315	-	1,144	-	15,420	269,491	-	269,491

The attached explanatory notes 1 to 36 form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

	Notes	2007	2006
OPERATING ACTIVITIES			
Net profit		49,591	30,139
Adjustments for:			
Investment banking fees	18	(18,800)	(13,767)
Gain on sale of investment securities		(11,851)	(24,018)
Gain on sale of assets held for sale		(1,335)	-
(Loss)/gain on investments carried at fair value through statement of income		844	(12,910)
Founder share grants	20	4,000	-
Depreciation		819	646
		23,268	(19,910)
Changes in:			
Due from non banks		(15,275)	(27,883)
Other assets		(13,448)	47,431
Due to financial institutions		70,371	-
Other liabilities		10,634	6,593
Proceeds from sale of investment securities		97,625	46,659
Proceeds from sale of assets held for sale		18,771	-
Purchase of investment securities		(140,477)	(94,423)
Purchase of assets held for sale		(23,032)	-
Net cash from (used in) operating activities		28,437	(41,533)
INVESTING ACTIVITIES			
Purchase of premises and equipment		(34,433)	(858)
Acquisition of subsidiary, net of cash acquired	11	(2,941)	-
Investment in associates		(17,223)	(11,124)
Net cash used in investing activities		(54,597)	(11,982)
FINANCING ACTIVITIES			
Proceeds from issue of additional shares		18,000	116,777
Equity transaction costs on issue of shares		-	(7,637)
Dividend paid		(15,420)	(11,288)
Net cash from financing activities		2,580	97,852
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(23,580)	44,337
Foreign currency translation adjustments		411	-
Cash and cash equivalents at the beginning of the year		104,940	60,603
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		81,771	104,940
Cash and cash equivalents comprise:			
Cash and balances with banks		9,291	15,137
Due from financial institutions		72,480	89,803
		81,771	104,940

The attached explanatory notes 1 to 36 form part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. CORPORATE INFORMATION

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. In accordance with the new banking regulations of the Central Bank of Bahrain, the Bank was granted a Wholesale Bank (Islamic Principles) Licence on 24 April 2007. 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 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 and other treasury products and services.

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 2007 was 137 (2006: 103).

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of the investments and land at fair value. The consolidated financial statements are presented in United States Dollars, this being the functional currency of the Group's operations.

Statement of compliance

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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank's, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. Control is achieved where the Group 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 results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the statement of income and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. If the cost

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognised directly in the statement of income in the year of acquisition.

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

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
UIB Capital Inc	100%	2004	United States of America
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.			
Unicorn International Islamic Bank Malaysia Berhad	100%	2004	Malaysia
UIB Capital Sdn Bhd was established in 2004 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.			
During the year, the Company has been granted an investment banking license by the Ministry of Finance of Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit. The company's name has consequently been changed from UIB Capital Sdn Bhd to Unicorn International Islamic Bank Malaysia Berhad.			
Unicorn Capital Limited	100%	2006	United Arab Emirates
Unicorn Capital Limited (formerly known as UIB Capital Limited) was granted a commercial license by the Dubai Financial Services Authority ("DFSA") 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.			
Unicorn Capital Menkul Degerler A.S.	81.77%	2007	Turkey
The Bank acquired 81.77% of Unicorn Capital Menkul Degerler A.S. (formerly known as Inter Yatirim Menkul Degerler A.S.) during the year. Its main activities are to provide investment consultancy, asset management, underwriting and brokerage services (note 11).			

2.2 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

Fair value is determined 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 quoted 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 net 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 equity 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.

2.3 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- IFRS 7 — Financial Instruments: Disclosures
- IAS 1 — Amendment – Presentation of Financial Statements
- IFRIC 8 — Scope of IFRS 2
- IFRIC 10 — Interim Financial Reporting and Impairment

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

Foreign currency translation

The consolidated financial statements are presented in United States Dollars which is the Bank's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the consolidated balance sheet date. All differences are taken to 'Other income' or 'Other operating expenses' in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies

As at the reporting date, the assets and liabilities of subsidiaries and associates are translated into the Bank's functional currency at the rate of exchange prevailing at the consolidated balance sheet date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

Financial instruments – initial recognition and subsequent measurement

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, assets held for sale and receivables from clients. Financial liabilities consist of due to financial institutions and other liabilities.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue.

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.

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 instalments 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 by the customer at a specified future date are recognised in the consolidated balance sheet as 'due from non banks'. The difference between the purchase price and sale price is recognised as 'income 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, investment securities are remeasured using the following policies:

(i) Investments carried at fair value through statement of income

Investments are classified as "carried at fair value through statement of income" if they are designated on the date of acquisition as carried at fair value through statement of income. The Group's venture capital ("VC") investments that fall under IAS 28 are also classified under IAS 39 as "investments carried at fair value through statement of income" by utilising the VC exemption in IAS 28. The Group's investments other than VC that fall under IAS 28 are classified as associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Investments carried at fair value through statement of income (continued)

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 remeasurement to fair value are included in the statement of income as "unrealised gain on investments carried at fair value through statement of income" and transferred to the fair value reserve in the consolidated statement of changes in equity. Upon realisation, these are transferred to retained earnings.

(ii) 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. They mainly include strategic equity instruments and sukuks.

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. The losses arising from impairment of such investments are recognised in the consolidated statement of income and are excluded from the consolidated statement of changes in equity. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Due to financial institutions

This represents funds payable to financial institutions on the principles of murabaha and wakala contracts and are stated at principal plus accrued profit payable.

Derecognition of financial assets and financial liabilities

Financial assets

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 retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- 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 assets, 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 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.

Financial liabilities

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

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of the financial assets that can be reliably estimated.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset. Profit continues to be accrued at the original effective profit rate on the reduced carrying amount of the asset and is recorded as part of "income from non banks". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated balance sheet when there is a legally enforceable or religious 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.

Recognition of income and expense

Income recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Income earned by the Group is recognised on the following bases:

Investment banking fees

Investment banking fees represent: (i) advisory and placement fees; (ii) structuring fees; (iii) arrangement and underwriting fees; and (iv) performance fees. The performance fees are recognised upon successful completion of the transaction, while the other 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 agreed profit.

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

For the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expense (continued)

Expense recognition

Expenses are recognised on the following bases:

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.

Amounts due to financial institutions

Amounts due to financial institutions are recognised on a time apportioned basis over the period of the contracts based on the principal amounts outstanding and the profit agreed with clients.

Zakah

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

Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise of cash and balances with banks, and amounts due from financial institutions with an original maturity of three months or less.

Investments in associates

The Bank's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Bank's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Bank has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The statement of income reflects the Bank's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Bank are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Assets held for sale

Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of their carrying amount or fair value less cost of sale.

Premises and equipment

Premises and equipment includes land, computers, office equipment, fixtures and fittings and vehicles. Excluding land, premises and equipment are recorded at cost less accumulated depreciation and land is recorded at fair value. Any land revaluation surplus is credited to the fair value reserve in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and related goodwill is recognised in the statement of income.

Impairment of non financial assets

The Group assesses at each reporting date if events or changes in circumstances indicate that the carrying value of a non financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in the recoverable amount in future periods.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Share based payment transactions

Eligible employees are entitled to invest in shares of the employee share purchase plan for services rendered and are classified as an equity settled share based payment transaction under IFRS 2.

The costs of equity settled share based payment transactions are recognised in the statement of income over the vesting period with the corresponding increases in equity, based on the best available estimate of the number of equity instruments expected to vest.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated balance sheet, as they are not the assets of the Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards which are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographic segments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

3. CASH AND BALANCES WITH BANKS

	2007	2006
Cash on hand	**10**	8
Balances with banks	**9,281**	15,129
	9,291	15,137

4. DUE FROM FINANCIAL INSTITUTIONS

	2007	2006
Murabaha receivables	**72,554**	90,502
Less: deferred profits	**(74)**	(699)
	72,480	89,803

Due from financial institutions represents murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2007 was equivalent to an average rate of 5.1% per annum (2006: 5.0% per annum).

5. DUE FROM NON BANKS

Subsequent to the year end the Bank has received US$32.017 million from its non bank clients.

6. INVESTMENT SECURITIES

	2007	2006
Carried at fair value through statement of income (note 6.1)	**149,094**	68,526
Available for sale investments at fair value:		
Quoted (note 6.2)	**56,649**	23,192
Unquoted (note 6.3)	**5,650**	31,738
	211,393	123,456

6.1 Investments carried at fair value through statement of income mainly include:

- US$53.8 million (2006: nil) investment in OS Cayman L.P. ("the Partnership"). The Partnership has acquired a 72.9% stake in Open-Silicon, Inc. which is a semiconductor services business in California that includes electronic design automation, speciality semiconductors assembly, text and packaging.

- US$38.5 million (2006: US$38.5 million) investment in Al Tajamouat for Touristic Projects, a listed real estate development company in the Kingdom of Jordan. The company is engaged in building an up-market shopping mall in Adboun, West Amman, which is scheduled to open in 2009.

- US$19.3 million (2006: US$15 million) in the Unicorn Global Private Equity Fund I. This is the Bank's first Private Equity Fund and is a 5 year, closed end fund based in Bahrain and regulated by the Central Bank of Bahrain. It invests in mature, profitable companies in consumer products, light manufacturing, health care and business services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

6. INVESTMENT SECURITIES (continued)

6.1 Investments carried at fair value through statement of income mainly include: (continued)

- US$14.9 million (2006: nil) investment in Teshkeel Media Group ("TMG"). TMG was established in 2004 as a Kuwait Shareholding Company by a group of 54 investors. TMG seeks to create consumer markets for new and established media formats such as animation, licensing and magazines.

- US$9 million (2006: nil) investment in Al Asria Industrial Holding Company, a holding company established in Kuwait that has investments in six industrial companies across the GCC.

- US$7.9 million (2006: nil) investment in the Unicorn Strategic Acquisition Fund. The strategy of the fund is to acquire strategic stakes in financial institutions.

6.2 Quoted available for sale investments include:

- US$42.1 million (2006: US$30.8 million) beneficial interest in the ordinary shares of Dar Al-Arkan Real Estate Development Company. During the year the company has been listed on the Tadawal stock exchange in the Kingdom of Saudi Arabia.

- US$14.5 million (2006: US$7.5 million) investment in the Investment Dar (Kuwait) US$150 million Musharaka Trust Sukuk that was issued in 2006 and matures on 20 September 2011.

6.3 Unquoted available for sale investments include:

- US$3.7 million (2006: nil) investment in Alpha Energy, a newly established company in Kuwait set up to take advantage of the rapid growth in the oil and energy industry. The core activities of Alpha Energy include the provision of energy services and products such as exploration, drilling and maintenance.

- US$1.9 million (2006: US$0.7 million) investment in Zouk Ventures Limited ("Zouk"), a technology venture capital fund established in London that invests in companies supporting the clean energy and environment services market.

7. INVESTMENTS IN ASSOCIATES

	2007	2006
Dawood Islamic Bank Limited (formerly known as First Dawood Islamic Bank)	**13,284**	11,124
T'azur B.S.C. (c)	**15,000**	-
	28,284	11,124

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

The Bank has a 25.86% interest in T'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. The company was granted a takaful license by the Central Bank of Bahrain on 8 November 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

7. INVESTMENTS IN ASSOCIATES (continued)

The summarised financial information in respect of the Bank's associates is set out below:

	2007	2006
Share of the associates balance sheet:		
Assets	39,828	11,124
Liabilities	(11,544)	-
Net assets	28,284	11,124
Carrying amount of the investment	28,284	11,124
Share of the associates revenue and profit:		
Revenue	723	-
Profit for the year	181	-

8. ASSETS HELD FOR SALE

	2007	2006
Victron (note 8.1)	23,032	-
The Gardens (assisted living property in California)	-	10,179
Ellington Leather (leather goods company in Oregon)	-	7,258
	23,032	17,437

8.1 Victron Inc. is a company based in California, USA that provides electronic manufacturing and supply chain management services to a variety of Original Equipment Manufacturers in the communications, networking, medical, automotive, consumer and wireless industries. As at 31 December 2007, Victron's total assets and liabilities amounted to US$77.0 million and US$47.6 million respectively and the minority interest resulting from the acquisition of the company amounted to US$5.9 million.

9. OTHER ASSETS

	2007	2006
Fees and recoverable expenses outstanding from clients	14,882	3,443
Prepayments and advances	2,905	1,186
Other	1,813	779
	19,600	5,408

10. PREMISES AND EQUIPMENT

Premises and equipment includes land, amounting to US$33.9 million acquired during the year. Subsequent to the acquisition, the Bank engaged accredited independent valuers to determine the fair value of the land. The fair value of the land was determined by reference to market based evidence and the date of the revaluation was 31 December 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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11. BUSINESS COMBINATION

On 17 January 2007, the Bank acquired a 75% equity interest in Inter Yatirim Menkul Degerler A.S., ("Inter Yatirim") an unlisted brokerage and asset management company based in Turkey, for a cash consideration of US$5.446 million, following the approvals by the Central Bank of Bahrain. The acquisition has been accounted for using the purchase method of accounting.

The fair value of the identifiable assets and liabilities of Inter Yatirim as at the date of acquisition were:

	Fair value recognised on acquistion	Carrying value (unaudited)
Cash and balances with banks	2,505	2,505
Investment securities	1,207	1,207
Other assets	3,680	4,105
Premises and equipment	2,155	2,716
Other liabilities	(5,040)	(5,040)
Net identifiable assets before minority interests	4,507	5,493
Minority interests	(124)	
Net identifiable assets after minority interests	4,383	
Net identifiable assets acquired (75%)	3,287	
Goodwill arising on acquisition	2,159	
Cost of acquisition	5,446	
Cash outflow on acquisition of the subsidiary		
Net cash acquired with the subsidiary	2,505	
Cash paid	(5,446)	
Net cash outfolw	(2,941)	

From the date of the acquisition, Inter Yatirim has contributed US$1.46 million to the operating income and a net loss of US$1.42 million to the operating results of the Group.

If the combination had taken place from the beginning of the year, the acquired company would have contributed US$1.53 million to the operating income and a net loss of US$1.47 million to the operating results of the Group.

Subsequent to the acquisition, Inter Yatirim's name has been changed to Unicorn Capital Menkul Degerler A.S. and the Bank has increased its stake to 81.77% by investing additional capital of US$2.2 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

12. DUE TO FINANCIAL INSTITUTIONS

	2007	2006
Murabaha payable	**45,649**	-
Wakala payable	**24,722**	-
	70,371	-

Wakala is an agency agreement whereby one party (the principal) places funds with another party (the agent) for investment by the agent on behalf of the principal in return for an agreed fee.

Subsequent to the year ended 31 December 2007, the Bank has successfully raised US$125 million in a 3 year syndicated commodity murabaha facility arranged on its behalf by Dubai Bank and Raiffeisen Zentralbank Osterreich AG (RZB). The funds raised will be used for general corporate purposes.

13. OTHER LIABILITIES

	2007	2006
Staff-related payables	**19,880**	10,577
Deal-related payables	**3,622**	10,399
Accrued expenses	**9,412**	1,762
Other payables	**1,899**	1,113
	34,813	23,851

14. SHARE CAPITAL

	2007	2006
Authorised:		
750,000,000 ordinary shares of US$ 1 each	**750,000**	750,000
Issued and fully paid:		
158,304,361 (2006: 140,304,361) ordinary shares of US$1 each, issued against cash	**158,305**	140,305
15,066,151 (2006: 13,896,151) ordinary shares of US$1 each, issued in kind	**15,066**	13,896
1,333,333 (2006: nil) ordinary shares of US$1 each, granted to employees (note 20)	**1,333**	-
	174,704	154,201

The 1.33 million shares granted to employees related to an employee share based grant that vested as of 31 December 2007. The legal formalities relating to this share grant were completed subsequent to the year end.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

14. SHARE CAPITAL (continued)

	No. of shares (thousands)	Nominal value
At 1 January 2006	112,884	112,884
Issued during the year	41,317	41,317
At 1 January 2007	**154,201**	**154,201**
Issued during the year	**20,503**	**20,503**
At 31 December 2007	**174,704**	**174,704**

15. 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.

16. 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 Bank 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.

17. PROPOSED DIVIDEND

At 31 December 2007 a cash dividend of US$0.10 per share (totalling US$17.471 million) and bonus shares of 5% (totalling US$8.735 million) have 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$15.420 million) was approved at the 2006 Annual General Meeting and was paid in 2007 following that approval.

18. INVESTMENT BANKING FEES

	2007	2006
Advisory and placement fees	**14,272**	16,360
Structuring fees	**28,755**	-
Arrangement and underwriting fees	**49,974**	-
Performance fees	**774**	-
	93,775	16,360

Structuring fees have been earned by the Bank under the terms of a mandate whereby it has assisted a client in structuring a transaction to place its capital through private placement. Included in the structuring fees is an amount of US$18.8 million (2006: nil), that was settled in kind by granting an interest in the OS Cayman L.P., a limited liability partnership established in the Cayman Islands that holds a 72.9% stake in Open-Silicon, Inc.

Notes to the Consolidated Financial Statements

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19. NET INCOME FROM FINANCIAL INSTITUTIONS

	2007	2006
Income due from financial institutions	**4,869**	6,358
Amounts due to financial institutions	**(1,883)**	-
Net income from financial institutions	**2,986**	6,358

20. STAFF COSTS: SHARE-BASED PAYMENTS

Staff costs include share-based payments of US$4 million. These relate to founder share grants awarded to founder employees of the Bank. There were 58 eligible employees for this scheme as at 31 December 2007. The shares were "free" Unicorn shares for which no exercise price was payable. These founder shares vested on 31 December 2007 to the eligible employees employed by the Bank at this date.

21. OTHER OPERATING EXPENSES

	2007	2006
General and adminitrative	**5,887**	2,276
Legal and professional	**4,012**	3,320
Business development	**2,349**	1,610
Bad debts	**1,823**	-
Premises	**1,410**	1,168
Advertising	**1,057**	1,356
Depreciation	**819**	646
Deal related	**461**	1,068
Other	**953**	794
	18,771	12,238

22. EARNINGS PER SHARE

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

	2007	2006
Net profit attributable to the shareholders of the parent	**50,099**	30,139
Total weighted average number of shares (thousands)	**168,542**	128,339
Basic earnings per share (US cents)	**29.7**	23.5
Diluted earnings per share (US cents)	**29.7**	23.5

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23. EQUITY TRANSACTION COSTS

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

	2007			2006		
	In cash	In kind	Total	In cash	In kind	Total
Sponsors	-	1,080	1,080	-	7,015	7,015
Founder members	270	90	360	1,782	1,762	3,544
Others	-	-	-	581	-	581
	270	1,170	1,440	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.

During the year US$1.44 million (2006: US$11.14 million) of equity transaction costs has been transferred to share premium.

24. ASSETS UNDER MANAGEMENT

	2007	2006
Proprietary	90,300	58,630
Clients	272,900	118,971
	363,200	177,601

Proprietary assets are included in the consolidated balance sheet under "investment securities". Client assets, which represent client investments are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated balance sheet.

25. COMMITMENTS

	2007	2006
Investment related		
Unicorn Strategic Acquisition Fund	22,500	-
Zouk Ventures Limited	3,002	4,062
Other	-	7,300
	25,502	11,362

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26. 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.

	2007	2006
Short term employee benefits	**19,086**	4,783
Post employment benefits	**971**	668
Share based payments	**1,830**	-
	21,887	5,451

The short term employee benefits incurred during the year include exceptional non recurring expenses of US$7 million (2006: nil).

Transactions, arrangements and agreements involving related parties

Related parties comprise major shareholders, directors and senior management personnel of the Group, members of the Shari'ah Supervisory Board of the Group, close members of their families and entities owned or controlled by them. Pricing policies and terms of the transactions relating to these related parties are approved by management.

Related parties also comprise the Group's investment companies and funds that hold clients' investments. The Group manages its investment companies and funds on a fiduciary basis on behalf of its clients, who are third parties and are the beneficiaries of a majority of the economic interest of the underlying investments in the investment companies and funds. All transactions with these investment companies and funds are undertaken on an arm's length basis and strictly in accordance with the related underlying contracts.

	2007			2006		
	Shareholders/ Directors	**Senior management**	**Other entities**	Shareholders/ Directors	Senior management	Other entities
Assets						
Due from non banks	**-**	**-**	**32,017**	-	-	27,883
Investment securities	**-**	**-**	**136,301**	-	-	50,835
Investment in associates	**-**	**-**	**28,284**	-	-	11,124
Other assets	**-**	**71**	**13,569**	-	138	2,782
Liabilities						
Other liabilities	**-**	**-**	**5,826**	9	-	10,412
Shareholders' equity						
Equity transaction costs	**360**	**1,080**	**-**	7,972	1,417	-

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

	2007	2006
Investment banking fees	**84,101**	13,767
Income from non banks	**4,134**	1,080
Gain on sale of investment securities	**6,358**	-
Loss on investments carried at fair value through statement of income	**(844)**	-
Dividend income	**2,387**	905
Management fees	**2,751**	1,952
Directors' remuneration	**541**	375
Shari'ah supervisory board remuneration and expenses	**285**	272

Outstanding balances at the year end arise in the normal course of business.

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For the year ended 31 December 2007

27. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to investment and credit risk, market risk, liquidity risk and operational risks, as well as concentration risk and other external business risks. The Group's ability to properly identify, measure, monitor and report risk is a core element of the Group's operating philosophy and profitability.

- Risk identification: The Group's exposure to risk through its business activities, including investment in private equity, asset management, strategic mergers and acquisitions, corporate finance and capital markets, is identified through the Group's risk management infrastructure. This process continues to be strengthened through expansion of the Group's risk management resources.

- Risk measurement: The Group measures risk using basic risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks.

- Risk monitoring: The Group's risk management policies and procedures incorporate risk appetite statements, converted to a range of limits appropriate to the Group's business model. Key areas of the Group's activities are subject to monitoring limits which are regularly reviewed.

- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. The information is reported to the Asset and Liability Committee (ALCO) and the Risk Committee of the Group on a regular basis.

Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board of Directors reviewed and approved the Group's Risk Framework policies and risk development strategies in December 2007. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework by establishment of business risk mandates.

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Shari'ah Supervisory Board

The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

Risk Committee

The Risk Committee has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, within the framework of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework' (Basel II) recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Asset and Liability Committee (ALCO)

The Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the heads of all key business areas and finance, risk, operations and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the balance sheet mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

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27. RISK MANAGEMENT (continued)

Risk Management

Risk Management is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. It is managed independently from the business lines and conducts risk assessments of strategic developments and business area plans, products and services. It is responsible for the implementation of the Group's Business Change Implementation Guidelines, which defines the principles by which new strategies, products, systems and processes are developed in a systematic and co-ordinated fashion and for implementing control and compliance processes for use by the wider businesses involved in control and operational activities (principally Finance, Compliance, Information Technology and Operations).

The unit is also responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk.

Treasury

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO. Treasury combines the role of hedging and market risk management with the development of Shari'ah-compliant treasury products and services for customers.

The treasury activity is currently restricted to short term placement of surplus funds and no trading activity takes place. It is therefore not necessary to apply sophisticated risk management techniques. Risk Management conducts position monitoring for profit rate and foreign exchange exposure purposes, subject to continual review by ALCO, and ALCO reviews the Group's liquidity.

Capital Markets and Institutional Banking

Capital Markets and Institutional Banking is responsible for the development of the Group's medium and long term funding capability and the establishment of all key inter-bank and financial institution relationships. Institutional Banking undertakes diversification strategies to widen the Group's funding base, reduce geographical exposure risks and concentration risks in its banking line development activities.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the strategies of the Group, the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Group's Risk Committee, which Internal Audit attends as an independent observer.

Investment Risk

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective investment departments. The Group's investments in private equity are by definition in illiquid markets, frequently in emerging markets. Such investments cannot generally be hedged or liquidated easily. Consequently, the Group seeks to mitigate its risks via more direct means. Post investment risk management is rigorously exercised, mainly via board representation within the investee company, during the life of the private equity transaction. Periodic reviews of investments are undertaken and presented to the Investment and Post Investment Management Committee for review. Concerns over risks and performance are addressed via the investment area responsible for managing the investment under the oversight of the Investment and Post Investment Management Committee. Non proprietary investment risks are identified and assessed via the Group's due diligence teams.

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27. RISK MANAGEMENT (continued)

Risk identification and monitoring

The Group has currently adopted basic risk identification measures, reflecting the characteristics of the Group's business model:

Business	Risk profile	Risk strategies
Private equity	Investment risk	The Group conducts extensive due diligence activities and risk management exercised directly through Board representation
Capital markets	Mainly non proprietary risk; finance structured for customers	The Group conducts extensive due diligence activities and risk management only for proprietary investments
Treasury	Inter-bank placements and deposits	The Group conducts counterparty risk reviews via Institutional Banking; limits are agreed by ALCO
Asset management	Mainly non proprietary risk; funds managed on behalf of customers	The Group conducts extensive due diligence activities and risk management only for proprietary investments
Corporate finance	Non proprietary risk; business is advisory in nature	The Group conducts extensive due diligence activities
Strategic mergers & acquisitions	Proprietary investment risk and fiduciary risk (via funds under management)	The Group conducts extensive due diligence activities

Risk Concentration

Concentrations arise 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 Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. Identified concentrations of investment and funding risks are controlled and managed accordingly.

28. CREDIT RISK

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related parties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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28. CREDIT RISK (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet. There is no significant use of master netting and collateral agreements.

	Gross maximum exposure 2007	Gross maximum exposure 2006
Balances with banks	**9,281**	15,129
Due from financial institutions	**72,480**	89,803
Due from non banks	**43,158**	27,883
Investment securities – sukuks	**14,500**	7,500
Other assets - receivable from clients	**14,882**	3,443
	154,301	143,758
Commitments on behalf of a related party	**-**	7,300
Total credit risk exposure	**154,301**	151,058

Risk concentration of the maximum exposure to credit risk

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2007 was US$37.6 million (2006: US$28.7 million).

The analysis by geographical region of the Group's financial assets having credit risk exposure are as follows:

	Banks & financial institutions 2007	**Others 2007**	**Total 2007**
Bahrain	**63,626**	**1,456**	**65,082**
Other Middle East	**62,085**	**728**	**62,813**
North America	**15,699**	**723**	**16,422**
Asia Pacific	**4,400**	**85**	**4,485**
Europe	**4,966**	**533**	**5,499**
	150,776	**3,525**	**154,301**

	Banks & financial institutions 2006	Others 2006	Total 2006
Bahrain	90,580	2,091	92,671
Other Middle East	38,220	7,979	46,199
North America	2,883	275	3,158
Asia Pacific	1,208	522	1,730
Europe	-	-	-
	132,891	10,867	143,758

Collateral and other credit enhancements

The Group has no material usage of collateral or other credit enhancements as these are not acceptable within the Group's Islamic banking business model.

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28. CREDIT RISK (continued)

Credit quality per class of financial assets

The Group does not currently apply a standard credit rating to its investment business. The Group assesses investment quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of materially standard quality as at 31 December 2007.

29. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity management

Liquidity is defined as the Group's ability to make payments, when they fall due. When the Group cannot raise funds to meet its obligations at market rates, it faces a liquidity crisis. This may reflect: poor performance; severe tightening of market liquidity; general deterioration in credit of the Group in the view of the financial markets; a failure to manage the cashflows of the Group's assets and liabilities to meet short term funding requirements; or a serious lack of profitability.

Liquidity methodology

The key features of the Group's liquidity methodology are:

- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day to day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

- ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.

- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed balance sheet requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon.

- ALCO has determined that it is prudent to hold liquid assets representing at least 120% of liquidity requirements for normal business purposes and 150% for a crisis scenario. This means that the Group holds a significant buffer to protect against further unforeseen liquidity requirements.

- ALCO manages the Group's liquidity position according to the following risk dashboard methodology to highlight management concerns:

Risk dashboard	Normal business scenario	Crisis scenario	Actions due
Green	Higher than 120%	Higher than 150%	Position acceptable
Amber	Greater than 110%, less than 120%	Greater than 110% less than 150%	Breach of soft limit; ALCO monitors position closely and recommends reprioritisation of investment decisions
Red	Less than 110%	Less than 110%	Breach of Board limit; ALCO considers whether to invoke liquidity contingency plan

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29. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Liquidity strategy

ALCO ensures that the Group continues to sustain its growth strategy and to meet its ongoing obligations when due by closely managing liquidity. The Group's core liquidity objectives are:

Liquidity strategy	Note
Obtain medium term funding	The Bank closed its first 3 year medium term funding financing in January 2008, totalling US$125 million.
Issue further equity capital	Further capital raising will be considered in 2008, depending on market conditions.
Expand and diversify short term funding	The Group is actively expanding its short term funding capacity following the success of its medium term financing.
Establish committed standby credit facilities	Standby facility to be addressed during 2008.

Liquidity contingency plan

In the event of a liquidity crisis, the Group's liquidity framework defines a methodology and operational plan for ensuring adequate funds continue to be available. In summary, the liquidity contingency plan establishes roles and responsibilities for crisis identification and co-ordination; assessment of the severity and implications of the crisis; determination of the cash flow requirements; determination of investment liquidation requirements under fire sale conditions and necessary emergency finance; and management of corporate communications with external parties, regulators and the media.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Note 32 (Maturity analysis of assets and liabilities) shows the expected maturities of these liabilities.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
As at 31 December 2007					
Due to financial institutions	**39,923**	**-**	**30,448**	**-**	**70,371**
Other liabilities	**173**	**19,037**	**12,600**	**3,003**	**34,813**
Total financial liabilities	**40,096**	**19,037**	**43,048**	**3,003**	**105,184**
Total undiscounted financial liabilities	**40,096**	**19,600**	**43,295**	**3,003**	**105,994**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
As at 31 December 2006					
Due to financial institutions	-	-	-	-	-
Other liabilities	139	11,118	-	12,594	23,851
Total financial liabilities	139	11,118	-	12,594	23,851
Total undiscounted financial liabilities	139	11,118	-	12,594	23,851

Notes to the Consolidated Financial Statements

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29. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2007						
commitments	**25,502**	**-**	**-**	**-**	**-**	**25,502**
Total	**25,502**	**-**	**-**	**-**	**-**	**25,502**
2006						
commitments	4,062	7,300	-	-	-	11,362
Total	4,062	7,300	-	-	-	11,362

30. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non trading portfolios. The Group does not currently engage in trading activity. Non-trading positions are managed and monitored using sensitivity analysis. The Group maintains significant market risk exposures arising from its foreign currency investments.

Market Risk: Trading (including financial assets carried at fair value through statement of income)

Equity price risk

Equity price risk is the risk that the fair value of equities decrease as the result of adverse changes in equity prices or indices, or fair value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration and by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Group. As at 31 December 2007, a 5% change in the equity price of investments carried at fair value through statement of income, with all other variables constant, would have resulted in a US$7.45 million (2006: US$3.43 million) impact on the statement of income.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that they are maintained within established limits.

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30. MARKET RISK (continued)

Currency risk (continued)

The table below depicts foreign currency investments that are carried at fair value through statement of income and are subject to foreign exchange risk. The analysis below shows the impact of a 5% movement in the currency rate against the United States Dollar, with all other variables held constant on the statement of income.

Currency	**Exposure (US$ equivalent) 2007**	**Effect on net income (+/-) 2007**	Exposure (US$ equivalent) 2006	Effect on net income (+/-) 2006
Jordanian Dinar	**38,525**	**1,926/(1,926)**	38,525	1,926/(1,926)
Kuwaiti Dinar	**23,918**	**1,196/(1,196)**	-	-
United Arab Emirates Dirham	**1,485**	**74/(74)**	-	-

Market Risk: Non-trading

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. All outstanding treasury and capital market investments as at 31 December 2007 had repricing dates no longer than 6 months. The Group's assets and liabilities that are exposed to profit rate risk include: due from financial institutions, due from non banks, sukuks and due to financial institutions. As at 31 December 2007, a 5% change in the profit rate risk, with all other variables constant, would have resulted in a US$2.99 million (2006: US$6.26 million) impact on the statement of income.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that positions are maintained within established limits.

The table below indicate the currencies (other than foreign currency investments that are carried at fair value through statement of income) to which the Group had significant exposure at 31 December 2007. The analysis shows the impact of a 5% movement in the currency rate against the United States Dollar, with all other variables held constant on the statement of income or the statement of changes in equity.

Currency	**Exposure (US$ equivalent) 2007**	**Effect on net income (+/-) 2007**	**Effect on equity (+/-) 2007**	Exposure (US$ equivalent) 2006	Effect on net income (+/-) 2006	Effect on equity (+/-) 2006
Kuwaiti Dinar	**35,663**	**1,601/(1,601)**	**182/(182)**	27,883	1,394/(1,394)	-
Pakistan Rupee	**13,284**	**-**	**664/(664)**	11,124	-	556/(556)
Turkish Lira	**4,650**	**-**	**232/(232)**	-	-	-
Malaysian Ringgit	**3,113**	**-**	**156/(156)**	389	-	19/(19)
Euro	**1,908**	**-**	**95/(95)**	738	-	37/(37)

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30. MARKET RISK (continued)

Equity price risk

Equity price risk is the risk that the fair value of equities decrease as the result of adverse changes in equity prices or indices, or fair value in the case of unquoted equities. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration and by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Group.

The effect of equity price risk (as a result of a change in the fair value of financial instruments held as available for sale) on statement of changes in equity due to a 5% change in equity prices, with all other variables held constant, is as follows:

	Equity exposure 2007	**Effect on statement of equity 2007**	Equity exposure 2006	Effect on statement of equity 2006
Quoted	**42,149**	**2,107/(2,107)**	15,692	785/(785)
Unquoted	**5,650**	**283/(283)**	31,738	1,587/(1,587)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected.

The Group is not exposed to any significant prepayment risk.

31. OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

The Group manages operational risks by establishing a risk framework establishing controls and policies defining process and activity standards. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2007	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	9,291	-	-	-	-	-	9,291
Due from financial institutions	63,587	8,893	-	-	-	-	72,480
Due from non banks	32,017	11,141	-	-	-	-	43,158
Investment securities	-	-	-	56,745	154,648	-	211,393
Investments in associates	-	-	-	-	28,284	-	28,284
Assets held for sale	-	-	23,032	-	-	-	23,032
Other assets	-	17,247	-	1,345	-	1,008	19,600
Premises and equipment	-	-	-	-	-	37,272	37,272
Goodwill	-	-	-	-	-	2,159	2,159
Total assets	104,895	37,281	23,032	58,090	182,932	40,439	446,669
LIABILITIES							
Due to financial institutions	39,923	-	30,448	-	-	-	70,371
Other liabilities	173	19,037	6	12,594	973	2,030	34,813
Total liabilities	40,096	19,037	30,454	12,594	973	2,030	105,184
Net liquidity gap	64,799	18,244	(7,422)	45,496	181,959	38,409	341,485
Net cumulative gap	-	83,043	75,621	121,117	303,076		

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
Goodwill	-	-	-	-	-	-	-
Total assets	41,963	89,462	10,000	38,477	98,702	14,738	293,342
LIABILITIES							
Due to financial institutions	-	-	-	-	-	-	-
Other 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
Net cumulative gap	-	120,168	130,168	168,645	256,082		

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33. SEGMENT INFORMATION

For management purposes, the Group is organised into two business segments:

Investment banking	Provision of investment banking services, including financial advisory services; private equity; debt structuring and placement; and mergers and acquisitions.
Other	Treasury and other central functions

The Group's geographical segments are based on the location of the Group's assets and origination of its income.

Business segment information

	Investment banking 2007	**Other 2007**	**Total 2007**	Investment banking 2006	Other 2006	Total 2006
Income						
Investment banking fees	**93,775**	**-**	**93,775**	16,360	-	16,360
Net income from financial institutions	**-**	**2,986**	**2,986**	-	6,358	6,358
Income from non banks	**5,067**	**-**	**5,067**	1,080	-	1,080
Gain on sale of investment securities	**11,851**	**-**	**11,851**	24,018	-	24,018
(Loss)/gain on investments carried at fair value through statement of income	**(844)**	**-**	**(844)**	12,910	-	12,910
Gain on sale of assets held for sale	**1,335**	**-**	**1,335**	-	-	-
Dividend income	**2,793**	**-**	**2,793**	2,172	-	2,172
Management fees	**2,751**	**-**	**2,751**	1,952	-	1,952
Share of profit of associates	**181**	**-**	**181**	-	-	-
Other income	**-**	**2,146**	**2,146**	-	2,092	2,092
Total income	**116,909**	**5,132**	**122,041**	58,492	8,450	66,942
Staff costs	**46,800**	**6,879**	**53,679**	19,775	4,790	24,565
Other operating expenses	**17,385**	**1,386**	**18,771**	9,043	3,195	12,238
Net profit/(loss)	**52,724**	**(3,133)**	**49,591**	29,674	465	30,139
Assets and liabilities						
Segment assets	**279,953**	**138,432**	**418,385**	168,776	113,442	282,218
Investments in associates	**28,284**	**-**	**28,284**	11,124	-	11,124
Total assets	**308,237**	**138,432**	**446,669**	179,900	113,442	293,342
Segment liabilities	**10,907**	**94,277**	**105,184**	12,139	11,712	23,851
Total liabilities	**10,907**	**94,277**	**105,184**	12,139	11,712	23,851
Other segment information						
Capital expenditure						
Premises and equipment	**-**	**34,433**	**34,433**	-	858	858
Goodwill	**2,159**	**-**	**2,159**	-	-	-
Depreciation	**-**	**819**	**819**	-	646	646
Loss on investments carried at fair value through statement of income	**844**	**-**	**844**	-	-	-

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33. SEGMENT INFORMATION (continued)

Geographical segment information

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's net income, total assets and capital expenditure by geographical segments, based on the location in which the transactions and assets are recorded, for the years ended 31 December 2007 and 2006.

	Bahrain 2007	Other Middle East 2007	North America 2007	Asia Pacific 2007	Europe 2007	Total 2007
Income						
Investment banking fees	1,548	70,473	21,754	-	-	93,775
Net income from financial institutions	2,830	83	73	-	-	2,986
Income from non banks	-	5,067	-	-	-	5,067
Gain on sale of investment securities	1,196	10,168	487	-	-	11,851
Gain on sale of assets held for sale	-	-	1,335	-	-	1,335
(Loss)/gain on investments carried at fair value through statement of income	(844)	-	-	-	-	(844)
Dividend income	-	2,750	32	11	-	2,793
Management fees	1,076	1,675	-	-	-	2,751
Share of profits of associates	-	-	-	181	-	181
Other income	704	(91)	-	69	1,464	2,146
Total income	6,510	90,125	23,681	261	1,464	122,041
Staff costs	50,073	609	1,633	108	1,256	53,679
Other operating expenses	12,793	852	2,563	427	2,136	18,771
Net (loss)/profit	(56,356)	88,664	19,485	(274)	(1,928)	49,591
Total assets	152,183	174,745	95,718	18,130	5,893	446,669
Capital expenditure						
Premises and equipment	33,931	272	41	(51)	240	34,433
Goodwill	-	-	-	-	2,159	2,159

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33. SEGMENT INFORMATION (continued)

Geographical segment information (continued)

	Bahrain 2006	Other Middle East 2006	North America 2006	Asia Pacific 2006	Europe 2006	Total 2006
Income						
Investment banking fees	-	16,360	-	-	-	16,360
Net income from financial institutions	6,358	-	-	-	-	6,358
Income from non banks	-	1,080	-	-	-	1,080
Gain on sale of investment securities	-	24,018	-	-	-	24,018
Gain on sale of assets held for sale	-	-	-	-	-	-
(Loss)/gain on investments carried at fair value through statement of income	-	12,910	-	-	-	12,910
Dividend income	912	-	1,250	10	-	2,172
Management fees	1,952	-	-	-	-	1,952
Other income	1,997	-	-	95	-	2,092
Total income	11,219	54,368	1,250	105	-	66,942
Staff costs	23,203	154	1,005	203	-	24,565
Other operating expenses	11,106	79	873	180	-	12,238
Net (loss)/profit	(23,090)	54,135	(628)	(278)	-	30,139
Total assets	286,415	2,014	3,188	1,725	-	293,342
Capital expenditure						
Premises and equipment	775	44	39	-	-	858
Goodwill	-	-	-	-	-	-

34. SOCIAL RESPONSIBILITIES

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

35. 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 2007 was US$0.03 per share (31 December 2006: US$0.02 per share).

36. CAPITAL

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the Central Bank of Bahrain.

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36. CAPITAL (continued)

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy guidelines issued by the Central Bank of Bahrain, is as follows:

	2007	2006
Regulatory capital base:		
Tier 1 capital	**276,343**	231,756
Tier 2 capital	**16,550**	10,042
Total regulatory capital	**292,893**	241,798
Risk-weighted assets	**442,988**	341,493
Tier 1 capital adequacy ratio	**62.38%**	67.87%
Total capital adequacy ratio	**66.12%**	70.81%

Tier 1 capital comprises: share capital; share premium; statutory reserve; foreign currency translation reserve; retained earnings, including current year profit; minority interests less accrued dividends and goodwill. Certain adjustments are made to IFRS based results and reserves, as prescribed by the Central Bank of Bahrain. Tier 2 capital comprises 45% of fair value reserves.

The above information is based on the Central Bank of Bahrain prudential returns regulations, applicable as at the balance sheet date. The Group's capital adequacy ratio as at 31 December 2007 under the new Basel II requirements was 44.7%.