2007 ANNUAL REPORT

Unicorn
Investment Bank

H.H. Shaikh Khalifa bin Salman Al Khalifa

Prime Minister

H.M. King Hamad bin Isa Al Khalifa

King of Bahrain

H.H. Shaikh Salman bin Hamad Al Khalifa

Crown Prince and Commander-in-Chief of the Bahrain Defence Force

UNICORN INVESTMENT BANK B.S.C. (c)

CONTENTS

FOUNDED IN 2004 AND HEADQUARTERED IN BAHRAIN, UNICORN INVESTMENT BANK (UNICORN) IS AN ISLAMIC INVESTMENT BANK, WITH AN INTERNATIONAL PRESENCE IN THE UNITED STATES, MALAYSIA, THE UNITED ARAB EMIRATES AND TURKEY. UNICORN SEEKS TO DELIVER EXCEPTIONAL VALUE TO CLIENTS AND SHAREHOLDERS THROUGH A FOCUS ON INNOVATION, PROFESSIONALISM AND INTEGRITY – THE SHARED VALUES THAT DRIVE THE BANK'S ENDEAVOUR TO BE A LEADING GLOBAL PROVIDER OF SHARI'AH-COMPLIANT INVESTMENT BANKING PRODUCTS AND SERVICES. TO DATE, UNICORN HAS ADVISED, STRUCTURED AND SUCCESSFULLY PLACED DEALS WITH A TOTAL VALUE OF OVER US$3.3 BILLION.

Board of Directors

Yousef A. Al-Shelash
Chairman

Hethloul Saleh Al-Hethloul

Bader Sulaiman Al-Jarallah

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

Abdullatif Abdullah Al-Shalash

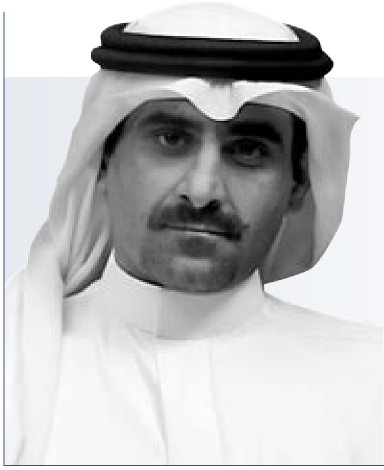
Ayman Abdullah Boodai

Bader Abdulaziz Kanoo

Ayman Amin Sejiny

Waleed Ahmad Al-Sharhan

Chairman's Message



On behalf of the Board of Directors of Unicorn Investment Bank, I am delighted to report another year of record financial performance. In just over three and a half years since Unicorn commenced operations, it has recorded four consecutive years of profitability. In 2007, the Bank achieved earnings of US$122.0 million, an increase of 82% from US$66.9 million in 2006. The net profit attributable to Unicorn shareholders increased by 66%, from US$30.1 million in 2006 to US$50.1 million in 2007. The Board of Directors is therefore pleased to recommend a dividend payment to shareholders of US$0.10 per share and a 5% bonus share issue.

During the year, Unicorn successfully closed a number of landmark transactions, strengthened each of its core business lines, reinforced its infrastructure through a series of important internal initiatives and continued to expand its geographic and operational presence in key international markets. These strategic developments have significantly strengthened Unicorn's operating capability and have brought the Bank ever closer to achieving its vision of building a leading global Islamic investment bank.

Clearly, as Unicorn continues to grow, so do the Bank's responsibilities towards its stakeholders. Unicorn remains committed to implementing the highest standards of ethical conduct throughout its operations and in each of its relationships. The Bank places the utmost importance on effective corporate governance, complete transparency, sound corporate disciplines and comprehensive risk management. This approach enhances the Bank's capability to achieve sustainable growth and establish enduring value over the long-term. In this regard, I would like to take the opportunity to highlight a number of internal initiatives that were implemented in 2007 which I am confident have left Unicorn better placed to achieve its vision and objectives.

Firstly, I am pleased to report the successful implementation of the first phase of the Unicorn Partnership Development Programme (PDP), a long-term management and incentive scheme that will see Unicorn employees owning 20% of the Bank over the next few years. During the course of 2007, US$4 million of Unicorn shares were distributed to employees who joined the Bank during the first 18 months of its operation. These founder shares were granted in recognition of the outstanding contribution made by Unicorn's founding employees during the Bank's critical start-up phase and in appreciation of their belief in and commitment to the concept and the potential of Unicorn. The PDP is a central element of Unicorn's performance management and employee retention system and will be fully rolled out during the course of 2008

"DURING THE YEAR, UNICORN SUCCESSFULLY CLOSED A NUMBER OF LANDMARK TRANSACTIONS, STRENGTHENED EACH OF ITS CORE BUSINESS LINES, REINFORCED ITS INFRASTRUCTURE THROUGH A SERIES OF IMPORTANT INTERNAL INITIATIVES AND CONTINUED TO EXPAND ITS GEOGRAPHIC AND OPERATIONAL PRESENCE IN KEY INTERNATIONAL MARKETS."

through a series of share grant, share option and discounted share purchase programmes.

Secondly, 2007 saw further development of the Bank's governance and risk management infrastructure. During the course of the year, the Board received familiarisation training in Basel II, marking the first stage of a comprehensive Board training and development programme that will be rolled out in 2008. The Board also completed a full review of the Bank's risk management framework and approved the principal measures governing the Bank's approach to managing credit, market, liquidity and operational risks in accordance with Basel II requirements. The Bank's Asset and Liability Committee took important steps to strengthen Unicorn's liquidity strategy, primarily through the establishment of interbank funding lines as well as the planning and implementation of Unicorn's oversubscribed inaugural 3-year US$125 million syndicated commodity Murabaha facility that was successfully closed in January 2008. The Bank also made significant progress in rolling out its capital adequacy strategy in compliance with the Central Bank of Bahrain (CBB) Basel II regulations for Islamic banks that came into effect on 1 January 2008. I am confident that these measures will ensure that Unicorn continues to operate at the very highest international standards as has been our aim from the Bank's inception.

Finally, I am pleased to announce the establishment of a new Operations division which, under the direction of Unicorn's newly-appointed Chief Operations Officer and supported by the Bank's new core banking system, will be tasked with re-engineering the Bank's deal flow processes and establishing strong customer and client relations support. The Bank has further addressed the automation of its 'Know Your Customer' compliance management processes to ensure that the automated capture of all anti-money laundering customer information is built into the Bank's core processes and systems.

Looking forward to the year ahead and beyond, our vision for Unicorn remains both simple and consistent: to set new standards of operational and product excellence in Shari'ah-compliant investment banking. We are grateful to all those who continue to facilitate our journey and guide our success: the Central Bank of Bahrain for its support; the Shari'ah Supervisory Board for their invaluable counsel; the Bank's shareholders and clients for their trust and confidence in Unicorn; and the Unicorn family – almost 140 employees across three continents who continue to work tirelessly to build a leading global Islamic investment bank.

Yousef Abdullah Al-Shelash
Chairman

CEO's Message

Unicorn's success in 2007 comes against the backdrop of a volatile global economy which continues to feel the effects of the US sub-prime mortgage crisis and its impact on global financial liquidity. Fortunately, the Islamic finance industry has, by its nature, been largely insulated from the credit turbulence, thereby demonstrating the inherent advantage of a banking system that requires all transactions to be backed by real underlying physical assets.

During the year, Unicorn's continued focus on disciplined growth, prudent risk management, sound corporate governance and investment in people, research and technology brought out the best at every level of the Bank. It gives me great pride to report that for the first time since Unicorn's inception, all of the Bank's business lines made a positive contribution to the Bank's financial results. This is an important milestone for Unicorn and brings us another step closer to realising our vision of building a full-service Islamic investment bank providing a complete range of competitive Shari'ah-compliant investment banking products and services to a global client base.

I am also pleased to report that Unicorn significantly advanced its international expansion strategy during the year. In January, Unicorn acquired a 75% stake in a Turkish brokerage and asset management company, Inter Yatirim Menkul Değerler A.Ş. (now renamed Unicorn Capital Menkul Değerler A.Ş.). We made rapid progress in restructuring and refocusing the activities of Unicorn Capital Turkey during the year and in December increased our stake in the company to 81.8%.

In Strategic Mergers & Acquisitions (SM&A), the Bank successfully launched two landmark initiatives in 2007. In November, following two years of intensive research, due diligence and capital raising, we completed a major business initiative to establish T'azur, an independent regional Takaful company. We also completed the initial capital raise for the Strategic Acquisition Fund, with a select group of investors committing US$150 million towards Unicorn's target of creating a US$1 billion fund to acquire strategic stakes in and manage commercial banks both regionally and internationally.

The SM&A division also led the Bank's successful efforts to upgrade our operating licence in Malaysia. In December, Unicorn became the first foreign bank to obtain a licence to establish an international Islamic banking subsidiary, Unicorn International Islamic Bank Malaysia Berhad, under the Malaysian International Islamic Financial Centre (MIFC) initiative. This licence enables us to conduct a full range of non-Malaysian Ringgit investment banking activities in Malaysia.

"THE SIGNIFICANT ACHIEVEMENTS MADE BY EACH OF OUR BUSINESS LINES REFLECT OUR FOCUSED APPROACH AND UNWAVERING COMMITMENT TO BUILDING A FULL-SERVICE SHARI'AH-COMPLIANT INVESTMENT BANKING MODEL. WITH EACH OF THE BUSINESS LINES NOW ACTIVELY CONTRIBUTING TO THE BANK'S PROFITABILITY, THE BUILDING BLOCKS OF UNICORN'S GROWTH STRATEGY ARE FIRMLY IN PLACE."

In Capital Markets, 2007 was a transformational year which saw the division successfully close two groundbreaking Sukuk transactions with a total value of US$1.6 billion on behalf of leading Saudi residential real estate developer Dar Al-Arkan Real Estate Development Company. Unicorn was the Joint Lead Manager, Underwriter and Bookrunner and the sole Structuring Agent and Shari'ah Advisor on both transactions.

In Private Equity, the Bank successfully exited its earliest transaction, a private equity investment in The Gardens Residential Community in California, providing investors with an Internal Rate of Return (IRR) of 21%. In December, we completed two major technology sector investments in the United States: the acquisition of a 72.9% stake in Open-Silicon, Inc., a market leader in chip design and outsourced manufacturing services; and the acquisition of an 80% stake in Victron, Inc., a specialty provider of electronics manufacturing services (EMS). The Unicorn Global Private Equity Fund completed its fourth investment to date, in Kuwait-based Al-Assriya Industries Holding Company.

Corporate Finance continued to make an important contribution to the Bank's revenue streams, and in 2007 worked actively on a major advisory mandate by a leading client in the Kingdom of Saudi Arabia to develop and advise on the implementation of a strategic business expansion plan.

Asset Management went through a significant restructuring process during the year, including the hiring of several new specialists with extensive regional and international experience in public securities and real estate. The Bank also successfully exited Unicorn KSA Real Estate Fund I, providing investors with an IRR of 15.5 % per annum compared with the original anticipated IRR of 10% per annum.

The significant achievements made by each of our business lines reflect our focused approach and commitment to building a full-service Shari'ah-compliant investment bank. With each of the business lines now actively contributing to the Bank's profitability, the building blocks of Unicorn's growth strategy are firmly in place.

I would also like to take this opportunity to highlight an important internal development: the separation of Treasury from our Capital Markets division and the establishment of an independent Treasury function which in 2008 will begin to operate as a fully fledged profit centre and Unicorn's sixth business line. In addition to supporting Unicorn's business activities and providing another profit stream for the Bank, Treasury will also play an increasingly vital role in managing and advising on the Bank's liquidity, funding and hedging needs. This role, under the guidance of the Bank's Asset and Liability Committee (ALCO), is essential in helping the Bank to leverage its balance sheet to support the business growth of its business lines, particularly Private Equity, Asset Management and SM&A.

As a lifelong proponent of the potential of Shari'ah-compliant banking, it gives me an enormous sense of pride to see the rapid progress that the industry continues to make. We are seeing a growing number of participants, more product development and increased cross-border collaboration and cooperation with international banks. Industry participants continue to raise the bar, giving rise to unprecedented levels of innovation and excellence. Unicorn intends to be at the forefront of these encouraging developments and is committed to driving progress and change in the industry.

The Bank has posted four years of profitability in just over three and a half years of operation and enters the year ahead with great momentum and with enthusiasm for the opportunities and challenges to come. Our plans are ambitious, our approach is dynamic and our team is both committed and proactive. In 2008, with Allah's grace, our progress will remain guided by a well-defined strategy and a clear vision of the Bank's potential.

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

Financial Review

Summary of Financial Performance

(US$ millions)	2007	2006
Investment banking fees	93.77	16.36
Other operating income	28.27	50.58
Operating income	122.04	66.94
Operating expenses	(72.45)	(36.80)
Net profit	49.59	30.14
Net loss attributable to minority interests	0.51	-
Net profit attributable to Unicorn shareholders	50.10	30.14
Earnings per share (US cents)	29.7	23.5

Unicorn Investment Bank produced record results in 2007, marking just over three and a half years of strong uninterrupted growth since the Bank's inception in 2004. The Bank's deal flow and associated revenue streams continued to grow in 2007 as Unicorn broadened its business activities and further enhanced its name and reputation in the market. Operating income, net profit and earnings per share reached all time highs, and the Bank met all of its key 2007 business plan targets.

The net profit attributable to Unicorn shareholders in 2007 of US$50.1 million was US$20.0 million or 66.2% higher than 2006. The Bank achieved a series of groundbreaking transactions in 2007 and, for the first time since the Bank's inception, all five business lines were profitable.

Operating income grew by 82.3% to US$122.0 million, driven by strong growth in most business areas. Operating expenses increased by 96.9% to US$72.4 million, as the Bank expanded into new markets and increased its business activities. The cost:income ratio increased to 59.4%, but remained within the Bank's 50-60% target range for operational efficiency. Earnings per share improved by 26.4%, to US29.7 cents, despite a 31.3% increase in the weighted average number of shares in issue. The return on average equity similarly improved by 1.4 percentage points (8.6%) to 17.6%, despite a 52.2% increase in average shareholders' equity.

Investment Banking Fee Income

(US$ millions)	2007	2006
Advisory and placement fees	14.27	16.36
Structuring fees	28.76	-
Arrangement and underwriting fees	49.97	-
Performance fees	0.77	-
Total investment banking fees	93.77	16.36

Investment banking fee income increased by US$77.4 million in 2007, from US$16.4 million to US$93.8 million, on the back of a number of landmark deals for Unicorn. Arrangement

UNICORN INVESTMENT BANK PRODUCED RECORD RESULTS IN 2007, MARKING JUST OVER THREE AND A HALF YEARS OF STRONG UNINTERRUPTED GROWTH SINCE THE BANK'S INCEPTION IN 2004. OPERATING INCOME, NET PROFIT AND EARNINGS PER SHARE REACHED ALL TIME HIGHS, AND THE BANK MET ALL OF ITS KEY 2007 BUSINESS PLAN TARGETS.

and underwriting fees were boosted by two major Sukuk issues that raised a total of US$1.6 billion. Structuring fees benefited from a major private equity acquisition in the United States and the launch of the Strategic Acquisition Fund (SAF). Advisory and placement fees were boosted by a major corporate advisory assignment and the launch of SAF. Performance fees were generated by the strong performance of the Unicorn Global Private Equity Fund.

Other Operating Income

(US$ millions)	2007	2006
Net income from financial institutions	2.99	6.36
Income from non banks	5.07	1.08
Investment gains	13.18	24.02
Fair value (losses)/gains	(0.84)	12.91
Fund management fees	2.75	1.95
Dividend income	2.79	2.17
Other income	2.33	2.09
Other operating income	28.27	50.58

Net income from financial institutions declined by 53%, from US$6.4 million to US$3 million, as a result of the reduced volume of surplus funds to be placed (as Unicorn deployed its capital in core assets) and the costs of reverse Murabaha facilities. Income from non banks represented a single exposure to the GCC healthcare sector and Unicorn's holding of Sukuk. Investment gains benefited from the sale of private equity investments. The fair value loss in 2007 related to Unicorn foregoing its share of the 2007 distribution and the planned 2008 liquidation of the Unicorn Gulf Springs Real Estate Fund.

Fund management fees grew by 41% on the back of the three funds launched by Unicorn in 2005 and 2006 and the Strategic Acquisition Fund launched in 2007. Dividend income and other income also increased in 2007, by 29% and 11% respectively.

Operating Expenses

(US$ millions)	2007	2006
Salaries and employment-related benefits	21.97	17.10
Performance-related bonuses	23.71	7.46
Share based payments	4.00	-
Staff placement commissions	2.00	-
Severance payments	2.00	-
Total staff costs	53.68	24.56
General and administrative expenses	5.89	2.28
Legal and professional fees	4.01	3.32
Business development costs	2.35	1.61
Premises and depreciation costs	2.23	1.81
Other non-staff costs	4.29	3.22
Total non-staff costs	18.77	12.24
Total operating expenses	72.45	36.80
Cost:income ratio (per cent)	59.4%	55.0%
Period end headcount	137	103

Operating expenses increased by US$35.6 million (96.9%), to US$72.4 million. Staff costs rose by US$29.1 million (118.5%), from US$24.6 million to US$53.7 million. Salaries and employment-related benefits increased by US$4.9 million (29%), mainly due to headcount growth. Year-end headcount increased by 34 (33%), rising from 103 to 137. The bulk of the headcount growth occurred as a result of the acquisition of Inter-Yatirim Menkul Değerler A.Ş. (since renamed Unicorn Capital Menkul Değerler A.Ş.) in Turkey.

Financial Review continued

Unicorn also strengthened its support teams to provide the necessary business support and control infrastructure to meet the substantial growth in the size and the diversity of the Unicorn business. Performance-related bonuses increased by US$16.2 million, including exceptional non-recurring expenses of US$7 million relating to the under-accrual of prior year bonuses. The 2007 staff costs include share-based payments of US$4 million relating to the award of free shares to 58 founder employees of the Bank. These founder shares represent the first component of the Bank's comprehensive stock option scheme (the Partnership Development Programme or PDP). The PDP scheme will be rolled out fully during 2008 as part of the Bank's performance management system. Staff placement commissions of US$2 million were paid during 2007. The Bank also incurred severance costs of US$2 million as a result of the reorganisation of some of its activities in early 2007.

Non-staff costs rose by US$6.5 million (53%), from US$12.2 million to US$18.8 million, as a result of the substantial growth in business activity and the expansion of Unicorn's overseas network. The cost:income ratio increased from 55.0% to 59.4%, but remained within the Bank's 50-60% target range.

Balance Sheet Analysis

Selected balance sheet data (US$ millions)	2007	2006
Due from financial institutions	72.48	89.80
Due from non banks	43.16	27.88
Investment securities	211.39	123.46
Investments in associates	28.28	11.12
Premises and equipment	37.27	3.09
Total assets	446.67	293.34
Due to financial institutions	70.37	-
Shareholders' equity	314.43	254.07
Return on average equity (per cent)	17.6%	16.2%
Return on average assets (per cent)	13.4%	13.6%

Total assets increased by US$153.3 million (52.3%) during 2007, rising from US$293.3 million at 31 December 2006 to US$446.7 million at 31 December 2007. Placements with financial institutions declined by US$17.3 million, from US$89.8 million to US$72.5 million, reflecting a reduction in the amount of surplus capital available to be placed with financial institutions. Due from non banks increased to US$43.2 million, but subsequently declined to US$11.1 million in February 2008 following the settlement of a single transaction in the GCC healthcare sector. Investment securities grew by US$87.9 million (71.2%), to US$211.4 million, mainly due to additional private equity investments in the United States and the Middle East, fair value gains on listed equities, increased Sukuk holdings and Unicorn's own investment in SAF.

Due to financial institutions was US$70.4 million at 31 December 2007 representing short term (i.e. up to 12 months) reverse Murabaha facilities provided to Unicorn by other financial institutions in the Middle East. This represents Unicorn's first steps towards leveraging its balance sheet to improve overall shareholder returns. This leverage was further reinforced in January 2008 with the closing of Unicorn's inaugural medium term facility, namely a US$125 million syndicated 3-year commodity Murabaha facility provided by international and regional banks.

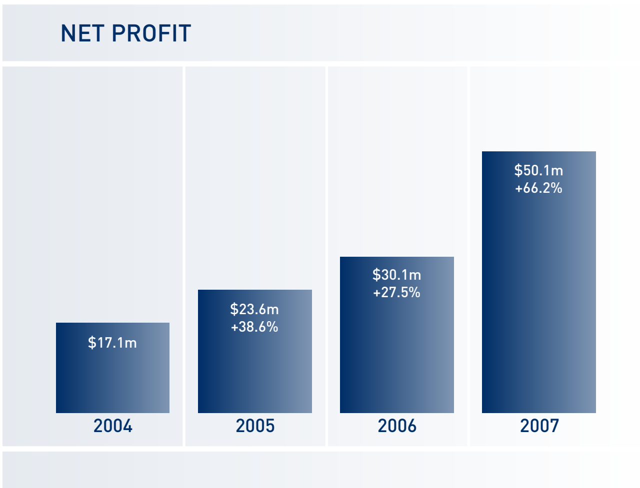
Shareholders' equity grew by US$60.4 million (23.8%) during 2007 to US$314.4 million. Earnings per share increased by 6.2 US cents (26.4%), from 23.5 to 29.7 US cents, despite the substantial growth in the average number of shares in issue. The Return on Equity improved from 16.2% in 2006 to 17.6% in 2007. The Return on Assets remained broadly unchanged, at 13.4%, despite the significant increase in balance sheet size.

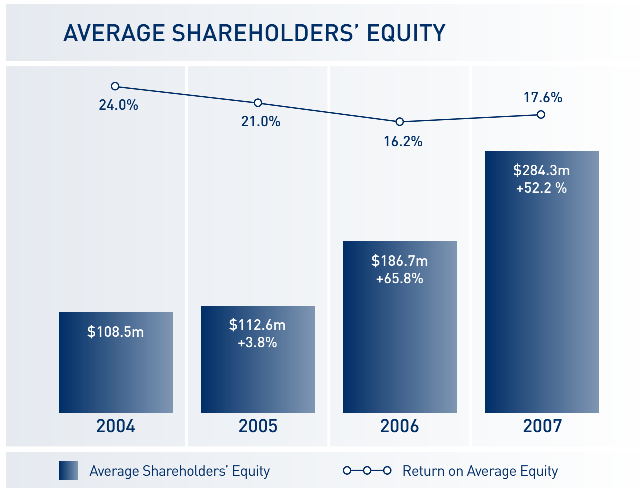
Dividend Distribution and Appropriation of Income

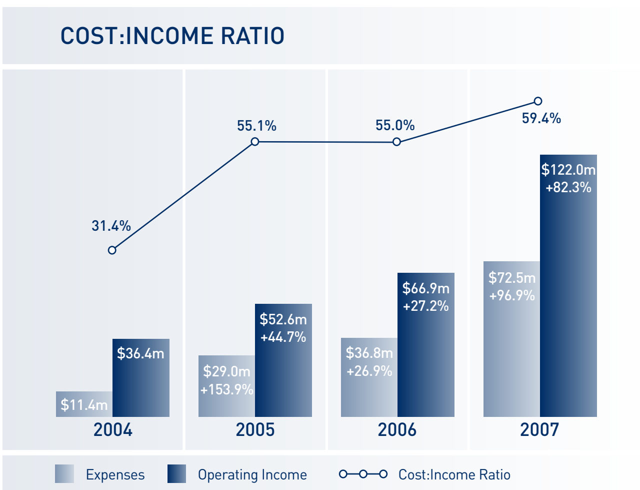
The Board of Directors has proposed that a cash dividend of US$0.10 per share (totalling approximately US$17.5 million) and bonus shares of 5% (totalling approximately US$8.7 million) be paid to the shareholders registered in the Bank's records as of 31 December 2007. This proposal will be

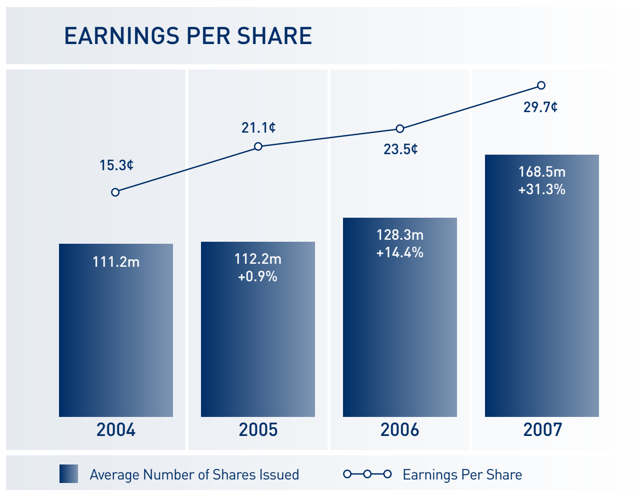
THE NET PROFIT ATTRIBUTABLE TO UNICORN SHAREHOLDERS IN 2007 OF US$50.1 MILLION WAS US$20.0 MILLION OR 66.2% HIGHER THAN 2006. THE BANK ACHIEVED A SERIES OF GROUNDBREAKING TRANSACTIONS IN 2007 AND, FOR THE FIRST TIME SINCE THE BANK'S INCEPTION, ALL FIVE BUSINESS LINES WERE PROFITABLE.

Key Performance Indicators









The 2004 figures reflect the 8 month period from 5 May to 31 December 2004.

Financial Review continued

submitted for formal approval by the Bank's shareholders at the Ordinary General Meeting.

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for 2007 (approximately US$5.0 million) will be transferred to the statutory reserve.

The above appropriations and distributions total US$31.2 million, compared with the 2007 net profit attributable to Unicorn shareholders of US$50.1 million. The Bank's retained earnings (approximately US$1.1 million at 1 January 2007) consequently increase by US$18.9 million, to approximately US$20.0 million at 31 December 2007.

Capital Management and Allocation

Unicorn Investment Bank B.S.C. (c) is a closed, unlisted company incorporated in the Kingdom of Bahrain and licenced as a Wholesale Bank (Islamic Principles) with the Central Bank of Bahrain (CBB). It has subsidiaries in the United States, Malaysia, the United Arab Emirates and Turkey and associated undertakings in Pakistan and Bahrain.

Unicorn is required to comply with the regulatory capital adequacy guidelines promulgated by the CBB. These guidelines are based on the standards established by the Basel Committee on Banking Supervision (the Basel Committee) of the Bank for International Settlements (BIS). The BIS/CBB guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance-sheet exposure. Capital is also set aside for operational risk and for the market risk associated with trading activities. In accordance with the CBB guidelines, the Bahraini banks (including Unicorn) must maintain a minimum capital adequacy ratio of 12% (compared with the internationally agreed minimum of 8%).

Unicorn's capital is divided into two tiers: Tier 1, comprising paid-up share capital and reserves, less goodwill; and Tier 2, comprising a proportion of property revaluation reserves and fair value reserves.

Risk-weighted assets comprise credit risk-weighted assets and market risk-weighted assets. Credit risk-weighted assets are measured by means of a hierarchy of risk-weightings classified according to the nature of each asset (on and off-balance-sheet) and counterparty. Market risk-weighted assets are determined by taking into account market-related risks such as foreign exchange, profit rate and equity position risks, and counterparty risk. Capital is also required to cover operational risk-weighted exposure.

Recent Developments

In June 2004, the Basel Committee issued a new capital adequacy framework (the International Convergence of Capital Measurement and Capital Standards: a Revised Framework) to replace the original Basel Capital Accord of 1988. The fundamental objective of the new capital adequacy framework (commonly known as Basel II) is to further strengthen the soundness and stability of the international banking system while maintaining sufficient consistency to ensure that capital adequacy regulation is not a significant source of competitive inequality among internationally active banks. Basel II constitutes a more comprehensive approach to addressing risks and is intended to promote the adoption of stronger risk management practices by the banking industry.

The Central Bank Governors and Heads of Banking Supervision for the Group of Ten (G10) countries endorsed the Basel II guidelines on 26 June 2004, with the intention that the new framework be available for implementation at year-end 2006 (with the most advanced approaches being delayed until year-end 2007). Supervisory authorities in the non-G10 countries were encouraged to adopt the Basel II framework to a timetable that was consistent with their broader supervisory priorities.

The Basel II framework incorporates three equally important and mutually reinforcing pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review process) and Pillar 3 (market discipline). The combination of the new minimum capital requirements (for both credit and operational risks), strong risk-based supervisory review and increased disclosure and transparency in public reporting is intended

SHAREHOLDERS' EQUITY GREW BY US$60.4 MILLION (23.8%) DURING 2007 TO US$314.4 MILLION. EARNINGS PER SHARE INCREASED BY 6.2 US CENTS (26.4%), FROM 23.5 TO 29.7 US CENTS, DESPITE THE SUBSTANTIAL GROWTH IN THE AVERAGE NUMBER OF SHARES IN ISSUE. THE RETURN ON EQUITY IMPROVED FROM 16.2% IN 2006 TO 17.6% IN 2007.

to encourage improvements in risk management. Banks and their supervisors are required to comply with all three pillars of the new accord.

The Basel II framework is significantly more risk sensitive that the 'one size fits all' approach of the 1988 Accord. It aims to distinguish between the relative degrees of creditworthiness among individual borrowers and to align capital requirements more closely with the risks actually faced by banks. Pillar 1 therefore provides three approaches (of increasing sophistication) to the calculation of the regulatory capital requirement for credit risk: the standardised approach and two more sophisticated internal ratings-based (IRB) approaches. The standardised approach uses external credit ratings to determine the risk-weightings to be applied to rated counterparties and groups non-rated counterparties into broad categories and applies standardised risk-weightings to these categories. The foundation IRB approach allows banks to calculate their credit risk regulatory capital requirement based on their own internal assessment of the probability that the counterparty will default. The advanced IRB approach allows banks to use their own internal assessments of the probability of default, the exposure at default and the loss suffered in the event of default.

The Basel II framework also introduces a capital requirement for operational risk, i.e. the risk of losses resulting from operational failures such as inadequate or failed internal processes, human behaviour and systems or from external events. As for credit risk, Pillar 1 provides three approaches (of increasing sophistication) to the calculation of the regulatory capital requirement for operational risk. The basic indicator approach uses a simple percentage (15%) of gross revenues to determine the capital requirement for operational risk. The standardised approach divides a bank's activities into eight business lines and uses one of three different percentages (12%, 15% or 18%) for the gross revenues of each of these business lines to determine the capital requirement. The advanced measurement approach uses the risk measures generated by the bank's own internal operational risk measurement system to determine the operational risk regulatory capital requirement.

The range of options offered by Basel II for determining the capital requirements for credit risk and operational risk allow banks and supervisors to select the approaches that are most appropriate to their operations and the local market conditions. To this end, CBB has decided that the banks in Bahrain will initially use the standardised approach for calculating the regulatory capital requirements for credit risk and the basic indicator approach for calculating the regulatory capital requirements for operational risk.

Pillar 2 recognises the necessity of exercising effective supervisory review to ensure that banks have comprehensive risk management and control structures in place and are exercising sound judgement in evaluating the risk profiles of their activities and are setting aside adequate capital to cover these risks. Supervisors are required to intervene at an early stage to prevent capital falling below the minimum levels required to support the risk characteristics of the bank.

Pillar 3 leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks' public reporting. It defines minimum public disclosure requirements to enable the market to understand a bank's activities and the risks inherent in those activities, and to assess the effectiveness of the controls that the bank has in place to manage its exposures. This will enable the market to recognise those banks that manage their risks prudently.

Islamic banking products are not explicitly mentioned in Basel II. Given the importance of Islamic banking in Bahrain, the CBB has therefore used the methodology of the Islamic Financial Services Board (IFSB) to adapt Basel II to address the specific risk characteristics of Islamic banks. The CBB Basel II regulations for Islamic banks are consistent in all substantial respects with the approach recommended by the Basel Committee and the IFSB for capital adequacy.

The CBB is implementing all three pillars of the Basel II framework for both conventional banks and Islamic banks with effect from 1 January 2008.

Financial Review continued

Capital Structure

The following table details the regulatory capital resources for Unicorn as at 31 December 2007 and 31 December 2006. The figures are shown after the payment of the dividends for the respective years:

Composition of Capital

(US$ millions)	Basel II 2007	Basel I 2007	Basel I 2006
Tier 1 capital			
Paid-up share capital	174.70	174.70	154.20
Reserves	83.77	83.77	76.41
Retained earnings	20.03	20.03	1.15
Less: goodwill	(2.16)	(2.16)	-
Less: 50% of investment in T'azur	(7.50)	-	-
Total qualifying Tier 1 capital	268.84	276.34	231.76
Tier 2 capital			
Gross fair value reserve	36.78	36.78	22.32
Less: disallowable amount (55%)	(20.23)	(20.23)	(12.28)
Less: 50% of investment in T'azur	(7.50)	-	-
Total qualifying Tier 2 capital	9.05	16.55	10.04
Total eligible regulatory capital	277.89	292.89	241.80

Eligible regulatory capital increased by US$51.1 million in 2007, to US$292.9 million according to the Basel I requirements. Qualifying Tier 1 capital increased by US$44.6 million (19%), to US$276.3 million, reflecting the increase in paid-up capital and reserves during 2007 less the goodwill on the acquisition of Inter Yatirim Menkul Değerler A.Ş. (since renamed Unicorn Capital Menkul Değerler A.Ş.), namely US$2.2 million. Retained earnings increased to US$20.0 million, from US$1.1 million in 2006.

Qualifying Tier 2 capital increased by US$6.5 million (65%), from US$10.0 million to US$16.6 million, reflecting increases in 2007 fair value gains.

Basel II requires any significant investments in insurance companies (i.e. investments where the total invested exceeds 20% of the capital of the insurance company) to be deducted directly from eligible regulatory capital. Unicorn invested US$15.0 million in a regional Takaful company (T'azur) in 2007, representing an interest of 25.86% in T'azur. The consequent deduction of the US$15.0 million invested in T'azur reduces Unicorn's total eligible regulatory capital (under Basel II) to US$277.9 million as at 31 December 2007. In accordance with the CBB guidelines, 50% of the deduction (i.e. US$7.5 million) is made from Tier 1 capital and the remaining 50% (i.e. US$7.5 million) is made from Tier 2 capital.

Risk-weighted Assets

(US$ millions)	Basel II 2007	Basel I 2007	Basel I 2006
Credit risk-weighted assets	454.9	376.5	205.8
Market risk-weighted assets	66.5	66.5	135.7
Operational risk-weighted exposure	99.6	-	-
Total risk-weighted assets	621.0	443.0	341.5

Risk-weighted assets under Basel I increased by US$101.5 million (30%) during 2007, from US$341.5 million at 31 December 2006 to US$443.0 million at 31 December 2007. This increase was mainly driven by the substantial growth in investment securities in 2007.

Risk-weighted assets under Basel II at 31 December 2007 were US$621.0 million.

THE FUNDAMENTAL OBJECTIVE OF THE NEW CAPITAL ADEQUACY FRAMEWORK (COMMONLY KNOWN AS BASEL II) IS TO FURTHER STRENGTHEN THE SOUNDNESS AND STABILITY OF THE INTERNATIONAL BANKING SYSTEM WHILE MAINTAINING SUFFICIENT CONSISTENCY TO ENSURE THAT CAPITAL ADEQUACY REGULATION IS NOT A SIGNIFICANT SOURCE OF COMPETITIVE INEQUALITY AMONG INTERNATIONALLY ACTIVE BANKS.

Capital Adequacy Ratio

(Per cent)	**Basel II 2007**	**Basel I 2007**	Basel I 2006
Tier 1 capital adequacy ratio	43.3	62.4	67.9
Total capital adequacy ratio	44.7	66.1	70.8

The substantial balance sheet growth in 2007 resulted in a small reduction in the Bank's capital adequacy position. The Basel I Tier I capital adequacy ratio declined from 67.9% at 31 December 2006 to 62.4% at 31 December 2007. The Basel I total capital adequacy ratio similarly declined, from 70.8% to 66.1%, over the same period.

Basel II has a major adverse impact on Unicorn's capital adequacy ratio. Eligible regulatory capital is reduced by the deduction of Unicorn's investment (US$15 million at 31 December 2007) in T'azur, its associated regional Takaful company. Risk-weighted assets as at 31 December 2007 are increased by US$178.0 million (40%) under Basel II, mainly due to: the 150% risk-weighting applied to Unicorn's private equity and other similar unquoted investments (such assets were risk-weighted at 100% under Basel I); and the requirement to add operational risk-weighted exposure.

Under Basel II, the 2007 year-end Tier I capital adequacy ratio consequently declines from 62.4% under Basel I to 43.3% under Basel II. The total capital adequacy ratio similarly declines from 66.1% under Basel I to 44.7% under Basel II. Despite these reductions, the 2007 year-end Basel II capital adequacy ratios are still well above the CBB minimum (12%) and they leave the Bank strongly capitalised to support the continued expansion of its business activities in 2008.

Overview of 2007

Unicorn's accomplishments and record financial performance in 2007 are the result of a clearly defined strategy, an unwavering focus on disciplined growth, a commitment to sound corporate governance and sustained investment in people, research and technology. During the year, each of the business lines made a positive contribution to the Bank's profitability, marking an important realisation of Unicorn's mission to provide the market with a comprehensive and integrated range of Shari'ah-compliant investment banking products and services. The Bank also implemented a series of key internal initiatives aimed at strengthening the Bank's infrastructure and operating capability.

Business highlights during the year included the acquisition of a Turkish asset management and brokerage company and its subsequent relaunch as Unicorn Capital Turkey; two landmark Sukuk issues with a total value of US$1.6 billion for Saudi Arabia's Dar Al-Arkan Real Estate Development Company; a US$700 million revolving Murabaha financing facility arranged on behalf of Qatar's Barwa Real Estate Company; private equity investments in two prominent high tech companies in the United States and an industrial holding company in Kuwait; an advisory mandate involving the establishment of Saudi Arabia's largest mortgage provider; the launch of the landmark Strategic Acquisition Fund and the completion of the first round of fund raising; and the Bank's successful exit from its first fund, the Unicorn KSA Real Estate Fund I. 2007 also saw the successful launch of T'azur, an independent regional Takaful company, marking the culmination of two years of intensive research, due diligence and capital raising by Unicorn's Takaful division.

The Bank also received a strong vote of confidence from the international financial community with the successful close of a US$125 million 3-year Syndicated Commodity Murabaha Facility launched in December and arranged on the Bank's behalf by Dubai Bank PJSC (Dubai Bank) and Raiffeisen Zentralbank Österreich AG (RZB). The facility, which was launched at US$100 million, was significantly oversubscribed, attracting a great deal of interest from financial institutions across Europe, the Middle East and Asia. Fifty percent of subscriptions were from non-GCC financial institutions, with 10% of subscriptions originating from Asia. Of the total amount raised, almost 25% of the financing was placed with Islamic investors. The success of the syndication, particularly given the global liquidity squeeze, attests to the strong reputation that Unicorn enjoys both regionally and internationally and is an important endorsement of the Bank's track record and

2007 SAW THE ESTABLISHMENT OF A SEPARATE OPERATIONS DIVISION TO HANDLE THE INCREASED TRANSACTION FLOW WITHIN UNICORN. THE ENHANCED MIDDLE AND BACK OFFICE FUNCTIONS WILL ENSURE EFFECTIVE AND EFFICIENT SUPPORT TO THE BANK'S BUSINESS LINES.

growth strategy. The funds raised will be used in support of Unicorn's business plan and international growth model.

2007 also saw the establishment of a separate Operations division to handle the increased transaction flow within Unicorn. The enhanced middle and back office functions will ensure effective and efficient support to the Bank's business lines. In this regard, the Bank appointed Hadi Humaidan as the Bank's Chief Operations Officer in December. Hadi brings a wealth of core operations experience to Unicorn and previously held leadership positions with prominent financial institutions in Bahrain. Under his leadership and supported by the Bank's new core banking system, the Operations department will be tasked with re-engineering the Bank's deal flow processes and establishing strong customer and client relations support.

With the establishment of Operations, the Bank's Treasury division has now formally been separated from Capital Markets and will operate as an independent profit centre and Unicorn's sixth line of business. Treasury activities are still relatively underdeveloped in the Islamic banking sector, and the development of Shari'ah-compliant treasury products and services offers tremendous potential benefits for both Unicorn and the Bank's clients. Going forward, the Treasury division will play a key role in servicing corporate clients, in addition to its current role of managing Unicorn's own liquidity and funding needs. Areas of focus will include the structuring of investment products including equities, commodities, currencies and LIBOR-linked products as well as money market instruments to allow clients to efficiently manage their liquidity.

Another important development in 2007 was the further strengthening of the Bank's Strategic Mergers & Acquisitions (SM&A) division which is central to Unicorn's global vision and international expansion strategy. In December, the Bank appointed Frederick Stonehouse, a seasoned banker with over 30 years of international banking experience, to head the division. In his new role, Frederick will lead Unicorn's efforts to expand the Bank's global footprint both through acquisition and organic international growth. Under his guidance, SM&A will also be responsible for sourcing acquisition targets on behalf of the Strategic Acquisition Fund.

In Malaysia, Unicorn successfully upgraded its operating licence under the Malaysia International Islamic Financial Centre (MIFC) initiative, becoming the first foreign bank to obtain a licence to establish an international Islamic banking subsidiary. The new licence enables Unicorn International Islamic Bank Malaysia Berhad (Unicorn Malaysia) to conduct a broad range of Shari'ah-compliant investment banking activities in international currencies other than the Malaysian Ringgit. The Unicorn Malaysia team is currently being strengthened and expanded to focus on investment banking (including equity and debt capital market products), treasury and strategic acquisitions/investments to complement Unicorn's operations in Bahrain. Malaysia is one of the world's major Islamic banking hubs and Unicorn Malaysia hopes to play a key role in originating cross-border transactions between the GCC region and Malaysia.

During the year, Unicorn was also proud to have an opportunity to support Bahraini talent through the Bank's sponsorship of Shaikh Salman bin Rashid Al-Khalifa in the British Formula 3 International Series (National Class). Early in the season, Shaikh Salman became the first Bahraini driver to stand on a European championship podium, and he continued to represent Bahrain with great distinction and confidence throughout the remainder of the season. The Bank looks forward to continuing its support of Shaikh Salman in 2008 as he continues to push the

Overview of 2007 continued

UNICORN'S ROLE IN DEVELOPING THE ISLAMIC BANKING INDUSTRY RECEIVED FURTHER PUBLIC RECOGNITION DURING 2007. THE BANK WAS RECOGNISED FOR ITS OUTSTANDING ACCOMPLISHMENTS IN THE AREA OF PRODUCT INNOVATION AT THE 2007 BANKER MIDDLE EAST INDUSTRY AWARDS HELD IN JUNE.

boundaries in a sport that has not traditionally had Arab representation.

The Bank also contributed to Bahrain's 'Invest in Culture' initiative, a public-private partnership between Bahrain's Culture and National Heritage Department and the private sector to protect and promote Bahrain's cultural identity. Through its donation in 2007 and its ongoing commitment to the initiative, Unicorn hopes to play an active role in preserving Bahrain's unique character and rich cultural heritage.

Finally, Unicorn's role in developing the Islamic banking industry received further public recognition during 2007. The Bank was recognised for its outstanding accomplishments in the area of product innovation at the 2007 Banker Middle East Industry Awards held in June. At the Islamic Business and Finance Awards in December, Majid Al-Refai, Unicorn's Founder, Managing Director and Chief Executive Officer, was recognised for his "Outstanding Contribution to the Industry", with the organisers citing his role as an industry pioneer and innovator and a lifelong proponent of Islamic banking.

INTER YATIRIM

Inter Yatirim Menkul Değerler A.Ş. (Turkey)

Strategic Acquisition

Strategic M&A Transaction

January 2007

دار الأركان DAR AL-ARKAN

DAAR International Sukuk

US$600 million Sukuk al-Ijara

Arranger, Shari'ah Advisor and Joint Bookrunner

March 2007

AL-ASSRIYA INDUSTRIES

Al-Assriya Industries Holding Company K.S.C.C.

40% Stake

Private Equity Investment

April 2007

دار الأركان DAR AL-ARKAN

Dar Al-Arkan International Sukuk

US$1,000,000,000 Sukuk al-Ijara

Arranger, Shari'ah Advisor and Joint Bookrunner

July 2007

t'azur

T'azur B.S.C. (c)

Regional Takaful Company

Strategic M&A Transaction

November 2007

Open-Silicon

Open-Silicon, Inc

72.9% Stake

Private Equity Investment

December 2007

VICTRON INC

Victron, Inc

80% Stake

Private Equity Investment

December 2007

BARWA بروة

Barwa Real Estate Company Q.S.C.

US$700 million Revolving Murabaha Financing Facility

Joint Lead Arranger, Structuring Agent and Shari'ah Advisor

December 2007

Business Lines
CORPORATE FINANCE

SAUDI HOME LOANS COMPANY: IN 2007, UNICORN'S CORPORATE FINANCE DIVISION ADVISED ON THE ESTABLISHMENT OF SAUDI HOME LOANS COMPANY (SHLC), SAUDI ARABIA'S LARGEST RESIDENTIAL MORTGAGE PROVIDER. SHLC AIMS TO PROMOTE HOME OWNERSHIP IN SAUDI ARABIA BY MAKING HOUSING MORE AFFORDABLE FOR THE COUNTRY'S MIDDLE- AND LOWER-INCOME POPULATION.

Unicorn's Corporate Finance division provides clients with a broad range of corporate advisory services, with a specific focus on capital planning and fund raising, financial restructuring and mergers and acquisitions. The division stays actively involved throughout all stages of each corporate finance advisory mandate, from initial structuring through to final execution.

Corporate Finance aims to provide well researched and informed advice to the management and boards of prominent family businesses throughout the GCC region, particularly in light of the increase in family business restructurings and mergers and acquisitions activity within the region.

The division provides assistance to clients in analysing and optimising the capital structure of their businesses and in obtaining the most efficient and appropriate mix of equity and debt finance. This includes valuing businesses, preparing the necessary offering and/or banking documents and coordinating the offering process through all stages to ensure successful completion.

For companies in need of restructuring, services include reviewing and analysing the business, operations, financial condition and prospects of the company; determining the funding needs and debt capacity; assisting in determining an appropriate capital structure; conducting valuation analyses; and evaluating and recommending financial and strategic alternatives. The division also provides financial advice and assistance in developing and obtaining the necessary approvals for restructuring or reorganisation plans as well as advisory services in regard to the structuring of new securities or other inducements to be offered under a reorganisation plan.

The division's mergers and acquisitions services include evaluating potential acquisition targets, providing valuation analyses and evaluating financial and strategic alternatives. Corporate Finance also provides advice with regard to the timing, structure, and pricing of a proposed acquisition. Furthermore, the division assists in the negotiation and completion of an acquisition, as well as the analysis of potential financing for a transaction. The division further advises clients that are contemplating the sale of certain businesses, assets or their entire company. Services include evaluating and recommending financial and strategic alternatives with respect to a sale; advising on the appropriate sales process; assisting in preparing an offering memorandum or other appropriate sales material; identifying and contacting selected qualified acquirers; and advising as to the timing, structure and pricing of a proposed sale and rendering, if appropriate, a fairness opinion.

In 2007, Corporate Finance completed a major corporate advisory assignment for Dar Al-Arkan Real Estate Development Company (Dar Al-Arkan), a leading residential real estate developer in the Kingdom of Saudi Arabia. This included developing and advising on the implementation of a strategic business reorganisation and expansion plan; expanding Dar Al-Arkan's senior management team; advising on the company's acquisition of a controlling stake in another Saudi real estate company; advising on the establishment of a cash management structure; and, in cooperation with Arab Bank plc and the International Finance Corporation (IFC), advising on the establishment of Saudi Home Loans Company, Saudi Arabia's largest residential mortgage provider.

Business Lines continued
CAPITAL MARKETS

DAR AL-ARKAN INTERNATIONAL SUKUK: IN JULY, UNICORN SUCCESSFULLY CLOSED THE DAR AL-ARKAN INTERNATIONAL SUKUK, A GROUNDBREAKING US$1 BILLION SUKUK ISSUED ON BEHALF OF DAR AL-ARKAN REAL ESTATE DEVELOPMENT COMPANY (DAR AL-ARKAN). THE LANDMARK ISSUE MARKED THE SECOND SUKUK ARRANGED BY UNICORN ON BEHALF OF DAR AL-ARKAN IN 2007, BRINGING THE TOTAL AMOUNT RAISED TO US$1.6 BILLION.

Unicorn's Capital Markets division structures, manages and places debt and equity offerings and securitisation transactions for both corporate and sovereign clients. The division's Shari'ah-compliant capital markets product offerings include Sukuk, asset-backed securitisations and syndicated facilities. The division also provides credit rating advisory services and maintains a proprietary investment book.

Through the activities of the Capital Markets division, Unicorn seeks to provide a broad range of Shari'ah-compliant capital markets solutions, employing the Bank's international presence to source and place mandates globally.

2007 was a transformational year which saw the division successfully close two landmark Sukuk issues with a total value of US$1.6 billion on behalf of leading Saudi residential real estate developer Dar Al-Arkan Real Estate Development Company (Dar Al-Arkan). Unicorn was the Joint Lead Manager, Underwriter and Bookrunner and the sole Structuring Agent and Shari'ah Advisor on both transactions.

Closed in February, the inaugural 3-year US$600 million Dar Al-Arkan Sukuk marked the first Sukuk to be issued by a Saudi corporate in the international capital markets. Launched as a US$425 million issue, the Sukuk received an overwhelming response from financial institutions across Europe, South East Asia and the GCC region. It was significantly oversubscribed and Dar Al-Arkan opted to increase the issue size to US$600 million.

Following the success of the inaugural Dar Al-Arkan Sukuk, Unicorn and a consortium of international banks successfully closed a groundbreaking 5-year US$1 billion Sukuk on behalf of the company in July. The second Dar Al-Arkan Sukuk attracted a great deal of interest from the international financial community, raising close to US$1.5 billion in subscriptions. At the time, the second Dar Al-Arkan Sukuk was the largest capital markets transaction by a private Saudi corporate.

Both of the Dar Al-Arkan Sukuk issues are listed on the Dubai International Financial Exchange (DIFX), and the second Sukuk is also listed on the Malaysian Labuan International Financial Exchange (LFX) and the Bahrain Stock Exchange (BSE). The LFX listing marked the first Saudi corporate Sukuk to list on the LFX, while the BSE listing marked the first Saudi Sukuk and the largest Sukuk ever to list on the BSE.

The Capital Markets division also completed the arrangement of Unicorn's first syndicated facility in 2007, with the Bank acting as the Joint Lead Arranger, Structuring Agent and Shari'ah Advisor on the US$700 million revolving Murabaha financing facility for Qatar's Barwa Real Estate Company (Barwa). Barwa is a listed company on the Doha Securities Market with a large government ownership and a market capitalisation of QAR11.8 billion (approximately US$3.2 billion) as of December 2007. The company's remit includes infrastructure and real estate development in Qatar.

Through its proprietary investment book, Unicorn is also developing the capability for secondary market trading in Sukuk and similar Shari'ah-compliant fixed income products with the intention of enabling the Bank to engage in market making activities. This will not only broaden and diversify the Bank's sources of income, but will also meet the growing demand on the part of regulators in the GCC region and international investors to trade Sukuk and other Shari'ah-compliant capital markets products.

Business Lines continued
PRIVATE EQUITY

OPEN-SILICON: UNICORN'S ACQUISITION OF A 72.9% EQUITY STAKE IN OPEN-SILICON, A MARKET LEADER IN CHIP DESIGN AND OUTSOURCED MANUFACTURING SERVICES, WILL HELP TO SUPPORT THE COMPANY'S NEXT PHASE OF GROWTH BOTH WITHIN ITS CORE US MARKET AND INTERNATIONALLY WHERE IT PLANS TO ESTABLISH NEW DESIGN CENTRES AND MATERIAL SOURCING OPERATIONS.

Unicorn's Private Equity division makes direct investments in companies that match the Bank's investment criteria, with specific focus on companies operating in the consumer products, light manufacturing, business services, advanced technology and healthcare sectors in the GCC region, the United States, South East Asia, and the Levant. The division also manages the Unicorn Global Private Equity Fund, a five-year, closed-end fund launched in 2006 that targets diversified companies with near-term growth potential operating within the division's target industries and markets.

In April, the Unicorn Global Private Equity Fund acquired a 20% equity stake in Kuwait-based Al-Assriya Industries Holding Company (Al-Assriya). Unicorn acquired an additional 20% stake directly. Established in 2002, Al-Assriya is a holding company for investments in the industrial sector and currently holds significant equity stakes in five companies, located primarily in Kuwait and operating across a range of industries, including carpet manufacturing, printing and publishing, oil and gas services, chemicals and packaging. Al-Assriya's strategy is to take advantage of the current economic boom in Kuwait and the region to invest in industrial companies demonstrating significant growth potential.

The investment in Al-Assriya marks the Fund's fourth investment to date. The Fund previously completed investments in UAE-based readymix supplier Orimix Concrete Products LLC as well as two US-based companies: Ellington Leather, a lifestyle handbag and leather goods company; and Precision Time, a leading provider of while-you-wait watch repair services, fashion watches and watch accessories with a rapidly expanding presence across the United States.

In December, the division completed the acquisition of a 72.9% equity stake in Open-Silicon, Inc., a prominent chip design and outsourced manufacturing services company based in Milpitas, California, in the heart of Silicon Valley. Established in 2003 by the founders of Intel Microelectronics, Open-Silicon designs and manufactures Application Specific Integrated Chips (ASICs) for a broad group of clients in the consumer electronics, networking and telecom sectors. The company's turnkey semiconductor service offerings allow clients to outsource all services required to deliver high quality semiconductor solutions that they would otherwise need to develop internally at a very high cost.

Unicorn will be partnering with Open-Silicon's senior management team to fulfil the company's next phase of growth, which includes global expansion. Open-Silicon currently has a presence in six locations in the US, the United Kingdom, India and Taiwan as well as manufacturing partners in Taiwan, Korea and China and a testing facility in Malaysia. The company's planned expansion strategy combines growth both within its core US market and internationally where it plans to establish new design centres and material sourcing operations. The company further plans to target synergistic acquisition opportunities.

Also in December, the Private Equity division completed the acquisition of an 80% equity stake in a second Silicon Valley based high tech firm, Victron, Inc. Established in 1983, Victron is a specialty provider of high-mix, complex electronics manufacturing and supply chain management services to a variety of Original Equipment Manufacturers (OEMs) in the communications, networking, medical, automotive, consumer and wireless industries. Victron's unique proprietary software allows the company to integrate its operations with those of its parts suppliers and customers, which in turn results in minimal inventory, low operating costs and the ability to offer customers a one day manufacturing cycle. Unicorn's investment in the company will help to support the company's next phase of growth in selective overseas markets.

Business Lines continued
ASSET MANAGEMENT

KSA REAL ESTATE I: IN 2007, UNICORN SUCCESSFULLY EXITED KSA REAL ESTATE FUND I (KSA I), PROVIDING INVESTORS WITH A FINAL INTERNAL RATE OF RETURN (IRR) OF 15.5% PER ANNUM. KSA I WAS ONE OF THE BANK'S EARLIEST INVESTMENT PRODUCTS AND ONE OF THE FIRST FUNDS TO ALLOW NON-SAUDI NATIONALS TO PARTICIPATE IN THE RAPID GROWTH OF SAUDI ARABIA'S RESIDENTIAL REAL ESTATE SECTOR.

In 2007, the Asset Management division went through a significant restructuring process which saw the introduction of two distinct streams within the division: Real Estate and Listed Securities. The restructuring also included the hiring of several new specialists with extensive regional and international experience in real estate, listed equities and fixed income products.

Going forward, Asset Management will expand its real estate focus to include real estate private equity opportunities as well as real estate funds, with an initial focus on the GCC region and Turkey. The division's goal is to grow geographic coverage gradually, initially providing investors with access to the sustainable high growth of the GCC real estate sector as well as the dynamic and rapidly developing Turkish market. Other markets such as South East Asia, India and Europe will also be targeted over time.

The Asset Management division will also offer listed securities products as part of the Bank's commitment to providing Shari'ah-compliant equity and fixed income funds and discretionary portfolio services, while also matching or exceeding the returns offered by conventional products within similar asset classes. As part of this initiative, the division intends to launch an open-ended MENA equity fund in 2008. The fund will seek to achieve medium- to long-term capital appreciation by investing in a concentrated portfolio of listed equities across MENA markets, including Turkey. This process will be supported by both in-house and selected third party research. The division further intends to launch income generating investment products such as a global Sukuk fund, and other investment products with specific geographic focus expanding the coverage into new markets.

During 2007, the division has also successfully restructured Unicorn Capital Turkey's Istanbul Fund, an open-ended fund investing in a diversified portfolio of Islamic stocks listed on the Istanbul Stock Exchange. The Istanbul Fund is one of Turkey's first Islamic equity funds and also has regulatory approval by Turkey's Capital Markets Board (CMB) to invest in Sukuk. Through the Fund, Unicorn aims to provide retail and institutional investors in Turkey with access to Shari'ah-compliant investment opportunities while providing GCC investors with access to the Turkish market.

Also in 2007, Unicorn successfully exited one of its earliest investments and the Bank's first real estate fund, KSA Real Estate Fund I (KSA I). Closed in July 2005, KSA I was the first fund to allow non-Saudi nationals to participate in the rapid growth of the Saudi Arabia residential real estate market. The US$52.5 million fund invested in a residential real estate development in a northern suburb of Riyadh, with the principal objective of achieving medium-term capital appreciation and dividend payouts. In March 2006, the Fund received payment from the sale of a portion of its investment and distributed 41% of the capital along with the profits to investors. In March 2007, the Fund distributed the remainder of the capital and profits, providing investors with a final Internal Rate of Return (IRR) of 15.5% per annum compared with the original anticipated IRR of 10% per annum.

In October 2007, the Gulf Springs Real Estate Fund (Gulf Springs) made a partial distribution of capital and profits to its investors as a result of a successful exit from one of its investments. Closed in December 2006, Gulf Springs was conceived to provide prudent investors with a vehicle to participate and capitalise on immediate opportunities in the thriving regional real estate market. Unicorn intends to fully exit the Fund in the first quarter of 2008.

In addition, as part of the increased focus on Turkey, the Asset Management division identified a number of promising real estate private equity opportunities, including opportunities in the Turkish vacation homes segment. In 2008, the division intends to launch investment opportunities targeting this segment aimed at GCC investors seeking exposure to the thriving Turkish real estate market.

Business Lines continued
STRATEGIC MERGERS & ACQUISITIONS

STRATEGIC ACQUISITION FUND: THE STRATEGIC ACQUISITION FUND SEEKS TO CAPITALISE ON THE OPPORTUNITIES RESULTING FROM THE FRAGMENTED NATURE OF THE ISLAMIC FINANCIAL SERVICES INDUSTRY BY MOBILISING CAPITAL TO MAKE VALUE-UNLOCKING ACQUISITIONS AND SEIZE ISLAMISATION OPPORTUNITIES WITHIN THE FINANCIAL SERVICES INDUSTRY. THE FUND WILL FOCUS PRIMARILY ON COMMERCIAL BANKS.

The activities of Unicorn's Strategic Mergers & Acquisitions (SM&A) division are central to the Bank's ambition to establish a global presence. The division is responsible for acquiring strategic stakes in financial institutions, opening new offices and securing the appropriate banking licences in order to expand Unicorn's international footprint. The division also develops and launches innovative Islamic initiatives aimed at promoting the consolidation and development of the Islamic financial services industry.

In 2007, the SM&A division successfully launched two landmark initiatives. The first of these, T'azur, is a new regional Takaful group offering life, medical and general Takaful products and services. The official establishment of T'azur in November marked the culmination of over two years of intensive research, due diligence and capital raising by Unicorn and was a response by the Bank to a clear gap in the market for a major regional Takaful player able to meet the demands of a vast, fragmented and largely untapped market for Islamic insurance and savings solutions. Capital for the new venture was raised from founding institutional investors in Kuwait, Qatar, Bahrain and Saudi Arabia. Unicorn is also a founding investor in the new company which operates as an independent entity. T'azur's expansion strategy will combine a sound level of organic growth with a phased programme of acquisitions. The company has Takaful licence applications and potential acquisitions in the pipeline for several key markets and will continue to raise capital in line with its phased growth plan and projections.

The SM&A division also successfully launched the Strategic Acquisition Fund ('SAF'), an innovative fund that seeks to acquire strategic stakes in and manage commercial banks both regionally and internationally. The goal is to build a large and globally recognised international Islamic financial services group, while providing investors with access to new markets and distribution channels as well as attractive returns. SAF is a closed-end fund with an initial term of five years, extendable for two further two-year periods. At the end of its term, SAF may be converted into an Islamic financial holding company or such other structure as deemed appropriate. The Fund's first closing is targeted at US$300 million and the first round of capital-raising was completed during 2007, with a select group of founding investors contributing US$150 million towards Unicorn's goal of raising US$1 billion over the life of the Fund. Unicorn is a seed investor in SAF and as the Fund's Founder and Promoter intends to maintain a minimum stake of 10% in the Fund at all times, using it as a vehicle for the Bank's own growth. Unicorn Capital Dubai is the Fund Manager for SAF.

Finally, the SM&A division led Unicorn's successful efforts to upgrade the Bank's operating licence in Malaysia where Unicorn became the first foreign Islamic bank to be licenced to conduct a full range of non-Malaysian Ringgit Islamic investment banking activities under the Malaysia International Islamic Financial Centre (MIFC) initiative. Unicorn International Islamic Bank Malaysia Berhad (Unicorn Malaysia, formerly UIB Capital Berhad) commenced operations on 1 January 2008 and is currently being staffed in accordance with its business and regulatory requirements. Unicorn Malaysia's primary focus will be investment banking (including equity and debt capital market products), treasury and strategic acquisitions/investments to complement Unicorn's existing operations in Bahrain.

International Presence

CHICAGO

DUBAI

UIB Capital Inc.

UIB Capital Inc. (UIB Capital Chicago), Unicorn's US private equity subsidiary, continued to play a key role in sourcing private equity transactions and managing US portfolio companies on behalf of the Bank in 2007. During the year, Unicorn made two significant investments in the US, both of which were sourced and advised by UIB Capital Chicago. The first was the acquisition of a 72.9% stake in Open-Silicon, Inc., a Silicon Valley-based fabless Application Specific Integrated Chips (ASICs) manufacturer, and the second was the acquisition of an 80% stake in Victron, Inc., an electronics manufacturing services company also based in California. During the year, the Bank's Private Equity division also successfully exited Unicorn's first US transaction, an investment in The Gardens Residential Community in California, bringing the total number of portfolio companies managed by UIB Capital Chicago to four.

UIB Capital Chicago is well placed to take advantage of current market conditions in the US and in 2008 will be increasing the size of its team in order to focus on emerging investment opportunities in the health care, technology and oil and gas services sectors.

Unicorn Capital Limited

Unicorn Capital Limited (Unicorn Capital Dubai) continued to play an important role in sourcing, distributing and managing investments on behalf of the Bank in 2007. The company was also appointed the Fund Manager of the Strategic Acquisition Fund, a closed-end fund that seeks to mobilise capital to seize M&A opportunities arising from the current fragmented nature of the Islamic financial services industry. The Fund will acquire strategic stakes in and manage commercial banks both regionally and internationally, with the goal of building a large and globally recognised international Islamic financial services group, while providing investors with access to new markets and distribution channels as well as attractive returns.

During the year, Unicorn Capital Dubai also initiated the application process for an upgrade of its Dubai Financial Services Authority (DFSA) licence from Category 3 to Category 2. The new licence, which the company received in February 2008, will enable Unicorn Capital Dubai to act as Principal in connection with investments and become Unicorn's Direct Investment arm.

MALAYSIA

TURKEY

Unicorn International Islamic Bank Malaysia Berhad

In 2007, Unicorn successfully upgraded its operating licence in Malaysia and became the first foreign Islamic bank to be licenced to conduct a full range of non-Malaysian Ringgit investment banking activities under the Malaysia International Islamic Financial Centre (MIFC) initiative. This initiative aims to strengthen Malaysia's position as an international Islamic finance hub and build greater intermediation linkages between East Asia and the Middle East.

Unicorn International Islamic Bank Malaysia Berhad (Unicorn Malaysia, formerly UIB Capital Berhad) commenced operation on 1 January 2008 and is currently being staffed in accordance with regulatory requirements. The Bank has appointed Dato' Vaseehar Hassan Abdul Razack, a seasoned banker with extensive experience in investment, commercial and Islamic banking, as Chairman of the new entity. Unicorn Malaysia's primary focus will be investment banking (including equity and debt capital market products), treasury and strategic acquisitions/investments to complement Unicorn's existing operations in Bahrain. It hopes to play an important role in originating cross-border transactions between Malaysia and the GCC countries, leveraging Unicorn's network and track record in the GCC region.

Unicorn Capital Menkul Değerler A.Ş.

In January 2007, Unicorn established a strategic presence in Turkey through the acquisition of a 75% stake, including 100% of Class A (Management) shares, in a Turkish brokerage and asset management company, Inter Yatirim Menkul Değerler A.Ş. (now renamed Unicorn Capital Menkul Değerler A.Ş). In December, Unicorn increased its stake in the company to 81.8%. Headquartered in Istanbul with a branch office in Ankara, Unicorn Capital Turkey is licenced by Turkey's Capital Markets Board (CMB) to undertake a broad range of investment banking activities.

During the year, Unicorn bolstered the company's management team and refocused its activities, leaving it well placed to offer an enhanced range of investment banking products and services catering to both Turkish investors and GCC investors seeking exposure to Turkey. Unicorn Capital Turkey now operates several business divisions, including Corporate Finance, Asset Management (through its subsidiary Unicorn Portföy, previously known as Inter Portföy), International Sales, Brokerage and Research. The Bank also made rapid progress in eliminating non-Shari'ah-compliant revenue streams and, as part of this process, successfully re-launched the Istanbul Fund, an open-ended fund investing in a diversified portfolio of Islamic stocks listed on the Istanbul Stock Exchange.

Placement and Relationship Management

Unicorn's placement and relationship management capabilities are central to the Bank's vision of delivering exceptional value to its clients. The Bank's efforts in this regard rely on two centralised placement departments: Investment Development and Distribution (IDD) and Institutional Banking.

The IDD team is primarily involved in the placement of equity transactions, catering to high net worth individuals, financial institutions, corporations, governments/quasi-governmental organisations and family businesses. IDD is also actively involved in originating deals and assisting with the deal-structuring process.

The team works closely with clients to understand their specific requirements, leveraging the entirety of Unicorn's capabilities and expertise across the Bank's various business lines to provide tailored products to meet these requirements. The activities of the IDD team are central to Unicorn's efforts to be a long-term partner to clients, providing the reliability and counsel of a trusted advisor.

Unicorn's Institutional Banking team is responsible for all capital markets debt and equity placements, as well as the placement of structured products with institutional investors. Institutional Banking is also responsible for correspondent banking relationships and for arranging the Bank's short, medium and long-term funding facilities with local, regional and international financial institutions. In 2007, the team played a key role in managing Unicorn's inaugural medium-term facility, a US$125 million syndicated 3-year commodity Murabaha facility arranged on the Bank's behalf by Dubai Bank PJSC and Raiffeisen Zentralbank Österreich AG (RZB). Institutional Banking also works actively in conjunction with Treasury to market Shari'ah-compliant treasury products and services to corporate clients.

Since inception, Unicorn has successfully placed approximately US$3.3 billion of debt and equity. The Bank's financial success reflects the ability of the placement departments to distribute the investment banking products and services of the business lines both in the GCC region and in international markets, including the greater MENA region, Turkey and South East Asia. The Bank's primary placement teams operate from Unicorn's headquarters in Bahrain, with Unicorn Malaysia supporting the Bank's distribution efforts in South East Asia and Unicorn Capital Turkey supporting distribution efforts in Turkey. Unicorn's commitment and ongoing efforts to expand its presence in key international markets will enhance the Bank's global placement efforts.

Corporate Governance and Compliance

IN 2006, UNICORN ADOPTED THE NEW CORPORATE GOVERNANCE CHARTER TO ENSURE THAT THE BOARD FOLLOWS THE HIGHEST STANDARDS OF ETHICAL CONDUCT, REPORTS RESULTS WITH ACCURACY, TRANSPARENCY AND INTEGRITY, MAINTAINING FULL COMPLIANCE WITH ALL THE LAWS, RULES AND REGULATIONS THAT GOVERN THE BANK'S BUSINESS.

The Board of Directors

The prime responsibility of the Board of Directors (the Board) is to provide effective governance over the Bank's affairs as a fiduciary duty towards its shareholders, customers, employees and other stakeholders. In 2006, Unicorn adopted the new Corporate Governance Charter to ensure that the Board follows the highest standards of ethical conduct, reports results with accuracy, transparency and integrity, maintaining full compliance with all the laws, rules and regulations that govern the Bank's business.

The Board is comprised of members from diverse backgrounds, who combine a broad spectrum of experience and expertise with a reputation for integrity and professionalism.

There are currently nine directors on the Board, each serving a three-year term. Seven directors are non-executive, of whom three are independent. Majid Al Sayed Bader Al-Refai, Unicorn's Managing Director and Chief Executive Officer, and Ayman Sejiny are executive members of the Board.

The Board has the responsibility for providing the strategic direction to the Bank. The Board continually assesses Unicorn's objectives, strategies and plans to ensure that they are relevant and will facilitate the desired results. As part of this process, the Board reviews the Bank's business plans, approves financial budgets, sets performance objectives, oversees major capital expenditures, approves major investment proposals, acquisitions and divestitures and approves the Bank's risk profile and risk appetite.

Shari'ah Supervisory Board and Shari'ah Assurance

Shari'ah compliance is the cornerstone of Unicorn's operations. A seven-scholar Shari'ah Supervisory Board provides Islamic advice and guidance to ensure that all Unicorn activities comply with Shari'ah law. The members of the Shari'ah Supervisory Board are prominent Islamic scholars who are well versed in international financial markets and have a proven track record in the implementation of Shari'ah rules and principles in Islamic banks, as well as in product development and structuring Islamic finance techniques.

The Shari'ah Supervisory Board is proactively involved in all product development and investment decisions relating to transactions, and all underlying contractual documentation is only finalised after obtaining the approval of the Shari'ah Assurance Department under the direct oversight of the Shari'ah Supervisory Board. The Shari'ah Supervisory Board sets out the Islamic opinions (Fatwas) which are required for approval of the structures of each financial transaction, service or investment product.

Unicorn's Shari'ah Assurance division works closely with the Shari'ah Supervisory Board in the development and pre-screening of every business proposition. The Shari'ah Assurance division also plays a key role in ensuring that the Fatwas of the Shari'ah Supervisory Board are consistently applied.

Board Committees

Board Executive Committee

The Board Executive Committee of Unicorn is a standing committee of the Board of Directors. The primary purpose of the Committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain investment proposals.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee is responsible

Corporate Governance and Compliance continued

for assisting the Board in reviewing and overseeing the following responsibilities:

- Board of Directors' and individual directors' performance
- Effectiveness of, and compliance with, the Bank's corporate governance policies and practices
- Succession planning for the Board and senior management
- Staff remuneration policy and fees for non-executive directors and for the Shari'ah Supervisory Board

Audit Committee
The Audit Committee consists of non-executive directors and assists the Board in fulfilling its responsibilities relating to:

- The integrity of the Bank's financial statements, financial reporting process, and systems of internal accounting and financial controls
- The appointment of the internal auditor and the regular review of the internal audit function
- The annual independent audit of the Bank's financial statements, including making recommendations to the full Board for the engagement of the external auditors and the evaluation of the external auditors' qualifications, independence and performance
- Compliance by the Bank with legal and regulatory requirements, including the Bank's disclosure controls and procedures; and compliance with the Bank's code of conduct
- Overseeing the Bank's risk profile and risk appetite

Internal Audit
Internal Audit reports directly to the Board Audit Committee to provide independent and objective assurance over the governance, adequacy, sustainability and effectiveness of the Bank's internal controls, policies and risk management processes. All key operational, financial and risk management processes are audited according to risk based methodologies. Internal Audit examines the strategies of the Bank, the adequacy of the relevant policies and procedures and the Bank's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with Management and reports its findings, recommendations and opinions, via a structured process, to the Board Audit Committee. The Internal Audit recommendations are tracked for resolution via the Bank's Risk Committee, which Internal Audit attends as an independent observer.

Compliance Process
Unicorn is committed to meeting the highest levels of ethical standards in all areas of its operations. The Chief Compliance Officer of the Bank is responsible for preparing compliance policies for Board review and approval, and administering and enforcing these policies. These policies establish standards and controls that protect the Bank, its staff, subsidiaries, associates, affiliates, special purpose vehicles and joint venture operations from violating any laws in the various jurisdictions in which the Bank conducts its business.

As part of the Anti-Money Laundering policy of the Bank and its Know Your Customer procedures, potential investors are also rigorously screened via the investor relations process.

Management Committees
The Bank's management committees consist of the Management Executive Committee, the Risk Committee, the Asset and Liability Committee, the Information Technology Steering Committee, the Investment and Post Investment Management Committee and the Human Resources Committee. They are responsible directly to the Managing Director and CEO.

Management Executive Committee (MEC)
The MEC is the Managing Director and Chief Executive Officer's forum for major operational decisions and it serves as management's principal decision-making body to oversee the overall direction and operations of the Bank.

SHARI'AH COMPLIANCE IS THE CORNERSTONE OF UNICORN'S OPERATIONS. A SEVEN-SCHOLAR SHARI'AH SUPERVISORY BOARD PROVIDES ISLAMIC ADVICE AND GUIDANCE TO ENSURE THAT ALL UNICORN ACTIVITIES COMPLY WITH SHARI'AH LAW.

The MEC is responsible for formulating and supervising the execution of Unicorn's strategic plan, the establishment of new subsidiaries or physical presences and the acquisition of new licences, internal policies and procedures, and the prioritisation and allocation of resources across the entire Bank's operations and product lines.

Investment and Post-Investment Management Committee (IPIMC)

The purpose of the IPIMC is to ensure and oversee the efficient and comprehensive transition of an investment transaction from the point of origination to the point of closing, including all internal approval requirements and external financial and legal due diligence. The Committee includes management, product origination, finance and risk officers.

The IPIMC also assumes responsibility for the monitoring of all existing investments with the objective of ensuring the fulfilment of all closing requirements of the transaction. The Committee is also responsible for post-investment management and overseeing the ongoing performance of the portfolio to ensure a successful exit.

Asset and Liability Committee (ALCO)

The Asset and Liability Committee (ALCO) establishes the funding, liquidity and market risk policies for the Bank. 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 Bank, 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, medium and long term funding strategies is developed in conjunction with the Bank's treasury and capital markets functions.

Human Resources Committee

The responsibility of the Human Resources Committee is to oversee the management, development and implementation of all human resources practices and policies, in order to support and enhance the strategic objectives of the Bank, ensuring that it maintains its competitive advantage by attracting, developing, rewarding and retaining the highest calibre individuals within the market place.

Risk Committee

The Risk Committee has the overall responsibility for ensuring that the Bank develops appropriate risk policies and strategies for the relevant business activities, within the recommended Basel II framework (the latter is addressed by an implementation sub-committee). The Risk Committee oversees: the risk management, compliance and operational activities of the Bank and reviews and approves risk management principles, frameworks, policies, limit processes and procedures. It is responsible for assessing all fundamental risk issues within the general development strategy of the Bank.

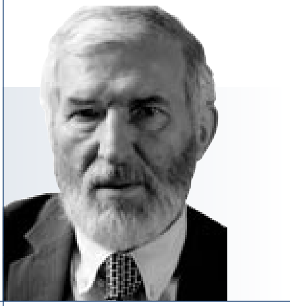
Information Technology (IT) Steering Committee

The IT Steering Committee is responsible for ensuring that the Bank's IT platforms meet the requirements and operating objectives of each of the Bank's respective business lines. The IT Steering Committee is also responsible for the strategic direction, implementation and significant enhancement of all IT systems, with authorities for IT infrastructure expenditure.

Shari'ah Supervisory Board

Dr. Khalid Mathkoor Al-Mathkoor
Chairman

Dr. Aagil Jasim Al-Nashmy
Deputy Chairman



Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Chairman,
Executive Committee

Sh. Abdul-Aziz Mohammad Al-Gasim

Dr. Ali Muhyealdin Al-Quradaghi

Dr. Mohammad Daud Baker

Sh. Nizam Mohammad Saleh Yaqouby

Consolidated Financial Statements

for the year ended 31 December 2007

CONTENTS

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)

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.

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

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

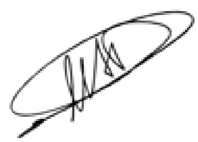
At 31 December 2007

(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

(Amounts in United States Dollars thousands)

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

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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		

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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	-	-	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

(Amounts in United States Dollars thousands)

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%.