2008

Unicorn Investment Bank Annual Report

Unicorn
Investment Bank

Contents

H.H. Shaikh Khalifa bin Salman Al Khalifa

Prime Minister

H.M. King Hamad bin Isa Al Khalifa

King of Bahrain

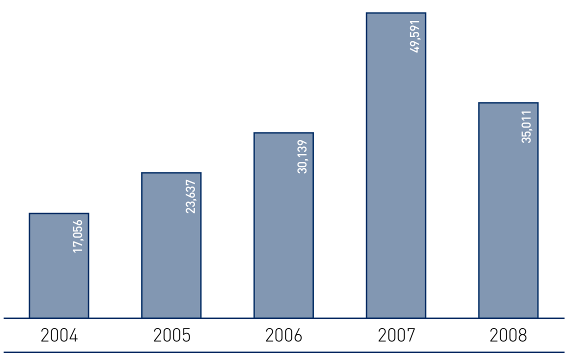
H.H. Shaikh Salman bin Hamad Al Khalifa

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

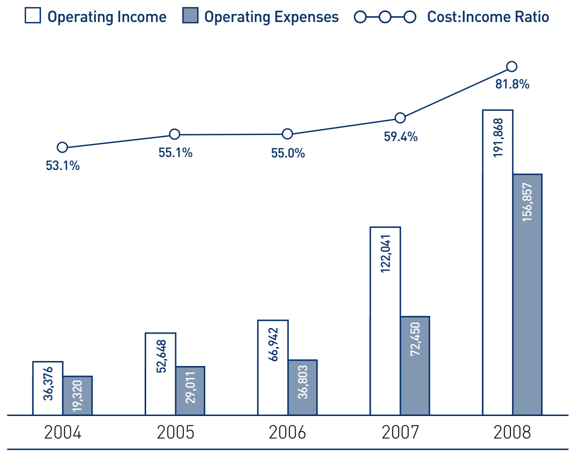
Financial Highlights

(All Amounts in US$000)

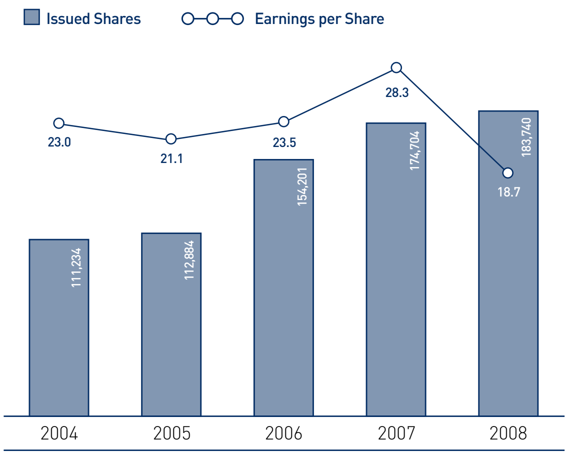
NET PROFIT (US$ THOUSANDS)



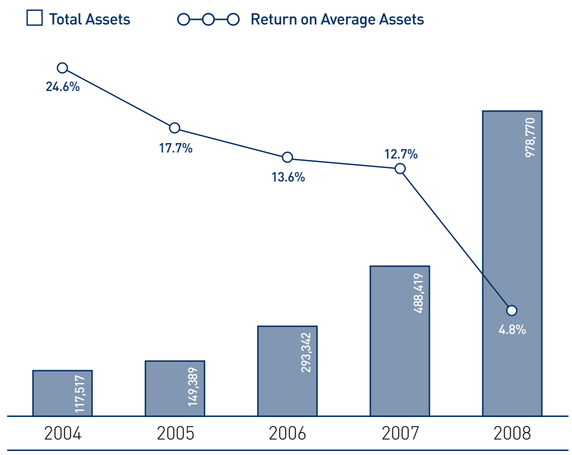
COST:INCOME RATIO (%)



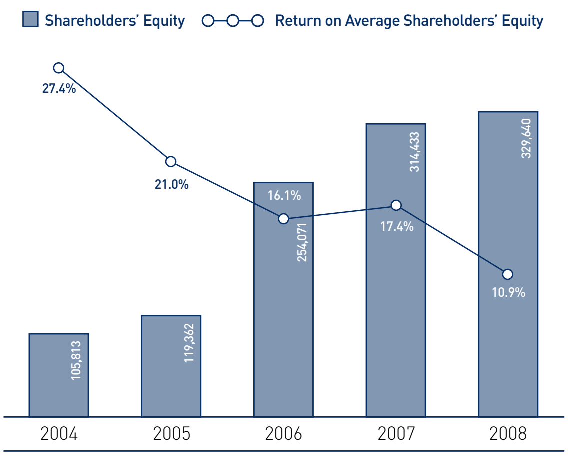
BASIC EARNINGS PER SHARE (US CENTS)



RETURN ON AVERAGE ASSETS (%)



RETURN ON AVERAGE SHAREHOLDERS' EQUITY (%)



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

Consolidated Performance Summary

(Amounts in United States Dollars thousands)	**2008**	2007	2006	2005	2004 (8 months)
Profit before impairments & fair value write-downs	**73,783**	50,435	30,139	23,637	17,056
Net profit	**35,011**	49,591	30,139	23,637	17,056
Total assets	**978,770**	488,419	293,342	149,389	117,517
Due from financial institutions	**396,614**	72,480	89,803	51,729	69,993
Investment securities	**328,560**	211,393	123,456	31,398	44,000
Total liabilities	**524,859**	140,096	23,851	18,739	11,704
Due to financial institutions	**399,573**	70,371	NIL	NIL	NIL
Shareholders' equity	**329,640**	314,433	254,071	119,362	105,813
Total equity	**453,911**	348,323	269,491	130,650	105,813
Return on average assets (per cent)	**4.8%**	12.7%	13.6%	17.7%	24.6%
Return on average shareholders' equity (per cent)	**10.9%**	17.4%	16.1%	21.0%	27.4%
Cost:income ratio after impairments & fair value write-downs (per cent)	**81.8%**	59.4%	55.0%	55.1%	53.1%
Liquidity ratio (per cent)	**129.1%**	245.3%	n/a	n/a	n/a
Financial leverage (per cent)	**90.9%**	22.4%	NIL	NIL	NIL
Tier 1 capital adequacy ratio (per cent)	**30.8%**	43.3%	67.9%	120.0%	n/a
Total capital adequacy ratio (per cent)	**30.8%**	44.7%	70.8%	120.0%	n/a
Basic earnings per share (US cents)	**18.7**	28.3	23.5	21.1	23.0

Note: the 2004 figures cover the period May-December 2004 (i.e. 8 months). The following ratios for 2004 have therefore been annualised: return on average assets; return on average shareholders' equity; and basic earnings per share.

Board of Directors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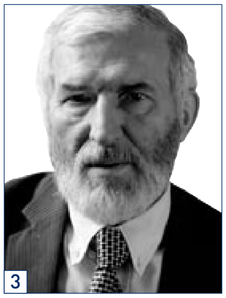
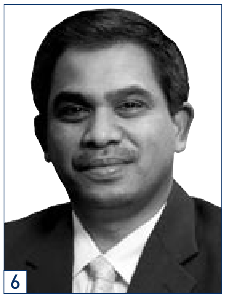
1. **Yousef A. Al-Shelash** - Chairman
2. **Majid Al Sayed Bader Al-Refai -** Managing Director and Chief Executive Officer
3. **Hethloul Saleh Al-Hethloul**
4. **Bader Sulaiman Al-Jarallah**
5. **Abdullatif Abdullah Al-Shalash**
6. **Ayman Abdullah Boodai**
7. **Bader Abdulaziz Kanoo**
8. **Ayman Amin Sejiny**
9. **Waleed Ahmad Al-Sharhan**

Shari'ah Supervisory Board






1. **Dr. Khalid Mathkoor Al-Mathkoor** - Chairman
2. **Dr. Aagil Jasim Al-Nashmy** - Deputy Chairman
3. **Dr. Abdul Sattar Abdul Kareem Abu Ghuddah** - Chairman, Executive Committee
4. **Sh. Abdul-Aziz Mohammad Al-Gasim**
5. **Dr. Ali Muhyealdin Al-Quradaghi**
6. **Dr. Mohammad Daud Bakar**
7. **Sh. Nizam Mohammad Saleh Yaqouby**

Chairman's Message

46%

increase in operating profit before impairments and fair value write-downs

In 2008, Unicorn Investment Bank (Unicorn) delivered a record operating profit before impairments and fair value write-downs of US$73.8 million. This represents an increase of 46% from the comparable figure of US$50.4 million in 2007. Net profit after impairments and fair value write-downs was 29% lower than 2007, at US$35.0 million. Return on average shareholders' equity in 2008 was 10.9% and earnings per share were 18.7 US cents. The Board of Directors has recommended that no dividend be paid for 2008.

Despite difficult global economic conditions and a challenging operating environment in 2008, Unicorn continued to make good progress towards realising its vision of building a full-service global Islamic investment bank. We successfully closed a number of important transactions, we strengthened each of our business lines, we continued to expand our presence and our capabilities in international markets and we further strengthened our capital and funding base and improved our liquidity.

In light of the adverse effects of the global financial crisis, Unicorn adopted a conservative and prudent approach to the valuation of its private equity portfolio and recorded write-downs of US$31.8 million. The write-downs reflect current market uncertainties and the drop in valuations across the globe, but we are confident that the long-term business prospects for the companies in question remain sound. We also made impairment charges of US$7.0 million against our portfolio of Sukuk and available for sale equity investments.

Throughout the year, Unicorn remained steadfast in its focus on disciplined growth, prudent risk management and sound corporate governance. While no bank is completely immune from the effects of the market turmoil, the impact on Unicorn has been minimised as a result of our conservative business model and our prudent approach to risk management. As a Shari'ah-compliant bank, Unicorn has no exposure to the toxic assets that have caused major losses to be incurred across the global banking industry. Furthermore, the Bank has only minimal holdings of listed equities and very limited real estate exposure.

All banks with significant interbank borrowings have been affected by the tightening of liquidity and the general drop in confidence within the banking system. This has affected the ability of banks to borrow, and has dramatically increased the cost of borrowing. Fortunately, Unicorn is in a relatively strong position in terms of liquidity and funding as a result of our prudent approach towards asset and liability management. The Bank's Asset and Liability Committee (ALCO) has continued to play an active role in monitoring cash flow requirements and managing the Bank's funding and liquidity throughout the crisis. Furthermore, we successfully closed a US$125 million 3-year syndicated facility in February 2008. This significantly strengthened our funding base and substantially reduced our dependence on short-term interbank borrowings.

A further sign of our financial strength is the fact that Unicorn is very strongly capitalised. Shareholders' equity increased by US$110 million in 2008 as a result of the Bank's successful international private placement and this has increased the Basel II capital adequacy ratio to 30.8%. This is significantly above the Central Bank of Bahrain minimum target ratio of 12.5%.

WE SUCCESSFULLY CLOSED A NUMBER OF IMPORTANT TRANSACTIONS, WE STRENGTHENED EACH OF OUR BUSINESS LINES, WE CONTINUED TO EXPAND OUR PRESENCE AND OUR CAPABILITIES IN INTERNATIONAL MARKETS AND WE FURTHER STRENGTHENED OUR CAPITAL AND FUNDING BASE AND IMPROVED OUR LIQUIDITY.

Despite our strong position, conditions will continue to be challenging in the months ahead and we have taken active measures to further strengthen our funding and liquidity position. In October, we established a Global Market Crisis Committee, comprising the members of ALCO and the Management Executive Committee, to monitor liquidity and protect the Bank's long-term interests during the global economic crisis. Actions taken to-date include the introduction of a Minimum Liquidity Ratio, whereby sufficient liquidity is maintained at all times to cover the Bank's projected cash outgoings for the next 12 months. We have also implemented several initiatives to obtain new sources of funding, both regional and international.

To summarise, despite the extraordinary depth of the economic downturn and the difficulty in predicting its duration and long-term impact, the Unicorn Board of Directors and management team are working proactively to reposition Unicorn to meet the challenges ahead. We are committed to protecting our valuable business franchise and to seizing any investment opportunities that may present themselves in a controlled and prudent manner.

We are enormously grateful to all those who continue to facilitate our progress: the Central Bank of Bahrain for its guidance and support; the Shari'ah Supervisory Board for their invaluable counsel; the Bank's shareholders and clients for their trust and confidence in Unicorn; and last, but certainly not least, our exceptional team of employees around the world who share the Unicorn vision and continue to work tirelessly to make it a reality and protect the interests of our shareholders.

Yousef Abdullah Al-Shelash
Chairman

CEO's Message

THE GLOBAL FINANCIAL TURMOIL HAS HIGHLIGHTED WHAT THOSE OF US WHO HAVE BEEN CHAMPIONING ISLAMIC FINANCE FOR DECADES HAVE ALWAYS MAINTAINED: ISLAMIC FINANCE DOESN'T MAKE SENSE ONLY FOR MUSLIMS; IT MAKES SENSE FOR EVERYONE.

Opportunities can be found even in the most challenging of circumstances, and 2008, a year of unprecedented global economic turmoil, has in many ways created a significant 'coming of age' opportunity for the Islamic finance industry. Islamic banks such as Unicorn are not exposed to the toxic assets that have caused major losses to be incurred across the global banking industry and they do not engage in the practices that precipitated the crisis. Therefore, as the financial crisis has worsened and economies around the world have suffered from its catastrophic effects, Islamic finance has begun to attract increased global attention.

While the Islamic finance industry has been in the spotlight for many years now, the fundamental strengths and intrinsic benefits of the Islamic banking model are now becoming widely acknowledged and accepted. Islamic finance requires all transactions to be backed by underlying physical assets, which means that there is a clear and inexorable link between Shari'ah-compliant banking and real economic activity. Because financial expansion cannot be decoupled from real economic growth, Islamic finance has in-built safety mechanisms which prevent Islamic banks from engaging in excessive leveraging and speculation. Furthermore, the principle of risk-sharing which is fundamental to Shari'ah-compliant finance introduces greater discipline to Islamic banks and encourages the adoption of prudent risk management practices.

In short, the global financial turmoil has highlighted what those of us who have been championing Islamic finance for decades have always maintained: Islamic finance doesn't make sense only for Muslims; it makes sense for everyone. Good governance and prudent risk management are inherent in Islamic finance, and there is now a growing appreciation of the intrinsic link between Shari'ah compliance and disciplined growth.

Islamic banking essentially uses the same best practice credit assessment and risk management disciplines and techniques as the best global conventional banks. However, the Shari'ah-compliant banking model has the added advantage that financial expansion is never de-linked from real economic growth. The current global financial crisis provides conventional and Islamic financial institutions with a clear opportunity to work together on the ground to build a more robust financial system combining the very best of the conventional banking model with the inherent strengths and stability of Islamic banking.

2008 was a year in which Unicorn's diversified business model once again demonstrated its value and resilience. The Unicorn vision is to build a full-service, global Islamic investment bank, and as such, we have deliberately avoided a narrow focus on specific investment sectors such as real estate and the stock markets and have sought instead to develop a comprehensive product and service offering.

I am pleased to report that, with Allah's blessing, this strategy served us well during the year. We significantly strengthened each of our six business lines and successfully completed several important transactions, including our landmark acquisition of Bahrain Financing Company, one of the leading foreign exchange and remittance houses in the GCC. Private equity transactions included the Unicorn

2008

Unicorn's business model once again demonstrated its value and resilience

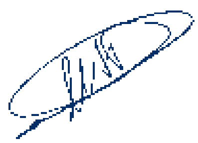
Global Private Equity Fund's acquisition of a 70% stake in Gulf Strategic Partners, a Bahrain-based company specialising in pre-operational cleaning services for petrochemical, power, oil and gas and process facilities; and the Bank's acquisition of Sun Well Services, a leading regional services provider to oil and gas exploration companies in the United States. Unicorn also sold its shares in UAE-based Orimix Concrete Products, generating a return on capital of 160% and an Internal Rate of Return (IRR) of 98%. In Asset Management, Unicorn raised capital for Turquoise Coast Investment Company, a real estate investment company established to provide investors with access to the vacation homes market on Turkey's Aegean Coast.

In addition, our international expansion strategy, which is core to our vision to build a global bank, was further advanced in November when we were awarded a license by Saudi Arabia's Capital Market Authority (CMA) to establish operations in the Kingdom. Unicorn Capital Saudi Arabia is currently fulfilling the regulatory and operational requirements to commence operations. We also strengthened our operations in Malaysia and Turkey.

While it is gratifying to report strong results and achievements year on year, we know that in order to sustain the long-term growth of the business, we need to continuously develop and enhance the Bank's infrastructure and operating capabilities. Accordingly, in recognition of the increasing size and diversity of our business, we took positive action in 2008 to re-engineer and strengthen our investment approval and post-acquisition review processes, primarily through the establishment of an independent Investment Process Office. This office is charged with coordinating the investment approval process, establishing independent post-acquisition review procedures and coordinating revenue generation management across each of Unicorn's business lines.

We also engaged a leading international strategy and organisational consultancy firm to conduct an independent business review of the Bank to ensure that Unicorn's operating structure, processes and governance activities are in line with international best practice. Our objective is to gain further comfort on the Bank's governance, operational, risk management and internal control environment and to clearly define the relationship between the Bank and its operating units.

Throughout the current financial crisis, Unicorn has sought to be proactive and stay 'ahead of the game'. We have conducted a thorough review of our current commitments and investment criteria and have re-focused our strategy to ensure that we are in a strong position to withstand the crisis and take advantage of the opportunities that may arise. While all of us would prefer a more positive economic outlook, I am confident that with Allah's grace, Unicorn will not only weather the current storm but will emerge from it stronger than ever.



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

US$35m

net profit for 2008

SUMMARY OF FINANCIAL PERFORMANCE

(US$ millions)	**2008**	2007	2006
Investment banking fees	**24.78**	93.77	16.36
Other investment banking income	**111.61**	25.94	44.22
Investment banking income	**136.39**	119.71	60.58
Net (borrowing costs)/income from financial institutions	**(2.84)**	2.99	6.36
Share of (loss)/profit of associates	**(2.01)**	0.18	-
Revenue from Victron Inc.	**99.10**	-	-
Total income	**230.64**	122.88	66.94
Investment banking operating expenses	**(63.56)**	(72.45)	(36.80)
Victron Inc. expenses	**(93.30)**	-	-
Total expenses	**(156.86)**	(72.45)	(36.80)
Profit before impairments & fair value write-downs	**73.78**	50.43	30.14
Impairments	**(6.95)**	-	-
Fair value write-downs on investment securities	**(31.82)**	(0.84)	-
Net profit	**35.01**	49.59	30.14
Basic earnings per share (US cents)	**18.7**	28.3	23.5

Profit before investment write-downs and impairment charges grew by US$23.4 million (46%) in 2008, from US$50.4 million in 2007 to US$73.8 million in 2008. Net profit after impairments and fair value write-downs was US$35.0 million in 2008, US$14.6 million or 29% lower than 2007. Basic earnings per share were 18.7 US cents, a 34% drop from 2007.

The fair value write-downs and impairments recorded by Unicorn in 2008 reflect the current market uncertainties and the general drop in valuations across the globe. Unicorn did not suffer any actual credit or other losses in 2008 and the write-downs and impairments are merely prudent provisions against investments made prior to 2008 when market valuations were much higher. Most of the provisions were made at year-end and they comprise: fair value write downs of US$31.8 million against the Bank's private equity portfolio and impairment charges of US$7.0 million against Sukuk and equity securities. The long-term prospects for the companies and assets in question remain sound and the Bank would expect to see a reversal of these provisions as market conditions and asset valuations recover. The fair value write-down of US$0.8 million in 2007 related to Unicorn foregoing its share of the 2007 distribution and the 2008 liquidation of the Unicorn Gulf Springs Real Estate Fund.

Unicorn's performance remained robust throughout the year, despite the difficult market conditions, and investment banking income grew by US$16.7 million (14%) in 2008, from US$119.7 million in 2007 to US$136.4 million. Operating expenses from banking activities declined by US$8.9 million (12%) over the same period, despite a substantial increase in headcount and other costs as Unicorn expanded into new markets and increased its business activities. The year-on-year cost reduction primarily reflects a substantial reduction in performance related staff

UNICORN'S PERFORMANCE REMAINED ROBUST THROUGHOUT THE YEAR, DESPITE THE DIFFICULT MARKET CONDITIONS

bonuses. Excluding impairments and fair value write-downs, the cost:income ratio for investment banking consequently improved from 60.5% in 2007 to 46.6% in 2008, well below the Bank's 50-60% target range for operational efficiency. The near doubling of investment banking income in 2007 over 2006 was due to the exceptional fees earned in 2007 on two major Sukuk issues and the related corporate restructuring advisory work for the client in question.

Net borrowing costs rose in 2008, from a net income of US$3.0 million in 2007 to a net cost of US$2.8 million in 2008. This reflects a substantial increase in bank borrowings as Unicorn successfully increased its liquidity and funding surplus. Income from financial institutions rose by US$1.3 million (27%), from US$4.9 million in 2007 to US$6.2 million in 2008. The amount of surplus funds placed by Unicorn with other banks increased substantially during 2008, but the average profit rate earned on these murabaha receivables declined, from an average rate of 5.1% per annum in 2007 to an average rate of 3.4% in 2008. This reduction was in line with the general drop in market rates. Borrowing costs increased significantly in 2008, from US$1.9 million to US$9.0 million, as Unicorn increased its reverse murabaha and wakala deposits in order to strengthen the Bank's liquidity and funding. In 2006, Unicorn had no borrowings and the income from financial institutions of US$6.4 million reflected the profit earned from the placement of surplus funds with other banks.

The net contribution from associates declined, from a net profit of US$0.2 million in 2007 to a net loss of US$2.0 million in 2008. The 2008 losses mostly reflect Unicorn's share of the first full year of operating costs of T'azur, the takaful company established by Unicorn in late 2007. The contribution from associates was zero in 2006 because Unicorn's only associate holding at that time was Dawood Islamic Bank which was still in its incorporation phase in 2006

The revenue and expenses from Victron Inc. relate to an electronic manufacturing and supply chain management services company based in California that was acquired by the Bank's private equity business in December 2007. Victron achieved a net profit of US$5.8 million in 2008, reflecting sales revenue of US$99.1 million less cost of sales of US$80.9 million and other expenses of US$12.4 million.

Investment Banking Fee Income

(US$ millions)	**2008**	2007	2006
Advisory and placement fees	**12.25**	14.27	16.36
Structuring fees	**6.16**	28.76	-
Arrangement and underwriting fees	**1.36**	49.97	-
Performance fees	**5.01**	0.77	-
Total investment banking fees	**24.78**	93.77	16.36

Investment banking fee income decreased by US$69.0 million (74%) in 2008, from US$93.8 million to US$24.8 million. Arrangement and underwriting fees saw a marked decline in 2008 due to a substantial reduction in Sukuk activity. 2007 was an exceptional year when the Bank's fees were boosted by two major Sukuk issues that raised a total of US$1.6 billion. By contrast, Sukuk issuance in the GCC region was substantially lower in 2008 mostly due to adverse market conditions. Therefore, although Unicorn successfully won several Sukuk mandates in 2008, none of these came to market. Structuring fees were also lower in 2008, mainly because 2007 benefited from a major private equity acquisition in the United States and the launch of the Strategic Acquisition Fund (SAF). Advisory and placement fees remained fairly buoyant in 2008 due to the benefit of a major capital markets and corporate advisory assignment. Performance fees increased as Unicorn sold its shares in UAE-based Orimix Concrete Products (Orimix), generating a return on capital of 160% and an internal rate of return (IRR) of 98%.

Other Investment Banking Income

(US$ millions)	**2008**	2007	2006
Revenue from non-banks	**0.70**	5.07	1.08
Gain on sale of investments	**53.70**	13.19	24.02
Fair value gain on investment securities	**44.38**	-	12.91
Fair value gain on investment properties	**4.17**	-	-
Dividend income	**1.15**	2.79	2.17
Management fees	**3.19**	2.75	1.95
Other income	**4.32**	2.14	2.09
Other investment banking income	**111.61**	25.94	44.22

THE FAIR VALUE WRITE-DOWNS AND IMPAIRMENTS REFLECT THE CURRENT MARKET UNCERTAINTIES AND THE GENERAL DROP IN VALUATIONS ACROSS THE GLOBE. THE BANK WOULD EXPECT TO SEE A REVERSAL OF THESE PROVISIONS AS MARKET CONDITIONS AND ASSET VALUATIONS RECOVER.

Other investment banking income increased substantially in 2008, from US$25.9 million in 2007 to US$111.6 million. The growth mainly reflected significant gains on the sale of investment securities and fair value gains on investments.

Income from non-banks was US$0.7 million in 2008 and comprised income from the Bank's Sukuk holdings. This income was supplemented in 2007 (and to a lesser extent in 2006) by income received from the Bank's participation in a Kuwaiti healthcare sector sale and repurchase agreement.

Gains on the sale of investment securities were much higher in 2008, despite the difficult market conditions and the generally poor investor sentiment. The 2008 income of US$53.7 million reflected the proceeds from the sale of listed equities that were received in prior years in lieu of fee income; the sale of Orimix; and the partial sell-down to third party investors of the Bank's investments in Bahrain Financing Company, Turquoise Coast and Teshkeel. The fair value gain on investment securities of US$44.4 million reflected the fair value increase of the Bank's remaining investment in Bahrain Financing Company, Turquoise Coast and Teshkeel. Unicorn utilises the Venture Capital accounting treatment for investments carried at fair value through statement of income, whereby unrealised fair value gains (or losses) are recorded in the income statement. The fair value gain on investment securities of US$12.9 million in 2006 represented the unrealised gain on the Bank's investment in an upscale shopping mall development in Jordan.

The fair value gain on investment properties (US$4.2 million in 2008) reflects the increase in value of a plot of land that the Bank acquired in 2007. The fair value as at 31 December 2008 was determined by independent valuers using comparable recent market transactions as the main basis for the valuation.

The majority of the Bank's dividend income arises on shares from a listed entity in Saudi Arabia that were received in prior years in lieu of fee income. The cash dividends on these shares were much lower in 2008 because the company in question paid bonus shares instead of cash dividends. As a result, Unicorn's dividend income declined from US$2.8 million in 2007 to US$1.2 million in 2008.

Management fees arise primarily from the Bank's Global Private Equity Fund and Strategic Acquisition Fund. These fees have increased steadily over the years as the underlying funds under management have risen. Management fees have progressively increased, from US$2.0 million in 2006 to US$2.8 million in 2007 and US$3.2 million in 2008.

Other income mostly comprises service fees in the Bank's overseas subsidiaries and foreign exchange translation differences. These items increased in 2008, leading to a significant growth in other income, from US$2.1 million in 2007 to US$4.3 million in 2008.

Operating Expenses

(US$ millions)	**2008**	2007	2006
Investment Banking			
Salaries and employment-related benefits	**29.83**	21.97	17.10
Performance-related bonuses	**7.48**	23.71	7.46
Share-based payments	**1.64**	4.00	-
Staff placement commissions	**2.00**	2.00	-
Severance payments	**-**	2.00	-
Investment banking staff costs	**40.95**	53.68	24.56
General and administrative expenses	**6.56**	5.58	2.28
Legal and professional fees	**5.31**	4.36	3.32
Business development costs	**4.50**	2.29	1.61
Premises and depreciation costs	**3.38**	2.23	1.81
Other non-staff costs	**2.86**	4.31	3.22
Investment banking non-staff costs	**22.61**	18.77	12.24
Investment banking operating expenses	**63.56**	72.45	36.80
Victron Inc.			
Cost of sales	**80.91**	-	-
Other expenses	**12.39**	-	-
Victron expenses	**93.30**	-	-
Total operating expenses	**156.86**	72.45	36.80
Cost:income ratio before impairments & fair value write-downs (per cent)			
Investment banking	**46.6%**	60.5%	60.7%
Total	**68.0%**	59.0%	55.0%
Cost:income ratio after impairments & fair value write-downs (per cent)			
Investment banking	**65.1%**	60.9%	60.7%
Total	**81.8%**	59.4%	55.0%
Period end headcount			
Investment banking	**194**	137	103
Victron Inc.	**297**	276	-

18.7 US Cents

basic earnings per share

Investment banking operating expenses were US$63.6 million in 2008, a decrease of US$8.9m (12%) from US$72.5 million in 2007. Staff costs declined by US$12.7 million (24%), from US$53.7 million to US$41.0 million. Salaries and employment-related benefits increased by US$7.9 million (36%), mainly due to headcount growth. Investment banking headcount increased by 57 (42%), rising from 137 to 194. Overseas headcount grew by 18 (39%), from 46 to 64, mainly in the Bank's Malaysian subsidiary. Headcount in Bahrain increased by 39 (43%), with growth in most business areas. Unicorn also strengthened its support teams to provide the necessary business support and control infrastructure to meet the substantial growth in the size and diversity of the Unicorn business.

Performance-related bonuses decreased by US$16.2 million (68%) in 2008. Performance-related bonuses in 2007 were exceptionally high, partly due to exceptional non-recurring expenses of US$7 million. Performance-related bonuses were pared back in 2008 to reflect the reality of the global financial crisis, even though Unicorn itself remained profitable in 2008. Staff costs in 2008 included share-based payments of US$1.6 million relating to the award of share grants as part of the Bank's stock option scheme (the Partnership Development Program or PDP). The 2007 share-based payments of US$4 million related to the award of free shares to 58 founder employees of the Bank. The award of the founder shares was a one-time event that represented the first component of the Bank's PDP stock option scheme. The PDP scheme was rolled out fully during 2008 as part of the Bank's performance management system. Staff placement commissions of US$2 million were the same as in 2007.

Investment banking non-staff expenses rose by US$3.8 million (20%), from US$18.8 million to US$22.6 million, as a result of the substantial growth in business activity and the expansion of Unicorn's overseas network.

14%

increase in investment banking income

Balance Sheet Analysis

Selected balance sheet data (US$ millions)	**2008**	2007	2006
Cash and balances with banks	**23.56**	12.64	15.14
Due from financial institutions	**396.61**	72.48	89.80
Total cash and cash equivalents	**420.17**	85.12	104.94
Investment securities	**328.56**	211.39	123.46
Investment properties	**38.53**	-	-
Premises and equipment	**6.78**	38.63	3.10
Total assets	**978.77**	488.42	293.34
Due to financial institutions	**399.57**	70.37	-
Shareholders' equity	**329.64**	314.43	254.07
Advances for proposed increase in share capital	**110.06**	-	-
Equity (after 2008 capital rise)	**439.70**	314.43	254.07
Return on average shareholders' equity (per cent)	**10.9%**	17.4%	16.1%
Return on average assets (per cent)	**4.8%**	12.7%	13.6%
Liquidity ratio (per cent)	**129.1%**	245.3%	n/a
Leverage ratio (per cent)	**90.9%**	22.4%	nil

GAINS ON THE SALE OF INVESTMENT SECURITIES WERE MUCH HIGHER IN 2008, DESPITE THE DIFFICULT MARKET CONDITIONS AND THE GENERALLY POOR INVESTOR SENTIMENT.

The Unicorn balance sheet size doubled in 2008, with total assets increasing by US$490.4 million, from US$488.4 million as at 31 December 2007 to US$978.8 million at 31 December 2008. The growth mainly reflected increased placements of surplus funds with other banks and a net increase in investment securities. This asset growth was funded by increased borrowings and additional equity.

Cash and cash equivalents increased by US$335.1 million, from US$85.1 million to US$420.2 million, reflecting the substantial increase in Unicorn's funding and liquidity in 2008 and the consequent increase in the amount of surplus funds placed with other banks. As at 31 December 2008, Unicorn had total bank borrowings, in the form of reverse murabaha and wakala deposits, of approximately US$400 million. These borrowings included a US$125 million 3-year syndicated commodity murabaha facility provided by regional and international banks. This facility closed in February 2008 and is repayable in February 2011. The remaining borrowings (US$275 million) comprised short term (i.e. up to 12 months) reverse murabaha and wakala deposits provided to Unicorn by regional and international financial institutions. Most of the increase in short term borrowings occurred in the fourth quarter of 2008, when Unicorn deliberately increased its funding and liquidity as a prudent response to the global financial crisis: short term borrowing increased by US$231 million in the fourth quarter, from US$44 million at 30 September 2008 to US$275 million at year-end. Despite the significant increase in borrowings, the Bank's leverage ratio (i.e. the proportion of borrowings to equity) remained fairly modest, at 90.9%. This is very low by investment banking standards. The liquidity ratio also remained strong, at 129.1%

There was a net increase of US$117.2 million (55%) in investment securities during 2008. New investments were made totalling approximately US$189 million, mainly reflecting the Bank's acquisition of Bahrain Financing Company. This increase was partly offset by investment write-downs (US$31.8 million) and impairment charges (US$7.0 million) against investments that Unicorn had made prior to 2008 when market valuations were much higher.

The movements in investment properties and premises and equipment in 2008 mostly reflect the reclassification of a plot of land in Bahrain from premises and equipment to investment properties, due to a change in the intended use of the land. Following the reclassification, the value of the land has been increased by US$4.2 million, based on a 2008 year-end fair valuation undertaken by accredited independent valuers.

Shareholders' equity, as reported in the 31 December 2008 balance sheet, increased by US$15.2 million in 2008, from US$314.4 million to US$329.6 million. In addition, a figure of US$110.1 million is shown under equity as 'advances for proposed increase in share capital'. This reflects the capital raise proceeds that were received from the Bank's 2008 private placement. Although the funds were received in August 2008, the legal formalities to update the Bank's memorandum and articles of association were not completed until just after year-end. As a result, the US$110.1 million is not shown under shareholders' equity, even though the new shareholders were accepted in August 2008 and the funds were deployed in Unicorn's business operations.

DIVIDEND DISTRIBUTION AND APPROPRIATION OF INCOME

The net profit attributable to Unicorn shareholders in 2008 was US$34.3 million. This increased the Bank's retained earnings, before appropriations, from US$20.0 million as at 1 January 2008 to US$54.3 million.

THE BANKS LEVERAGE RATIO REMAINED FAIRLY MODEST, AT 90.9%. THIS IS VERY LOW BY INVESTMENT BANKING STANDARDS. THE BANKS LIQUIDITY RATIO ALSO REMAINED STRONG, AT 129.1%.

The following appropriations and adjustments were made to retained earning for 2008:

- In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for 2008 (i.e. US$3.4 million) has been transferred to statutory reserve.
- In accordance with the AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) accounting standards, the unrealised fair value gains on investment securities (US$44.4 million) and investment properties (US$4.2 million) have been transferred to the fair value reserve.
- An amount of US$0.6 million has been added to retained earnings to reflect employees' share-based payments that have yet to be made.

The above appropriations and adjustments reduced the Bank's retained earnings to US$2.9 million as at 31 December 2008. As a result, the Bank is not paying a dividend for 2008. This decision was approved by the Bank's shareholders at the Ordinary General Meeting in April 2009.

CAPITAL MANAGEMENT AND ALLOCATION

Unicorn Investment Bank B.S.C. (c) is a closed, unlisted company incorporated in the Kingdom of Bahrain and licensed as a Wholesale Bank (Islamic Principles) by 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. In November 2008, the Bank was awarded a license by the Saudi Arabian Capital Market Authority to establish operations in the Kingdom. Unicorn Capital Saudi Arabia is currently fulfilling the regulatory and operational requirements to commence operations.

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 market risk. In accordance with the CBB guidelines, the Bahraini banks (including Unicorn) must maintain a minimum target capital adequacy ratio of 12.5% on a consolidated basis, and 8.5% on a solo basis.

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

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.

US$978.8m

total assets

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 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, the 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.

90.9%

leverage ratio

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

Capital Structure

The following table details the regulatory capital resources for Unicorn as at 31 December 2008, 31 December 2007 and 31 December 2006. The figures are shown after the payment of the dividends for the respective years:

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.

Composition of capital (before 2008 capital raise)

(US$ millions)	**Basel II 2008**	Basel II 2007	Basel I 2006
Tier 1 capital			
Paid-up share capital	**183.74**	174.70	154.20
Share premium	**71.22**	70.50	69.27
Reserves	**44.14**	32.46	8.29
Minority interests	**0.04**	0.84	-
Less: goodwill	**(1.99)**	(2.16)	-
Less: unrealised fair value losses on investment securities	**(31.98)**	-	-
Less: 50% of investment in Dawood Islamic Bank	**(5.85)**	-	-
Less: 50% of investment in T'azur	**(6.37)**	(7.50)	-
Less: excess amounts over maximum permitted large exposure limits	**(27.16)**	-	-
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(28.64)**	-	-
Total qualifying Tier 1 capital	**197.15**	268.84	231.76
Tier 2 capital			
Fair value gains	**48.96**	36.78	22.32
Less: regulatory discount (55%) on fair value gains	**(26.93)**	(20.23)	(12.28)
Less: 50% of investment in Dawood Islamic Bank	**(5.85)**	-	-
Less: 50% of investment in T'azur	**(6.37)**	(7.50)	-
Less: excess amounts over maximum permitted large exposure limits	**(38.45)**	-	-
Addition to Tier 2 to absorb Tier 2 capital deficiency	**28.64**	-	-
Total qualifying Tier 2 capital	**-**	9.05	10.04
Total eligible regulatory capital	**197.15**	277.89	241.80

The figures in the above table do not include the benefit of the capital raise funds that were received during 2008 from the Bank's 2008 private placement. Although the capital raise proceeds were received in August 2008, the legal formalities to update the Bank's memorandum and articles of association to reflect the new shareholdings were not completed until just after the year-end. As a result, the 31 December 2008 balance sheet shows the capital raise proceeds as 'advances for proposed increase in share capital', under equity. A total of US$110.1 million was received from investors to purchase approximately 27.5 million new shares at a price of US$4 per share. In addition, approximately 4.3 million new shares (with a value of US$17.3 million) were issued to founder shareholders and employees as part of the capital raise process. The total cash and in-kind capital raise proceeds were therefore US$127.4 million. This amount, net of associated equity transaction costs of US$24.7 million, increased the Bank's Tier 1 capital by approximately US$102.7 million. The restated figures for 2008, including the 2008 capital raise proceeds in Tier 1 capital, are shown below.

UNICORN'S CAPITAL ADEQUACY POLICY IS TO MAINTAIN A STRONG CAPITAL BASE TO SUPPORT THE DEVELOPMENT AND GROWTH OF THE BUSINESS.

Composition of capital (after 2008 capital raise)

(US$ millions)	**Basel II 2008**	Basel II 2007	Basel I 2006
Tier 1 capital			
Paid-up share capital	**215.58**	174.70	154.20
Share premium	**142.01**	70.50	69.27
Reserves	**42.92**	32.46	8.29
Minority interests	**0.04**	0.84	-
Less: goodwill	**(1.99)**	(2.16)	-
Less: unrealised fair value losses on investment securities	**(31.98)**	-	-
Less: 50% of investment in Dawood Islamic Bank	**(5.85)**	-	-
Less: 50% of investment in T'azur	**(6.37)**	(7.50)	-
Less: excess amounts over maximum permitted large exposure limits	**(19.06)**	-	-
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(17.69)**	-	-
Total qualifying Tier 1 capital	**317.61**	268.84	231.76
Tier 2 capital			
Fair value gains	**48.96**	36.78	22.32
Less: regulatory discount (55%) on fair value gains	**(26.93)**	(20.23)	(12.28)
Less: 50% of investment in Dawood Islamic Bank	**(5.85)**	-	-
Less: 50% of investment in T'azur	**(6.37)**	(7.50)	-
Less: excess amounts over maximum permitted large exposure limits	**(27.50)**	-	-
Addition to Tier 2 to absorb Tier 2 capital deficiency	**17.69**	-	-
Total qualifying Tier 2 capital	**-**	9.05	10.04
Total eligible regulatory capital	**317.61**	277.89	241.80

Following the 2008 capital raise, eligible regulatory capital has increased by US$39.7 million (14%), from US$277.9 million at 31 December 2007 (on a Basel II basis), to US$317.6 million. Qualifying Tier 1 capital has increased by US$48.8 million (18%) to US$317.6 million, mainly reflecting the benefit of the 2008 capital raise, partly offset by deductions relating to unrealised fair value losses on investment securities and regulatory deductions for excess large exposures and investments in banks and insurance companies.

Paid-up share capital increased by US$40.9 million in 2008, from US$174.7 million to US$215.6 million, reflecting the issue of 40.9 million new shares at a par value of US$1 per share. The new shares comprised: 8.7 million shares issued in March 2008 as payment of the Bank's 5% stock dividend for 2007; 0.3 million shares issued to Unicorn employees under the Bank's PDP stock option plan; and a total of 31.8 million shares issued in connection with the 2008 private placement. Share premium rose by US$71.5 million, from US$70.5 million at 31 December 2007 to US$142.0 million, mostly due to the capital raise. The 2008 private placement placed

US$110.1m

received from investors to purchase approximately 27.5 million new shares

shares at a price of US$4 per share, i.e. a premium of US$3 per share over the par value of US$1 per share. The resulting increase in share premium of US$95.5 million was partly offset by the corresponding equity transaction costs of US$24.7 million, giving a net increase of US$70.8 million in share premium.

Prior to unrealised fair value losses on investment securities, reserves increased by US$10.5 million in 2008, from US$32.5 million to US$42.9 million. The unrealised fair value losses on investment securities (US$32.0 million in 2008) are shown as a separate deduction from Tier 1 capital. Minority interests declined by US$0.8 million because the Bank increased its shareholding in Unicorn Capital Turkey from 81.8% to 91.9%. The goodwill deduction in Tier 1 capital relates to Unicorn Capital Turkey which was acquired by Unicorn in 2007. The small reduction over 2007 reflects exchange rate movements rather than any impairment in the goodwill.

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 has a 25.86% interest in a regional takaful company (T'azur) and the value of this investment (US$12.7 million as at 31 December 2008) is consequently deducted from regulatory capital. The value of Unicorn's investment in T'azur at 31 December 2007 was US$15.0 million. The US$2.3 million reduction in 2008 reflects Unicorn's share of T'azur's losses in 2008 as T'azur incurred its first full year of start-up operating costs. Basel II also requires significant investments in unconsolidated banks and financial institutions to be deducted from eligible regulatory capital. As at 31 December 2008, Unicorn had an interest of 22.22% in Dawood Islamic Bank in Pakistan. The value of this investment (US$11.7 million as at 31 December 2008) is also consequently deducted from regulatory capital. In accordance with the CBB guidelines, 50% of the regulatory capital deductions are made from Tier 1 capital and the remaining 50% are made from Tier 2 capital.

The CBB large exposure guidelines impose a single obligor limit of 15% of available regulatory capital. Excess exposures above this limit require prior CBB approval and the excess amount must be deducted directly from eligible regulatory capital. As at 31 December 2008, the value of Unicorn's investment in Bahrain Financing Company was US$46.6 million above the CBB single obligor limit. This excess is consequently deducted from Tier 1 capital (US$19.1 million) and Tier 2 capital (US$27.5 million). The amounts deducted are not the same (i.e. they are not split 50%/50% between Tier 1 and Tier 2 capital), because the excess relating to fair value gains on Bahrain Financing Company is deducted solely from Tier 2 capital.

The final deduction from Tier 1 capital (US$17.7 million) is necessary to absorb the deficiency in Tier 2 capital.

Tier 2 capital includes the fair value gains relating to investment securities (US$44.4 million in 2008) and investment properties (US$4.2 million in 2008), and the fair value reserves relating to land (US$0.4 million as at 31 December 2008). A regulatory discount factor of 55% is applied to the fair value reserves, reducing the total gains of US$49.0 million by US$26.9 million. The other movements in Tier 2 capital reflect: 50% of the capital deductions for Dawood Islamic Bank (US$5.9 million) and T'azur (US$6.4 million); and the deduction relating to the excess exposure to Bahrain Financing Company (US$27.5 million). The resulting shortfall of US$17.7 million in Tier 2 capital is offset by the transfer of US$17.7 million from Tier 1 capital.

Capital Management

Unicorn's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of business growth expectations for each business group; future sources and uses of funds, including seed capital requirements and expected sell-down and placement targets; and the Bank's future dividend policy. The Bank also recognises the impact on shareholder returns of the level of capital employed and therefore seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity made possible by greater leverage. In the current environment, the Bank aims to maintain a minimum total capital adequacy ratio of around 18% and a minimum Tier 1 ratio of around 15%. Similarly, the Bank aims to operate with a modest amount of borrowings and to restrict its leverage ratio (i.e. total borrowings to shareholders' equity) to less than 200%.

The following tables detail the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for the Unicorn Group as at 31 December 2008 (with comparisons shown for year-end 2007 and year-end 2006 where appropriate). The figures are based on the Basel II standardised approach for credit risk and the Basel II basic indicator approach for operational risk.

The Group consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. For regulatory reporting and capital adequacy purposes, commercial entities are de-consolidated from the Group balance sheet and the underlying assets are risk-weighted under the applicable risk-weighting rules. Victron Inc. is treated in this way for regulatory reporting purposes, as are assets held for sale.

Credit risk-weighted assets

Under the CBB standardised approach, credit risk exposures are assigned to one of fifteen standard portfolios: claims on sovereigns; claims on international organisations; claims on non-central government public sector entities; claims on multilateral development banks; claims on banks; claims on investment firms; claims on corporates; regulatory retail portfolios; residential property; commercial real estate; past due exposures; investments in equities (split between listed and unlisted) and funds (split between rated and unrated); real estate holdings; other assets; and underwriting exposures. Unicorn's credit risk exposures are assigned to seven of the fifteen standard portfolios.

18%

increase in Tier 1 capital

UNICORN DOES NOT CURRENTLY ENGAGE IN ANY TRADING ACTIVITIES AND ITS ONLY MARKET RISK EXPOSURE ARISES FROM THE NET OPEN FOREIGN CURRENCY POSITIONS ARISING FROM ITS FOREIGN CURRENCY INVESTMENTS.

(US$ millions)	Risk-weighted equivalents 2008	2007	Basel II risk-weightings
Claims on sovereigns	**-**	-	n/a
Claims on international organisations	**-**	-	n/a
Claims on non-central government public sector entities	**-**	-	n/a
Claims on multilateral development banks	**-**	-	n/a
Claims on banks	**167.6**	38.0	20%-100%
Claims on investment firms	**-**	7.3	50%
Claims on corporates	**78.5**	-	100%
Regulatory retail portfolios	**-**	-	n/a
Residential property	**-**	-	n/a
Commercial real estate	**194.1**	-	200%
Past due exposures	**-**	-	n/a
Investments in equities and funds:			
Investments in listed equities	**6.4**	80.7	100%
Investments in unlisted equities	**265.6**	178.9	150%
Investments in unrated funds	**62.8**	49.9	150%
Real estate holdings	**-**	34.4	100%
Other assets	**16.0**	65.7	100%
Underwriting assets	**-**	-	n/a
Credit risk-weighted assets	**791.0**	454.9	

Market risk-weighted assets

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in profit rates, foreign exchange rates, equity prices and commodities. Under the CBB standardised approach, market risk exposures are calculated for five categories: price risk; equities position risk; Sukuk risk; foreign exchange risk; and commodities risk. The market risk-weighted exposures are determined by multiplying the market risk capital charge by a factor representing the reciprocal of the minimum CBB capital adequacy ratio requirement for the risk category in question.

Unicorn does not currently engage in any trading activities and its only market risk exposure arises from the net open foreign currency positions arising from its foreign currency investments. The bulk of the exposures are in Jordanian Dinar, Pakistan Rupee and Turkish Lira (Note 34 in the Consolidated Financial Statements gives a full breakdown). The market risk-weighted exposures for these positions are determined by multiplying the market risk capital charge by 12.5 (i.e. the reciprocal of the minimum CBB capital adequacy ratio requirement for foreign exchange risk of 8%).

THE 2008 YEAR-END BASEL II CAPITAL ADEQUACY RATIO IS WELL ABOVE THE CBB MINIMUM TARGET RATIO OF 12.5% AND LEAVES THE BANK STRONGLY CAPITALISED TO SUPPORT THE CONTINUED EXPANSION OF ITS BUSINESS ACTIVITIES IN 2009.

The details of the Unicorn market risk capital charge, and the equivalent market risk-weighted assets, as at 31 December 2008 and 31 December 2007 are shown below:

(US$ thousands)	2008	2007
Price risk	-	-
Equities position risk	-	-
Sukuk risk	-	-
Foreign exchange risk	**5,536**	5,323
Commodities risk	-	-
Total capital requirement for market risk	**5,536**	5,323
CBB multiplier	**12.5**	12.5
Market risk-weighted assets	**69,197**	66,537

Operational risk-weighted exposure

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. Under the Basel II basic indicator approach for operational risk, gross income is a broad indicator that serves as a proxy for the scale of the Bank's operations and hence the likely scale of operational risk exposure within the business. The operational risk capital charge is therefore calculated by multiplying the Bank's gross income by a factor (15%). This factor serves as a proxy for the industry-wide relationship between the operational risk loss experience for the business and the aggregate gross income for the business. The total operational risk capital charge is calculated as the three-year average gross income multiplied by the 15% factor. For the purposes of the calculation, gross income excludes extraordinary or exceptional income, such as realised gains on the sale of investment securities and fair value gains on investment securities. Total operational risk-weighted exposures are determined by multiplying the operational risk capital charge by 12.5 (i.e. the reciprocal of the minimum CBB capital adequacy ratio requirement for operational risk of 8%).

The details of the Unicorn operational risk capital charge, and the equivalent operational risk-weighted exposure, as at 31 December 2008 and 31 December 2007 are shown below:

(US$ thousands)	2008	2007
Investment banking gross income	**35,468**	109,699
Victron Inc. income	**99,104**	-
Total gross operating income	**134,572**	109,699
3 year average gross income	**91,428**	53,114
Basic indicator factor	**15%**	15%
Capital charge for operational risk	**13,714**	7,967
CBB multiplier	**12.5**	12.5
Operational risk-weighted exposure	**171,425**	99,588

30.8%

capital adequacy ratio

Risk-weighted assets

The total operational risk-weighted exposure is added to the credit and market risk-weighted assets to give the total risk-weighted exposures which are then used to calculate the Bank's capital adequacy ratio.

(US$ millions)	**Basel II 2008**	Basel II 2007	Basel I 2006
Credit risk-weighted assets	**791.0**	454.9	205.8
Market risk-weighted assets	**69.2**	66.5	135.7
Operational risk-weighted exposure	**171.4**	99.6	-
Total risk-weighted assets	**1,031.6**	621.0	341.5

Risk-weighted assets under Basel II increased by US$410.6 million (66%) in 2008, from US$621.0 million at 31 December 2007 to US$1,031.6 million. Credit risk-weighted assets increased by US$336.1 million (74%), from US$454.9 million to US$791.0 million, mainly driven by the growth in claims on banks, claims on corporates, commercial real estate and investments in unlisted equities. The growth in claims on banks reflects the substantial increase in Unicorn's funding and liquidity in 2008 and the consequent increase in the amount of surplus funds placed with other banks. The claims on corporates mainly reflect Sukuk holdings, financing provided to the Bank's private equity companies and receivables. Commercial real estate exposure mainly represents the Bank's investment in real estate developments in Jordan and Turkey, and a plot of land in Bahrain. The commercial real estate exposure also includes Unicorn's shareholding in a listed real estate development company in Saudi Arabia. This exposure was included under 'investment in listed equities' in 2007. Market risk-weighted assets were broadly unchanged, at US$69.2 million, since the Bank did not materially increase its investments in non-US dollar or non-GCC currency assets in 2008. The substantial increase in operational risk-weighted exposure (US$71.8 million, or 72% increase) reflects the substantial increase in operating income in 2008 (mostly due to the inclusion of Victron sales revenue).

Capital adequacy ratio

(Per cent)	**Basel II 2008**	Basel II 2007	Basel I 2006
Tier 1 capital adequacy ratio	**30.8**	43.3	67.9
Total capital adequacy ratio	**30.8**	44.7	70.8

The substantial balance sheet growth in 2008 resulted in a reduction in the Bank's capital adequacy position. The Basel II Tier I capital adequacy ratio declined from 43.3% at 31 December 2007 to 30.8% at 31 December 2008. The Basel II total capital adequacy ratio similarly declined, from 44.7% to 30.8% over the same period.

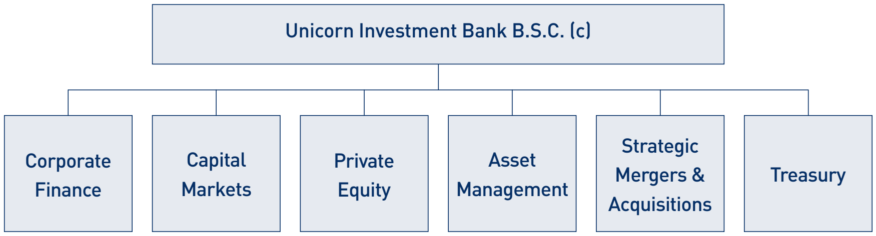
Despite the reduction, the 2008 year-end Basel II capital adequacy ratio remains well above the CBB minimum target ratio of 12.5% and it leaves the Bank strongly capitalised to support the continued expansion of its business activities in 2009.

The minimum capital required by Unicorn is shown in the table below. The figures reflect the total risk-weighted assets for each period and the regulatory capital required to meet the CBB minimum target capital adequacy ratio of 12.5 %. Unicorn is strongly capitalised, with total regulatory capital of US$317.6 million compared with the 2008 minimum requirement of US$129.0 million.

Minimum capital requirements

(US$ millions)	**Basel II 2008**	Basel II 2007	Basel I 2006
Credit risk	**98.9**	56.9	25.7
Market risk	**8.7**	8.3	17.0
Operational risk	**21.4**	12.4	-
Total capital requirements	**129.0**	77.6	42.7

BUSINESS LINE ANALYSIS
Principal Business Lines



- Capital planning and funding strategy
- Financial restructuring
- Mergers and acquisitions advisory

- Debt and equity offerings
- Sukuk issuances
- Asset backed securitisations
- Syndicated facilities
- Credit rating advisory services
- Proprietary investment book

- Direct investments
- Private equity funds

- Real estate funds
- Real estate private equity
- Equity funds
- Structured funds

- Investment bank acquisitions
- New offices and licenses
- Commercial bank acquisitions (through SAF)
- Special projects

- Funding
- Liquidity
- Hedging

US$420.2m

cash and cash equivalents

Unicorn has six principal business lines: Corporate Finance, Capital Markets, Private Equity, Asset Management, Strategic Mergers & Acquisitions and Treasury. The business lines are supported by two placement and relationship management teams: Investment Development and Distribution and Institutional Banking. The Bank also offers brokerage services through its operations in Turkey.

THE SALE OF ORIMIX GENERATED SIGNIFICANT INVESTMENT DISPOSAL GAINS AND SIGNIFICANT FUND PERFORMANCE FEES.

The table below shows a breakdown of the Bank's income for the last three years by business line:

Year ended 31 December (US$ millions)	2008			2007			2006		
Business Line:		**%**	**Head count**		**%**	**Head count**		**%**	**Head count**
Corporate Finance	**23.10**	**17%**	**6**	21.74	18%	4	7.89	12%	6
Capital Markets	**9.26**	**7%**	**5**	50.59	41%	6	30.93	46%	9
Private Equity	**16.90**	**13%**	**17**	31.65	26%	15	19.84	29%	13
Asset Management	**11.56**	**9%**	**12**	1.99	2%	8	1.95	3%	7
Strategic Mergers & Acquisitions	**64.36**	**49%**	**12**	12.68	10%	4	-	0%	2
Treasury	**5.11**	**4%**	**1**	2.99	2%	0	5.88	9%	0
Head Office	**1.25**	**1%**	**n/a**	1.25	1%	n/a	0.45	1%	n/a
Income (excluding Victron)	**131.54**	**100%**	**53**	122.89	100%	37	66.94	100%	37
Victron	**99.10**	**n/a**	**297**	-	n/a	-	-	n/a	-
Total income	**230.64**	**100%**	**350**	122.89	100%	37	66.94	100%	37

Corporate Finance income was US$23.1 million in 2008, an increase of US$1.4 million (6%) from US$ 21.7 million in 2007. The increase was mostly due to the profit on sale of shares received in lieu of fee income in earlier years.

2007 saw an increase of US$13.8 million in Corporate Finance income, from US$7.9 million in 2006. The increase principally reflected increased income from corporate advisory services, and in particular the corporate advisory fees in relation to the corporate restructuring of Saudi Arabia's Dar Al-Arkan Real Estate Development Company (Dar Al-Arkan).

Capital Markets income was US$9.3 million in 2008, a decrease of US$41.3 million (82%), from US$50.6 million in 2007. 2008 was a challenging year for the international Sukuk market with volumes declining as a result of the global economic downturn and the negative impact on global debt markets. This significantly decreased the division's income over the same period. The Capital Markets income in 2008 was partly offset by prudent impairment provisions of US$4.4 million against the division's Sukuk holdings.

2007 was an exceptionally good year for the Capital Markets division, and income increased by US$19.7 million (64%), from US$30.9 million in 2006. The significant increase principally reflected the income received from arrangement and underwriting fees in relation to the two landmark Sukuk issuances on behalf of Dar Al-Arkan, which raised a total of US$1.6 billion in 2007.

Private Equity income was US$16.9 million in 2008, a decrease of US$14.8 million (47%), from US$31.7 million in 2007. Most of the Private Equity income in 2008 arose from the sale of the UAE-based Orimix Concrete Products (Orimix). The Bank owned shares in Orimix both directly and through the Unicorn Global Private Equity Fund and the sale generated significant investment disposal gains and significant fund performance fees. The Private Equity division is also responsible for Victron, whose income is shown separately (US$99.1 million in 2008). In light of the adverse effects of the global financial crisis, the Bank adopted a conservative and prudent approach

IN LIGHT OF THE ADVERSE EFFECTS OF THE GLOBAL FINANCIAL CRISIS, THE BANK ADOPTED A CONSERVATIVE AND PRUDENT APPROACH TO THE VALUATION OF ITS PRIVATE EQUITY PORTFOLIO IN 2008.

to the valuation of its private equity portfolio in 2008 and recorded investment write-downs of US$26.2 million. These write-downs reflect the current market uncertainties and the general drop in valuations across the globe and the long-term business prospects for the companies in question remain sound.

Private Equity income in 2007 was US$31.7 million, an increase of US$11.8 million (60%), from US$19.8 million in 2006. Income from Private Equity in 2007 principally reflected the structuring fees received in relation to the acquisition of Open Silicon, a prominent chip design and outsourced manufacturing services company in California; gains on the sale of investments; management fees; and performance fees.

Asset Management income was US$11.6 million in 2008, an increase of US$9.6 million from US$2.0 million in 2007. The Asset Management division continued to build its team and capabilities in 2008 and to focus on real estate private equity investment and listed securities. Income in 2008 was principally derived from the gain on sale of investment in Turquoise Coast Investment Company, a real estate investment company established to provide investors with an opportunity to benefit from the thriving vacation homes market in Turkey's Aegean Coast.

Strategic Mergers & Acquisitions (SM&A) income was US$64.4 million in 2008. SM&A advised and led the Bank in acquiring Bahrain Financing Company (BFC), the oldest and one of the leading foreign exchange and remittance houses in the GCC. Income in 2008 was primarily from the partial sell down of BFC to third party investors and the fair value gain reflecting the fair value increase of the Bank's remaining investment in BFC. SM&A also received structuring fees from attracting additional institutional investors into the Bank's Strategic Acquisition Fund (SAF). The SM&A income in 2008 was partly offset by investment write-downs of US$5.7 million against unlisted investments made in previous years. The write-downs reflect prudent provisions rather than actual losses.

Income from SM&A in 2007 was US$12.7 million and primarily reflected arrangement and placement fees derived from SAF, investment disposal gains and dividend income. SM&A was established as a separate business in 2007 and prior to that, any income derived from such activities was included in the Corporate Finance division.

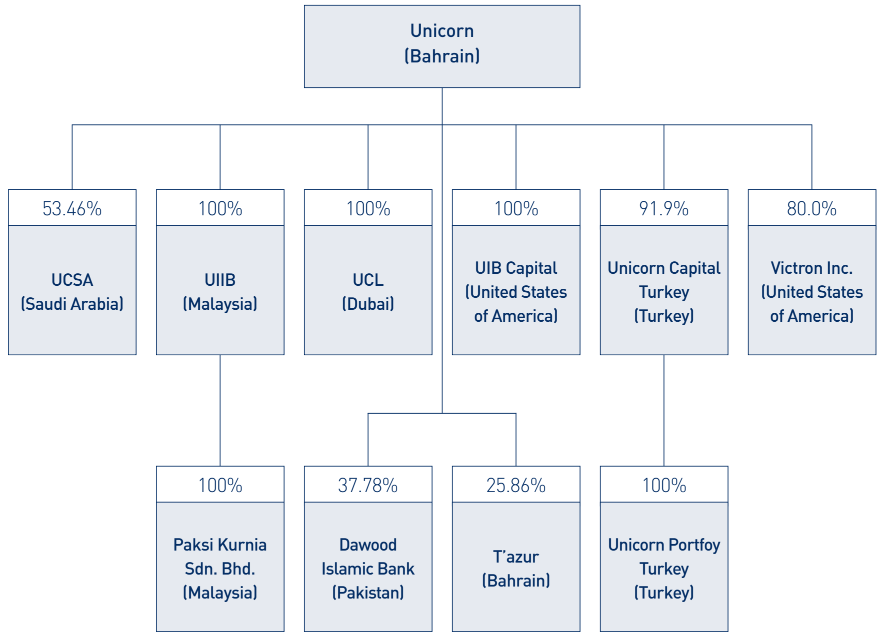
Treasury income was US$5.1 million in 2008, an increase of US$2.1 million (71%), from US$3.0 million in 2007. The increase was from placements with financial institutions, owing to the increased deployment of surplus funds following the Bank's 2008 capital raise.

Income from Treasury in 2007 was US$3.0 million, a decrease of US$2.9 million (49%), from US$5.9 million in 2006. The decrease reflected the reduction in net income from financial institutions, owing to the reduced deployment of surplus funds. Unicorn completed a private placement in mid-year 2006 and so had substantial surplus funds to place with other banks in the second half of 2006.

37.78%

stake in Dawood Islamic Bank (Pakistan)

LEGAL ENTITY STRUCTURE



Unicorn is headquartered in Bahrain and currently has overseas investment banking subsidiaries in five countries: Malaysia, Turkey, Saudi Arabia, the United States (Chicago) and the United Arab Emirates (Dubai). It also has interests in associated companies in Pakistan (Islamic commercial banking) and Bahrain (takaful, or Islamic insurance). The Bank also has a technology manufacturing subsidiary in California.

Unicorn International Islamic Bank Malaysia Berhad

In late 2007, Unicorn's operation in Malaysia was granted an investment banking licence by Malaysia's Bank Negara to carry out investment banking activity in currencies other than the Malaysian Ringgit. Unicorn International Islamic Bank Malaysia Berhad (Unicorn Malaysia) was launched on 1 January 2008 and the Bank's operations were expanded and the necessary infrastructure was put in place to allow the Bank to provide a full range of Islamic banking products and services. Unicorn Malaysia's primary focus in 2008 was to establish a treasury function to support the funding and liquidity strategy of Unicorn's head office operations in Bahrain. In 2009, 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.S.

The Bank acquired 81.8% of Unicorn Capital Menkul Değerler (Unicorn Capital Turkey or UCT) in 2007. In 2008, Unicorn increased its holding in UCT to 91.9%. During the year, UCT went through a major restructuring process, strengthening the management team and refocusing its activities, leaving it well-placed to offer an enhanced range of Shari'ah compliant investment banking products and services catering to both Turkish investors and GCC investors seeking exposure to Turkey. UCT now operates several business divisions, including: Corporate Finance, Private

Equity, Asset Management (through its subsidiary Unicorn Portföy), and Brokerage. UCT 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. UCT has also launched a tracker fund, based on the Dow Jones Islamic Index for Turkey.

Unicorn Capital Saudi Arabia

Unicorn's international expansion strategy was significantly advanced in November, when the Bank was awarded a licence by Saudi Arabia's Capital Market Authority (CMA) to establish operations in the Kingdom. Unicorn Capital Saudi Arabia (UCSA) is currently fulfilling the regulatory and operational requirements to commence operations. Unicorn's shareholding in UCSA is 53.46%.

UIB Capital Inc.

UIB Capital Inc. (UIB Capital Chicago), Unicorn's US private equity subsidiary plays a key role in sourcing private equity transactions and managing US portfolio companies on behalf of the Bank. UIB Capital Chicago is well placed to take advantage of current market conditions in the US and in 2009 will focus on adding value to existing investments and seeking potential add-on acquisitions.

Unicorn Capital Limited

Unicorn Capital Limited was established at the Dubai International Financial Centre (DIFC) in 2006. Its main activities are to source investment opportunities, monitor the performance of the acquired companies on behalf of the Bank and establish distribution channels for the Unicorn Group.

Dawood Islamic Bank

Dawood Islamic Bank (DIB) has a commercial banking licence, issued by the State Bank of Pakistan, allowing it to provide Islamic commercial banking products in Pakistan. Subsequent to the year-end, Unicorn has increased its stake in DIB from 22.22% to 37.78%.

T'azur

T'azur is a regional takaful company established by Unicorn in 2007. Unicorn's current shareholding in T'azur is 25.86%.

25.86%

shareholding in T'azur, a regional Takaful company established by Unicorn in 2007

Victron Inc.

Victron Inc. is an electronic manufacturing and supply chain management services company based in California, USA, that was acquired by the Bank's Private Equity business in December 2007. Unicorn's shareholding in Victron is 80.0%.

Condor Holdings

In addition to the subsidiaries and associated companies described above, Unicorn has significant investments in the various portfolio companies managed by the Bank's Private Equity business. Unicorn also has significant stakes in direct investments made by the Bank itself. One such investment is Condor Holdings, where the Bank currently has an equity stake of 45.28%. Condor Holdings includes Bahrain Financing Company in Bahrain, Bahrain Exchange Company in Kuwait and EzRemit in the United Kingdom.

Despite the challenging global operating environment in 2008, Unicorn continued to make good progress towards advancing its vision of building a leading global Islamic investment bank offering a comprehensive and integrated range of Shari'ah-compliant investment banking products and advisory services. During the year, the Bank successfully concluded a number of important transactions, significantly strengthened each of its six core business lines and enhanced its global presence. 2008 also saw the implementation of a series of important internal initiatives aimed at further developing and enhancing the Bank's operating capability.

UNICORN'S ABILITY TO SUCCESSFULLY RAISE ADDITIONAL EQUITY CAPITAL AND SECURE 3-YEAR FUNDING DURING SUCH A DIFFICULT PERIOD FOR THE GLOBAL BANKING INDUSTRY ATTESTS TO THE STRONG REPUTATION THAT UNICORN ENJOYS BOTH REGIONALLY AND INTERNATIONALLY. IT IS AN IMPORTANT ENDORSEMENT OF THE BANK'S FUNDAMENTAL STRENGTHS AND ITS SUCCESSFUL TRACK RECORD AND GROWTH STRATEGY.

In February 2008, Unicorn successfully closed a 3-year syndicated commodity murabaha facility that was significantly oversubscribed, raising US$125 million. Despite the global financial crisis, the Bank was also able to raise new capital through an international private placement. Unicorn's ability to successfully raise additional equity capital and secure 3-year funding during such a difficult period for the global banking industry attests to the strong reputation that Unicorn enjoys both regionally and internationally. It is an important endorsement of the Bank's fundamental strengths and its successful track record and growth strategy. The increased capital resources, combined with Unicorn's modest degree of leverage and strong liquidity, will fund the Bank's continuing regional and international business expansion.

Unicorn also completed several high profile transactions in 2008, including the acquisition of Bahrain Financing Company, one of the leading foreign exchange and remittance houses in the GCC. The acquisition includes Bahrain Exchange Company in Kuwait and EzRemit in the United Kingdom. Private equity transactions included the Bank's acquisition of Sun Well Services, a leading regional services provider to oil and gas exploration companies in the United States; and the Unicorn Global Private Equity Fund acquisition of Gulf Strategic Partners, a Bahrain-based company specialising in pre-operational cleaning services for petrochemical, power, oil and gas and process facilities. Also in private equity, Unicorn sold its shares in UAE-based Orimix Concrete Products, generating a return on capital of 160% and an Internal Rate of Return (IRR) of 98%. In Asset Management, Unicorn raised capital for Turquoise Coast Investment Company, a real estate investment company established to provide investors with an opportunity to benefit from the thriving vacation homes market on Turkey's Aegean Coast.

Following the establishment of an independent Treasury division in 2007, Unicorn strengthened its ability to provide treasury products and services to corporate clients by appointing a highly experienced Head of Treasury to lead the transformation of the division into a profit centre. The development of corporate treasury business is in addition to Treasury's existing vital role of managing Unicorn's own liquidity and funding needs.

Turquoise Coast Investment Company

Real Estate Private Equity

Asset Management

March 2008

Gulf Strategic Partners W.L.L.

Gulf Strategic Partners W.L.L.

70% Equity Stake

Private Equity Investment

April 2008

tintoria international

Tintoria International Limited

Direct Investment

June 2008

SUN WELL SERVICE, INC.

Sun Well Service, Inc.

75% Equity Stake

Private Equity Investment

October 2008

شركة البحرين المالية
BAHRAIN FINANCING COMPANY

Bahrain Financing Company B.S.C. (c)

Strategic Acquisition

Strategic M&A Transaction

January 2009

THE BANK WAS PLEASED TO CONTINUE ITS SUPPORT OF THE ARTS AND CULTURAL SECTOR IN BAHRAIN WITH ITS DONATION TO THE SHAIKH EBRAHIM BIN MOHAMMED AL-KHALIFA CENTRE FOR CULTURE AND RESEARCH, A PRIVATE NON-PROFIT ORGANISATION DEDICATED TO PRESERVING AND PROMOTING BAHRAIN'S CULTURAL IDENTITY.

Unicorn's international expansion strategy was significantly advanced in November, when the Bank was awarded a license by Saudi Arabia's Capital Market Authority (CMA) to establish operations in the Kingdom. Unicorn Capital Saudi Arabia is currently fulfilling the regulatory and operational requirements to commence operations.

The Bank's operations in Malaysia and Turkey were also significantly strengthened in 2008. Following the upgrade of Unicorn's license in Malaysia at the end of 2007, the Unicorn International Islamic Bank Malaysia team has been expanded and the necessary infrastructure has been put in place to allow the Bank to provide a full range of Islamic banking products and services. Unicorn Capital Turkey (UCT) went through a restructuring process aimed at improving operating efficiency, enhancing the management team and strengthening the company's capabilities in private equity, real estate and corporate finance. UCT also strengthened its asset management business with the launch of the Dow Jones Turkey Islamic Index Fund which invests in Shari'ah-compliant stocks listed on the Istanbul Stock Exchange.

Unicorn also continued to strengthen its operations and control infrastructure. The Operations department was expanded and began the task of re-engineering the Bank's deal flow processes and establishing strong customer and client relations support. This included the set-up of internal operations control and support for Treasury operations and the establishment of an Investment Administration department to enhance client and investment reporting. 2008 also saw the establishment of an independent Investment Process Office to strengthen the Bank's investment approval and post-acquisition management processes.

As part of its commitment to supporting local talent, the Bank was proud to have the opportunity to sponsor Shaikh Salman bin Rashid Al-Khalifa's motor racing career for the second consecutive year. During the year, Shaikh Salman competed with distinction in the British F3 International Series and in September became the first Arab driver to win a round of the championship when he recorded a historic win in Bucharest. The Bank was also pleased to continue its support of the arts and cultural sector in Bahrain with its donation to the Shaikh Ebrahim Bin Mohammed Al-Khalifa Centre for Culture and Research, a private non-profit organisation dedicated to preserving and promoting Bahrain's cultural identity.

Unicorn's charitable sponsorships and donations during the year included sponsorship of the first Think Pink Bahrain annual charity ladies luncheon. Think Pink is a non-profit organisation dedicated to increasing awareness of breast cancer issues, particularly early detection. In keeping with the Bank's tradition of innovation, Unicorn also replaced its customary Eid cards with a donation to the Palm Association, a Bahraini charitable organisation providing assistance to families in need. Unicorn's donation was used to support Project Rebuild, the Palm Association's initiative to rebuild the homes of Bahrainis living in unsafe and unacceptable conditions, providing them with the basic necessities required to live safely and comfortably.

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 & acquisitions. Services include balance sheet restructuring, valuation, financing alternatives and strategic business advisory. The division stays actively involved throughout all stages of each mandate, from initial structuring through to final execution.

THE CORPORATE FINANCE DIVISION LED UNICORN'S SUCCESSFUL PRIVATE PLACEMENT WHICH SAW THE BANK INCREASE ITS CAPITAL BY ISSUING NEW SHARES TO BOTH EXISTING SHAREHOLDERS AND NEW STRATEGIC INSTITUTIONAL INVESTORS.

In 2008, Corporate Finance continued to play a key role providing advisory services to the Bank and its clients. During the year, the division led Unicorn's successful private placement which saw the Bank increase its capital by issuing new shares to both existing shareholders and new strategic institutional investors. The increased capital will be used to fund Unicorn's expansion into new markets and to support the Bank's ongoing organic growth strategy.

In the first half of the year, the Corporate Finance division advised Saudi Arabia's Dar Al-Arkan Real Estate Development Company (Dar Al-Arkan) on the company's successful bid for Qasr Khozam, an ambitious and landmark urban regeneration

project to recreate the historical centre of Jeddah, Saudi Arabia. Qasr Khozam comprises a four million square metre area of land and will incorporate the palace of the late King Abdulaziz bin Al Saud. The development, which is expected to take six years to complete, will also include shopping malls, commercial districts, villas, hospitals and schools.

The division also played an advisory role in Unicorn Capital Dubai's successful establishment of Tintoria International Limited (Tintoria International), a joint venture between Unicorn and some of the shareholders of Tintoria Lombarda di Fasoli Aldo S.p.A. (Tintoria Lombarda), a leading industrial laundry outsourcing company based in Northern Italy. The Corporate Finance division subsequently advised Tintoria International on the acquisition of a 30% strategic stake in Tintoria Lombarda. Tintoria International aims to replicate Tintoria Lombarda's highly successful business model, initially in the United Arab Emirates and then across the GCC region. The company will offer hotels, hospitals, airlines and other institutions the opportunity to outsource the entirety of their laundry and linens requirements.

The Corporate Finance division also provided ongoing corporate advisory services to T'azur, a regional takaful (Islamic insurance) company established in 2007 by Unicorn in conjunction with a group of strategic founding investors to capitalise on the largely untapped growth opportunities within the takaful sector. The division has been advising T'azur on the company's acquisition strategy and regional expansion plans.

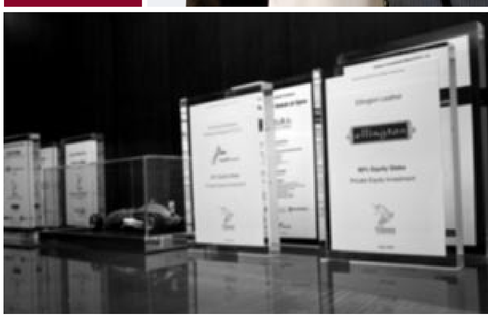
Business Lines
Capital Markets

The Unicorn Capital Markets division addresses the growing demand for Shari'ah-compliant fixed income investment instruments and equity-linked funding, both from issuers and investors. It also provides international investors with direct access to the Sukuk market and to GCC liquidity in general. The division's product offerings include Sukuk, asset-backed securitisations and syndicated facilities. The division also provides credit rating advisory services and maintains a proprietary fixed income investment book.

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 GCC regulators and international investors to trade Sukuk and other Shari'ah-compliant capital markets products.

2008 was a challenging year for the international Sukuk market which witnessed a dramatic decline in volumes as a result of the global economic downturn and the associated negative impact on global debt markets. During the year, the increasing

AS THE BANK HAS NOT BEEN EXPOSED TO THE LEGACY PROBLEMS THAT HAVE AFFECTED MANY PLAYERS IN THE GLOBAL CAPITAL MARKETS, THE CAPITAL MARKETS DIVISION IS WELL POSITIONED TO TAKE ADVANTAGE OF THE TURNAROUND IN THE MARKETS AS IT OCCURS.



market turmoil and related uncertainty in the international capital markets led to a drying up of liquidity and the widening of credit spreads. As financing started to become more expensive, borrowings were delayed, and in the second half of the year in particular, many financing offerings were either withdrawn or postponed. Following strong growth in the period spanning 2005-2007, total Sukuk issuance during the year dropped by over 50%.

In spite of these difficult and uncertain conditions, the Capital Markets division was nevertheless able to leverage its outstanding track record and proven capabilities to win a number of mandates, including one for ratings advisory services. The division intends to launch these transactions in 2009 and will continue to evaluate new client requests. Capital Markets has also outlined a strategy to exploit opportunities emerging from the current credit market environment. As the Bank has not been exposed to the legacy problems that have affected many players in the global capital markets, the division is well positioned to take advantage of the turnaround in the markets as it occurs.

During the year, the division successfully closed a Consent Solicitation for Dar Al-Arkan's groundbreaking US$600 million and US$1 billion Sukuk issues. These two landmark Sukuk issues were successfully closed by Unicorn and a consortium of international banks in 2007. Unicorn was the Joint Lead Manager, Underwriter and Bookrunner and the sole Structuring Agent and Shari'ah Advisor on both transactions.

Business Lines
Private Equity

In 2008, Unicorn's Private Equity division continued to focus on building value within its directly-held portfolio companies as well as those of the Unicorn Global Private Equity Fund, a five-year closed end fund launched in 2006. The Fund invests in companies with near-term growth potential operating within the division's target industries and markets.

IN JUNE, THE GLOBAL PRIVATE EQUITY FUND DISPOSED OF ITS SHARES IN ORIMIX CONCRETE PRODUCTS, A UAE-BASED READYMIX SUPPLIER, GENERATING A RETURN ON CAPITAL OF 160% AND AN INTERNAL RATE OF RETURN (IRR) OF 98%.

The division completed a number of transactions in 2008, beginning in February with the Global Private Equity Fund's acquisition of a 55% stake in Gulf Strategic Partners W.L.L. (GSP). The Fund increased its stake in GSP to 70% in April. Established in 2004 and based in Bahrain, GSP specialises in pre-operational cleaning services for petrochemical, power, oil and gas and process facilities. The company operates throughout the GCC and India and has formed partnerships with leading international companies to provide high-technology, world-class solutions to industrial companies in the region. The Private Equity division is currently working with GSP to support the company's ambitious expansion plans and to explore synergies with other portfolio companies. The investment in GSP marks the Fund's fifth investment to date.

In June, the Global Private Equity Fund disposed of its shares in Orimix Concrete Products LLC, a UAE-based readymix supplier, generating a return on capital of 160% and an Internal Rate of Return (IRR) of 98%. Having acquired a controlling stake in Orimix in November 2006, the Private Equity division worked closely with the management of the company to almost double it in size, by expanding capacity and improving profitability. The sale of Orimix allowed Unicorn to distribute over 50% of the Fund's initial invested capital to unitholders in less than two years. The transaction was recently named the Islamic Finance Deal of the Year by Euromoney magazine.

In November, Unicorn's Chicago office led the division's acquisition of Sun Well Service, Inc. (Sun Well), a leading regional workover services provider to oil and gas exploration companies in the United States. Sun Well is primarily involved in the repair and modification of oil wells located throughout the Williston Basin. Unicorn's investment in Sun Well will allow the company to expand both operationally and geographically while maintaining its longstanding reputation for providing unparalleled skill and reliability in servicing its broad customer base.

In 2009, the division will focus on adding value to existing investments and on using them as a platform for potential add-on acquisitions, as well as on creating cross-border value additions between portfolio companies.

Business Lines
Asset Management

In 2008, the Unicorn Asset Management division continued to build and strengthen its capabilities within two distinct areas of focus: real estate and listed securities. The division's strategy is to offer products and services in a phased manner, with an immediate focus on real estate private equity investments (both development and income-generating products) and listed securities offerings such as equity and fixed income funds. The division's immediate geographic focus remains the MENA region, including the GCC and Turkey.

In February, the division led Unicorn's successful exit from the Gulf Springs Real Estate Fund (Gulf Springs), a real estate development fund conceived to provide prudent investors with a vehicle to participate and capitalise on immediate opportunities in the regional real estate market. Unicorn made a partial distribution of capital and profits to investors in October 2007, and the Bank's exit from the fund in 2008 provided investors with the targeted Internal Rate of Return (IRR) of 18%.

In March, Unicorn successfully closed capital raising for Turquoise Coast Investment Company, a real estate investment company established to provide investors with an opportunity to benefit from the thriving vacation homes market on Turkey's

UNICORN SUCCESSFULLY CLOSED CAPITAL RAISING FOR TURQUOISE COAST INVESTMENT COMPANY, A REAL ESTATE INVESTMENT COMPANY ESTABLISHED TO PROVIDE INVESTORS WITH AN OPPORTUNITY TO BENEFIT FROM THE THRIVING VACATION HOMES MARKET ON TURKEY'S AEGEAN COAST.

Aegean Coast. The company has acquired two parcels of land in prime locations on the Bodrum Peninsula and is currently in the design and construction phase of the project. Turquoise Coast Investment Company allows investors to capitalise on the strong demand for vacation homes in Turkey, which is emerging as one of the fastest growing markets for international buyers seeking either a holiday home or an attractive real estate investment abroad.

During the course of the year, the Asset Management division also completed all documentation and obtained all necessary approvals required to launch the Excalibur MENA Fund, an open-ended MENA-focused special situation listed securities fund, during 2009. The objective of this open-ended fund is to achieve medium- to long-term capital appreciation by investing in a concentrated portfolio of listed securities across MENA markets, particularly the GCC and Turkey. This process will be supported by in-house research, including a proprietary valuation database covering over 600 Shari'ah compliant stocks across 13 countries.

Asset Management also intends to capitalise on current market conditions to launch a fixed income product during 2009. The objective of this product will be to provide investors with access to Shari'ah-compliant fixed income offerings globally through an open-ended platform. The division is also in the process of launching an initiative to capitalise on real estate development opportunities in Saudi Arabia.

Business Lines
Strategic Mergers & Acquisitions

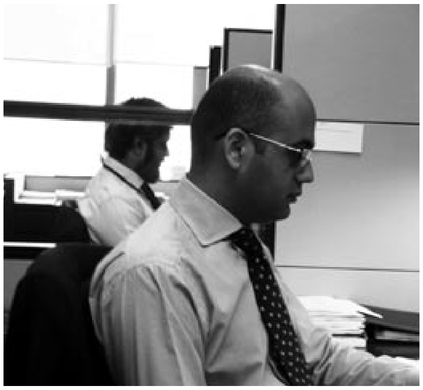
The Strategic Mergers & Acquisitions (SM&A) division is responsible for expanding the Bank's network and business franchise by acquiring strategic stakes in financial institutions globally and securing the appropriate banking licenses required to establish an operational presence in new markets.

THE STRATEGIC MERGERS & ACQUISITIONS DIVISION LED UNICORN'S ACQUISITION OF BAHRAIN FINANCING COMPANY, THE OLDEST AND ONE OF THE LEADING FOREIGN EXCHANGE AND REMITTANCE HOUSES IN THE GCC.

During the year, SM&A generated a robust pipeline of potential acquisitions in the GCC, Malaysia, Turkey, the United Kingdom and Africa. The division continues to evaluate promising acquisition targets, with a view to supporting the Bank's vision of building a leading global Islamic financial services group offering a comprehensive range of Shari'ah-compliant financial products and services.

In September 2008, the division led Unicorn's efforts in concluding an agreement to acquire Bahrain Financing Company (BFC), the oldest and one of the leading foreign exchange and remittance houses in the GCC. The acquisition, which was successfully completed in January 2009, includes Bahrain Exchange Company in Kuwait and EzRemit in the United Kingdom. The Strategic Acquisition Fund (SAF), a financial services acquisition fund promoted by Unicorn and established in cooperation with a number of strategic founding investors from across the GCC, also took a significant stake in the acquisition.

Unicorn is currently working with BFC's senior management to put in place a detailed business plan for the company, including product diversification and a regional and international expansion strategy. Unicorn also intends to leverage the Bank's comprehensive investment banking product and service offerings to provide expertise to BFC in areas such as capital markets and corporate finance.



During the year, the SM&A division also supported the Bank's license applications in Canada and the Kingdom of Saudi Arabia. In November, Unicorn Capital Saudi Arabia was awarded a conditional license by Saudi Arabia's Capital Market Authority (CMA) to establish operations in the Kingdom, and the company is currently fulfilling the regulatory and operational requirements to commence operations. In keeping with the Unicorn Investment Bank culture and mission, Unicorn Capital Saudi Arabia will focus on providing the market with an integrated and comprehensive range of Islamic investment products and services, with an emphasis on delivering exceptional value and tailored solutions.

SM&A also continued to provide business and administrative support to SAF and successfully attracted additional institutional investors into the Fund as Strategic Founding Investors (SFI's). SAF's participation in the acquisition of BFC demonstrates the value of the Fund, which provides ready access to capital from strategic investors as and when the right acquisitions have been identified. Furthermore, the Fund is able to leverage the synergies with SFI's to add value to existing investments.

Finally, as part of its mandate to undertake the market research and R&D required to incubate and launch pioneering Islamic finance initiatives, SM&A initiated the due diligence and regulatory approval process to support the launch of an innovative Shari'ah-compliant financial institution in 2009. The division continues to evaluate opportunities to establish specialised new institutions, building on the Bank's successful launch of T'azur, a regional takaful company, in 2007.

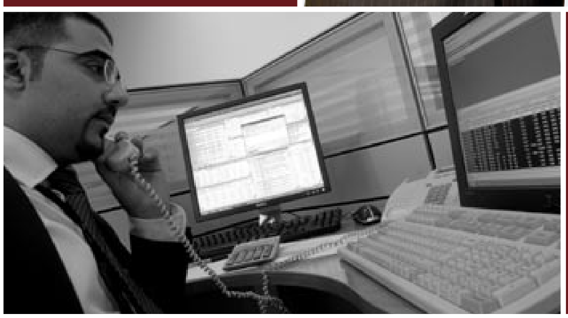
Business Lines
Treasury

The Treasury division plays a key role in managing Unicorn's liquidity and securing adequate funding to support the Bank's current and future business requirements. In addition, the division is responsible for hedging the Bank's cross-border exposure to foreign exchange and profit rate risks. Treasury is also being configured to operate as an independent profit centre.

This marks an important milestone in Unicorn's strategy to develop the Bank's investment banking business and provide clients with a comprehensive Shari'ah-compliant investment banking product and service offering. Going forward, the division will play a key role in servicing corporate clients by providing Shari'ah-compliant alternatives to conventional banking treasury products and services.

Another major objective for 2009 will be the establishment of Unicorn's Central Treasury function in Bahrain. This will allow the division to provide full support to the Bank's international subsidiaries and will further enhance the management of Unicorn's overall liquidity profile. Treasury also intends to focus on developing key new alliances with local, regional and international financial institutions, particularly in terms of product sourcing and distribution; strengthening existing treasury and market risk systems; recruiting additional qualified treasury personnel; and establishing a state-of-the-art dealing room.

GOING FORWARD, THE TREASURY DIVISION WILL PLAY A KEY ROLE IN SERVICING CORPORATE CLIENTS BY PROVIDING SHARI'AH-COMPLIANT ALTERNATIVES TO CONVENTIONAL BANKING TREASURY PRODUCTS AND SERVICES.



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 (IB).

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.

The Unicorn IB team is responsible for all capital markets debt and equity placements, as well as the placement of structured products with institutional investors and government/quasi governmental organisations. IB is also responsible for managing Unicorn's relationships with financial institutions globally, including correspondent banking relationships. The team plays a pivotal role both in raising the Bank's short, medium and long-term funding facilities with local, regional and international financial institutions and in raising leverage at the transaction level to support the activities of the business lines. Furthermore, through its relationships and its active presence in the market, IB is well-placed to source opportunities for the business lines and to provide feedback to the Bank on the markets.

Since inception, Unicorn has successfully placed approximately US$3.5 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 Southeast Asia.

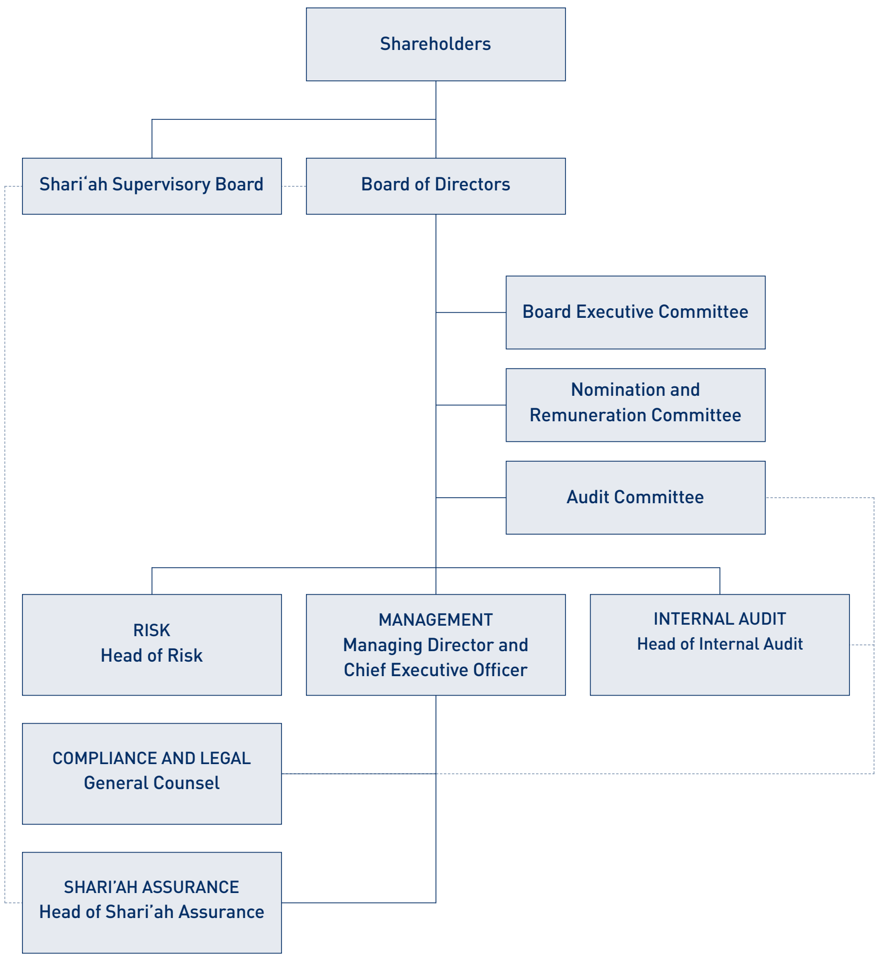
Corporate Governance and Compliance

IN AN EFFORT TO BRING THE CORPORATE GOVERNANCE OF BAHRAINI BANKS MORE INTO LINE WITH INTERNATIONAL CORPORATE GOVERNANCE STANDARDS, THE CBB HAS ADOPTED A SERIES OF NEW CORPORATE GOVERNANCE RULES IN RECENT YEARS TO FOSTER A CULTURE OF PROACTIVE BOARDS OF DIRECTORS THAT ARE ACCOUNTABLE AND RESPONSIBLE FOR THE AFFAIRS AND PERFORMANCE OF THEIR BANKS.

As a Bahrain-based bank, Unicorn is subject to the corporate governance standards of the CBB. In an effort to bring the corporate governance of Bahraini banks more into line with international corporate governance standards, the CBB has adopted a series of new corporate governance rules in recent years to foster a culture of proactive boards of directors that are accountable and responsible for the affairs and performance of their banks. Unicorn has implemented the new CBB rules, including the requirement that the entire Board of Directors, rather than a sub-committee, is responsible for ensuring that the systems and controls framework of the Bank is appropriate for the Bank's business and associated risks. In assessing the systems and controls framework, the Board is required to demonstrate that the Bank's operations:

- are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the Bank's activities; and
- are supported by an appropriate control environment.

The organisation chart below shows the Board committee structure and the reporting lines through to the Board of Directors:



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 a 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 two are independent. Majid Al Sayed Bader Al-Refai, Unicorn's Managing Director and Chief Executive Officer, and Ayman Sejiny, the Managing Director and Chief Executive Officer of Unicorn Capital Saudi Arabia, 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.

Board Committees

Board Executive Committee

The Board Executive Committee 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 and Remuneration Committee

The Nomination and Remuneration Committee is responsible 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 adequacy, sustainability and effectiveness of the Bank's governance, internal controls and risk management processes. All key operational, business and management processes are audited according to risk-based methodologies. Internal Audit examines the strategies of the Bank and the adequacy and effectiveness of the relevant policies, procedures 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 the Head of Internal Audit attends as an independent observer.

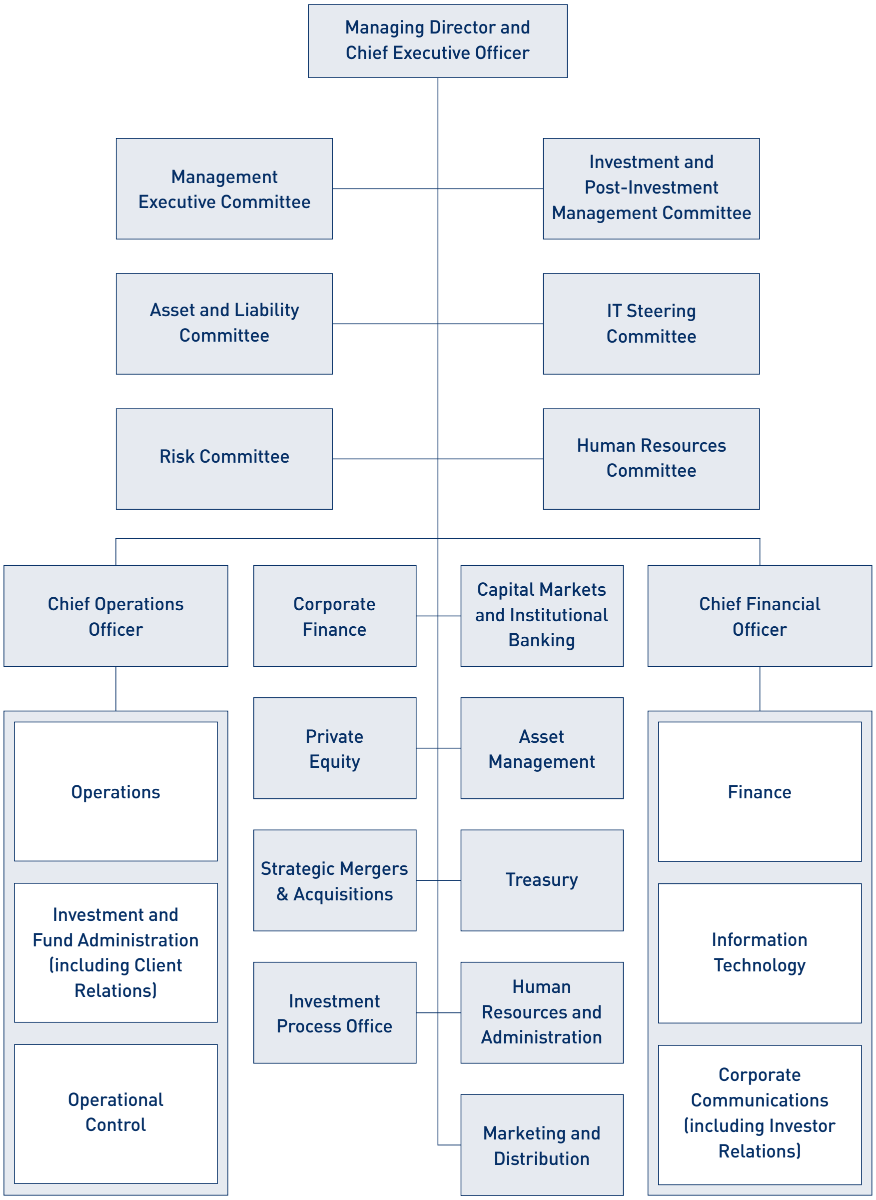
Compliance Process
Unicorn is committed to meeting the highest levels of ethical standards in all areas of its operations. The Chief Compliance Officer of the Bank is responsible for preparing compliance policies for Board review and approval, and administering and enforcing these policies. These policies 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 Client Relations process.

IN 2006, UNICORN ADOPTED A 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.

Management Committees

The organisation chart below shows the management committee structure and the management reporting lines within Unicorn:



Management Executive Committee (MEC)

The Management Executive Committee (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.

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.

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 licenses, 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 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 divisions.

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, including ensuring that the Bank complies with Basel II. 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 the Bank's IT systems and IT infrastructure.

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.

Board of Directors

YOUSEF A. AL-SHELASH
Chairman of the Board of Directors and founder shareholder
Non-Executive Director

Mr. Yousef A. Al-Shelash is the chairman of Dar Al-Arkan Real Estate Development Company (Dar Al-Arkan) in Saudi Arabia. Previously, he served as a member of Investigation and Attorney General in Saudi Arabia, as well as a legal advisor to various legal consultancy firms in Saudi Arabia. He obtained a MSc in Law and Legal Proceedings from the Institute of Public Administration Al-Riyadh and a BSc in Shari'ah from Mohamed Bin Saud Islamic University, Saudi Arabia. He has received formal training in financial management and evaluation of investment projects and also has earned diplomas in both Banking and Combating Financial Crimes. His current and recent directorships include director of First Global Data Corp., Canada and director of First Global Investments, Sri Lanka.

MAJID AL SAYED BADER AL-REFAI
Managing Director and Chief Executive Officer and founder shareholder

Prior to founding Unicorn Investment Bank in 2004, Mr. Majid Al-Refai established several other ventures, including First Islamic Investment Bank in Bahrain (renamed Arcapita), which was formed through the acquisition of Majestic Global Investments, Ltd. and Commerce MGI Sdn Bhd (Malaysia). He has held senior management positions at several leading financial institutions in the Middle East, including Dallah Al Baraka Group (KSA), Al-Tawfeek Company for Investment Funds (Bahrain), Al-Amin Securities Company (Bahrain) and Kuwait Finance House (Kuwait), and more recently was a partner in The International Investor (Kuwait). A graduate of Purdue University, Indiana, United States, Mr. Al-Refai has a degree in Chemical Engineering and a MS in Finance. Mr. Al-Refai is also the sole trustee of Quantum Trust and the sole beneficial shareholder and manager of Quantum Financial Advisors, two of the Bank's founder shareholders. Mr. Al-Refai is also a director of Dar Al-Arkan.

HETHLOUL SALEH AL-HETHLOUL
Non-Executive Director and founder shareholder

Mr. Hethloul Al-Hethloul is a Director in Dar Al-Arkan. He has over 20 years experience in the financing business and has considerable experience in both mortgage financing and real estate investment financing in Saudi Arabia. Previously, he served as the general manager of a number of companies, including Al-Izdihar Corner for Real Estate, Al-Gasim Real Estate Company and Kingdom Instalment Company. Mr. Al-Hethloul holds a BSc in Business Administration from King Saud University, Saudi Arabia.

BADER SULAIMAN AL-JARALLAH
Independent Non-Executive Director and founder shareholder

Mr. Bader Al-Jarallah is the chairman and managing director of Livestock Transport and Trading Co. KSC, Kuwait. He has worked for the Government of Kuwait in various capacities for more than 30 years. He was formerly the chief investment manager for the Kuwait Investment Authority, where his responsibilities included controlling government investments in 70 Kuwaiti companies and 70 Arab companies outside Kuwait, as well as overseeing the Central Bank of Kuwait and Kuwait Airways Corporation. Previously, Mr. Al-Jarallah held the position of controller in several departments within the Kuwaiti Ministry of Finance. In addition, he has served as the chairman of Kuwait-Algerian Investment Company and as a director of the National Automotive Trading Company (Kuwait) and Kuwait Flour Mills & Bakeries Company. Mr. Al-Jarallah obtained a BBA from Kuwait University.

ABDULLATIF ABDULLAH AL-SHALASH
Non-Executive Director and founder shareholder

Mr. Abdullatif Al-Shalash is one of the board members of Dar Al-Arkan and is also the vice president of Emaar Al-Bayader Holding Company where his responsibilities include managing the company and evaluating its investment portfolio. He has considerable experience and knowledge in monitoring real estate investment projects, evaluating investment portfolios, research and development. He has led several strategic initiatives for market research, feasibility studies, business planning, valuation and due diligence reports. Previously, he served as the branch manager of Al-Otham Food Retail Markets and as marketing manager in Dar Al-Arkan. Mr. Al-Shalash obtained a MBA from Findlay University in Ohio and a BS in Organisation Leadership and Supervision from Purdue University, Indiana, United States.

BADER ABDULAZIZ KANOO
Independent Non-Executive Director and founder shareholder

Mr. Bader Kanoo has spent 20 years in various positions within the Yusuf Bin Ahmed Kanoo (YBA) organisation, a 115-year-old, family-owned group of companies operating in Saudi Arabia and throughout the GCC. He is currently responsible for the Kanoo Commercial Division, Kanoo Joint Ventures Division and Business Development. Mr. Kanoo is a board member of a number of YBA's joint venture companies, including Saudi Formaldehyde Chemical Co. Ltd., Modern Decor & Wood Products Manufacturing Co. Ltd., Guardian Industries Co. Ltd., Saudi Chevron and AXA Insurance (Saudi Arabia) B.S.C. (c). He also sits on YBA Kanoo's finance and holding company board committees. Mr. Kanoo holds a degree in Management from Mercer University, Georgia, United States.

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.

AYMAN AMIN SEJINY
Executive Director and founder shareholder

Mr. Ayman Sejiny has over twelve years of corporate and investment banking experience in the GCC region, and prior to joining Unicorn, worked for Saudi American Bank (SAMBA) as assistant general manager in the SAMBA Corporate and Investment Banking Group. He was responsible for handling credit relationships with total exposure in excess of US$1 billion. He also played an integral part in the successful merger of SAMBA with United Saudi Bank. As manager of the Corporate Banking Group at Saudi Hollandi Bank, an affiliate of ABN AMRO, Mr. Sejiny acted as a relationship manager for private and public companies, in addition to handling corporate credit relationships with total exposures of US$400 million. Mr. Sejiny has a BA in Finance from Eastern Michigan University, United States.

AYMAN ABDULLAH BOODAI
Non-Executive Director

Mr. Ayman Boodai is the chairman and managing director of the Securities House K.S.C.C. in Kuwait, a position he has held since 1986. Mr. Boodai has extensive experience in senior positions in the finance, investment and education sectors and throughout his career has held a series of prominent board positions. Currently he is vice-chairman of both the Al Iman Investment Company and Aref Investment Group, and a board member of both the Union of Investment Companies and Gulf University for Technology. Between 1980 and 1985 Mr. Boodai was a board member of Arab Turkish Bank and the Kuwait Commercial Markets Company. He is a former board member of the Al Mal Real Estate Company and former vice-chairman of Al Salam Hospital. He holds a diploma from the Institute of Banking Studies in Kuwait and is trained in financial analysis, portfolio management and monetary policy programmes.

WALEED AHMAD AL-SHARHAN
Non-Executive Director

Mr. Waleed Al-Sharhan is the chairman and managing director of Al Safat Investment Co., a position he has held since 2003. Mr. Al-Sharhan has held a series of senior positions in the industrial and financial sectors throughout his career, including being executive president of both Al Sharhan Industries, since 1970, and Ahmad Al-Sharhan Sons General Trading Co., since 1979. He was a board member of Al Ahlia Investment Co. from 1988 to 2002, serving as the vice-chairman from 1997 to 1999 and chairman from 2000 to 2002. He is currently vice-chairman of the United Industries Co., a position he has held since 1992, and has been vice-chairman and chairman of the executive committee of the Al Safwa Group Holding Co. since 2004.

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.

Senior Management

MAJID AL SAYED BADER AL-REFAI
Managing Director and Chief Executive Officer and founder shareholder

Mr. Majid Al Sayed Bader Al-Refai is Unicorn's Managing Director and Chief Executive Officer. He is an executive member of the Unicorn Board of Directors and one of the Bank's founder shareholders.

AYMAN AMIN SEJINY
Managing Director and Chief Executive Officer, Unicorn Capital Saudi Arabia, and founder shareholder

Mr. Ayman Amin Sejiny is the Managing Director and Chief Executive Officer of Unicorn Capital Saudi Arabia. He is an executive member of the Unicorn Board of Directors and one of the Bank's founder shareholders.

DAVID PACE
Chief Financial Officer

Mr. David Pace has over 30 years' international experience in banking and finance. He spent 17 years with Midland Bank/HSBC in the City of London where he held several executive management posts at both divisional and Head Office level. He was actively involved in HSBC's acquisition of Midland and consequently assumed an executive management position in the newly established HSBC Holdings head office in London. In January 2001 Mr. Pace was recruited to lead the finance function in Gulf Bank (Kuwait's second largest commercial bank), where he played a key role in transforming Gulf Bank into one of the most profitable banks in the Middle East. He secured several upgrades from the international rating agencies and enabled Gulf Bank to win the Financial Times/Banker Magazine 'Bank of the Year' award for Kuwait. He played the lead role in Gulf Bank's highly successful US$200 million 5 year FRN Eurobond issue and also led their implementation of the new Basel II capital adequacy framework. Mr. Pace was appointed as the Unicorn Chief Financial Officer in July 2006. He holds a BSc in Economics from Southampton University, UK.

PATRICK VAN SURELL
Head of Corporate Finance

Prior to joining Unicorn in June 2005, Mr. Patrick Van Surell was a Vice President at Swicorp Financial Advisory in Jeddah, Saudi Arabia where he advised clients in Europe and the Middle East on mergers & acquisitions, equity and debt raising, financial restructuring and joint ventures. Prior to this, Mr. Van Surell held senior positions in mergers & acquisitions in London at JP Morgan Chase, Credit Agricole Indosuez and Barclays de Zoete Wedd. Mr. Van Surell has a bachelors degree in law and a MA in Business and Tax Law, both from the University Pantheon Sorbonne, Paris.

IKBAL DAREDIA
Head of Capital Markets and Institutional Banking

Mr. Ikbal Daredia has over 19 years experience in Islamic banking. Prior to joining Unicorn in October 2006, he was the Deputy Chief Executive Officer of Noriba, UBS's global Islamic platform for Shari'ah compliant products and services. Prior to Noriba, Mr. Daredia worked for four years with ABN AMRO in Bahrain as the Global Head of Islamic Financial Services. Mr. Daredia has originated and executed several Islamic structured cross-border transactions for sovereign entities and corporates in Turkey, the GCC, the Philippines, India, Pakistan and the United Kingdom. He was responsible for the distribution of the US$600 million and US$1 billion Sukuk issues for Dar Al-Arkan in 2007. He was the Noriba project leader for the first ever US$750 million Exchangeable Sukuk for Khazanah, Malaysia. He was also the project leader for the US$350 million first internationally rated corporate Sukuk for Sarawak Corporate Sukuk Inc. (Malaysia), which was jointly led by UBS Investment Bank and Noriba in 2004. Prior to this, in 2001, he worked on the Sukuk issue for Kumpulan Guthrie, Malaysia. Mr. Daredia is an Associate of the Chartered Institute of Bankers, England.

AAMIR KHAN
Head of Private Equity

Mr. Aamir Khan has 15 years experience in private equity and risk management, as well as in the financing of the construction and operation of plants in the oil, gas and chemical industries. Prior to joining Unicorn in May 2004, Mr. Khan served as Vice President of Structured Finance and Chief Financial Officer for ABN AMRO's private equity arm in Chicago, where he was part of a team managing US$500 million in assets. Mr. Khan managed all aspects of the group's equity and debt funds, and was actively involved in funding decisions as part of the Senior Management Investment Committee. He also assisted the funds' investment team in reviewing business plans, partnership agreements, valuations and deal structures on prospective portfolio companies. Before joining ABN AMRO, Mr. Khan was Finance Manager for Easa Saleh Al Gurg Group, Siemens' principal agent in Dubai. A Certified Public Accountant, Mr. Khan holds a MBA from the University of Chicago and a BS in Accounting from the University of Houston.

NAJIB FAYYAD
Head of Asset Management

Mr. Najib Fayyad has 16 years of global work experience in financial advisory services with large multinational companies, including Andersen, KPMG and PriceWaterhouseCoopers. Mr. Fayyad has served as lead advisor to a wide number of clients, structured a number of unique investment products, and managed various assignments, including mergers & acquisitions, placings, project finance, business valuations, financial advisory services and feasibility studies. He served as Unicorn's advisor during its establishment period and joined the Bank full time in September 2004. As the lead member of the Asset Management Division, working closely with Shari'ah scholars, legal advisors and third party consultants, he has completed the structuring of Shari'ah compliant funds for the Bank such as the KSA Real Estate Fund I. Mr. Fayyad has also led the Bank's Private Equity team in the Middle East and Turkey.

FREDERICK STONEHOUSE
Head of Strategic Mergers & Acquisitions

Mr. Frederick Stonehouse has 32 years of global banking and management experience. Between 1983 and 1998 he held a succession of senior management positions at Arab Banking Corporation Group in Bahrain, Spain and London, including general manager of ABC International Bank plc, London. During this period he was responsible for a wide range of products and markets, including major syndicated facilities for sovereign and corporate borrowers in Europe. In 1998, Mr. Stonehouse joined Arab Bank Group as UK regional manager and was subsequently promoted to Europe regional manager, with responsibility for the Arab Bank Group branches in the UK, France, Spain, Italy and Greece. In 2002 Mr. Stonehouse was appointed general manager and member of the board of directors of Sabanci Bank plc, a UK-incorporated bank controlled by the Sabanci Group, a leading business conglomerate in Turkey. Mr. Stonehouse holds a BA in French and Spanish from the University of Hull, UK.

MARCO DONDI
Head of Treasury

Mr. Marco Dondi has 22 years of regional and international banking experience, specialising in treasury, money markets, derivatives trading and bonds. Prior to joining Unicorn in February 2009, Mr. Dondi was part of the executive management team of Al Salam Bank Bahrain where he established the Treasury and Financial Institutions Group. He was also a member of the Board of Directors and Executive Committee of IIFM (Islamic International Financial Market). Mr. Dondi has also worked as Chief Dealer and Deputy Treasurer at BNP Paribas Bahrain, where he held a global mandate for trading, marketing and sales on GCC and North African currencies. Before this, Mr. Dondi spent four years with the Kuwait-based Gulf Bank and eight years with the Brussels branch of Sumitomo Bank. Mr. Dondi has a BA in Business and Finance from the Institute Superior Lucien Cooremans in Brussels.

TARIQ MALHANCE
Senior Vice President, UIB Capital Inc. (Chicago)

Mr. Tariq Malhance joined Unicorn in December 2005. Prior to that, he spent 25 years in city government roles with the City of Chicago, including City Comptroller, First Deputy City Treasurer, Managing Deputy Comptroller for Debt and Asset Management, and Deputy Comptroller for Financial Policy. As City Comptroller he managed the City's cash flow, debt, and credit activities. He also had responsibility for the City's accounting, auditing, and financial and compliance reporting. Mr. Malhance was responsible for overseeing the issuance of approximately US$40 billion in bonds to support various City projects, such as the airport revenue bonds, water and sewer bonds and other specialised financing arrangements. He also led the securitising of the Chicago Skyway seven-mile toll-way, Mr. Malhance was also an active trustee member of four of the City's pension funds. Mr. Malhance holds a Bachelor of Commerce degree from the University of Karachi, Pakistan. He also holds a BS BA in Finance from Roosevelt University in Chicago, a MBA in Finance from Roosevelt University and a MA in Economics from the University of Illinois, Chicago. He has also completed his post-graduate course work studies as a PhD candidate in Public Policy Analysis at the University of Illinois, Chicago.

THE ASSET AND LIABILITY COMMITTEE (ALCO) ESTABLISHES THE FUNDING, LIQUIDITY AND MARKET RISK POLICIES FOR THE BANK. IT IS COMPOSED OF THE HEADS OF KEY BUSINESS AREAS AND FINANCE, RISK, OPERATIONS AND CONTROL AREAS.

FALAH NASSER AL-FALAH
Chief Executive Officer and Managing Director of Unicorn Capital Limited (Dubai)

Mr. Falah Al-Falah joined Unicorn in October 2004. He has wide experience in financial planning, stock brokering, asset management, financial and administrative management, sales and marketing, and client relations with large institutions and high net worth individuals. He has a proven track record in developing financial plans that preserve capital, maximise investment returns and minimise tax liabilities for clients. His career began at Bear Stearns in California where he rose to Vice President of International Equity, before taking on the role of Managing Director. Prior to joining Unicorn, he was Senior Manager of Institutional and Private Banking at Ahli United Bank in Kuwait. Mr. Al-Falah holds a Bachelor's degree in Business Administration - Finance from the American College, UK.

VASEEHAR HASSAN ABDUL RAZACK
Chairman of Unicorn International Islamic Bank Malaysia Berhad

Prior to joining Unicorn in February 2005, Mr. Vaseehar Abdul Razack was the CEO and director of the Dallah Al Baraka Group in Malaysia. During his 16 years with Al Baraka he was also responsible for building Al Baraka's Islamic banking activities in Malaysia. He was formerly the Chairman of RHB Islamic Bank Berhad and director of RHB Capital Berhad, RHB Bank Berhad, RHB Investment Bank Berhad and RHB Insurance Berhad. He played an active role in the merger and transformation of RHB/Utama Banks and was largely responsible for the creation of RHB Islamic Bank as a separate entity from being an Islamic window. He is on the International Advisory Panel of the World Islamic Economic Forum and a member of the International Society for the Psychoanalytic Study of Organisations, USA.

SEBNEM KALYONCUOĞLU
Chief Executive Officer and General Manager, Unicorn Capital Menkul Değerler (Turkey)

Ms. Sebnem Kalyoncuoğlu has several years of international banking experience at leading financial institutions in Turkey, London and Amsterdam. She was previously Country Manager and Head of Investment Banking at Credit Suisse in Turkey, where she was responsible for the origination and execution of debt and equity capital market and advisory transactions, fixed income and equity derivative trades and acquisition financing. She was also in charge of senior client coverage for Turkey with overall responsibility for managing the bank's relationships with financial institutions, corporates and sovereign entities. Prior to joining Credit Suisse, Ms. Kalyoncuoğlu was a director covering Turkey in the Emerging Markets Coverage Group at Credit Suisse First Boston in London. She previously spent several years at ABN AMRO in Turkey and Amsterdam, where she was a vice president in the Structured Finance Group. She joined Unicorn in July 2008. Ms. Kalyoncuoğlu holds a MSc in Finance from the London School of Economics and a BSc in Management from Bogaziçi University in Turkey.

THE RISK COMMITTEE HAS THE OVERALL RESPONSIBILITY FOR ENSURING THAT THE BANK DEVELOPS APPROPRIATE RISK POLICIES AND STRATEGIES FOR THE RELEVANT BUSINESS ACTIVITIES AND ENSURING THAT THE BANK COMPLIES WITH BASEL II.

AMIR AHMED
Head of Internal Audit

Mr. Amir Ahmed has extensive international and regional banking experience in Audit, Risk Management and Finance. He began his career with Prudential Securities as a Securities Analyst. Prior to joining Unicorn in April 2007, he worked as Group Head of Internal Audit, Investment & Corporate Banking, for Riyad Bank in Saudi Arabia. During his five years at Riyad Bank, he also led the implementation of Basel II. Prior to moving to the Middle East, Mr. Ahmed worked for Scotiabank in Canada, as Head of Operational Risk Management in the Global Risk Management Division. He represented Scotiabank in the Canadian Bankers' Association sub-committee on Operational Risk (Basel II). He also worked for TD Bank Financial Group in its corporate head office in Toronto, Canada as Internal Audit Manager, Corporate & Investment Banking Group. Mr. Ahmed holds a MBA in Finance and is a CPA from Washington, USA. He also passed the Registered Securities Representative exams from the National Association of Securities Dealers Inc.

AHMED ALLAM
Advisor on Shari'ah compliance

Mr. Ahmed Allam has rich and diverse Islamic banking experience with special emphasis on reviewing and examining the mechanisms of contracts and agreements related to Islamic banking transactions. As an Advisor in Shari'ah Assurance, Mr. Allam is well versed in the management of the interrelationship between the honourable scholars of the Shari'ah Supervisory Board and the senior management team. Prior to joining Unicorn in May 2004, Mr. Allam was a member of the Management Committee of First Islamic Investment Bank, Bahrain and Head of its Shari'ah Compliance Department. Prior to this, he helped establish Quantum Financial Advisors in Kuwait and served as Executive Vice President at the Shari'ah Verification Division of Majestic Global Investment, Kuwait and Majestic Commerce, Malaysia. Mr. Allam's career began in the Foreign Exchange division of the Bank of Alexandria in Cairo, Egypt, where he served as an Internal Auditor. Mr. Allam holds a degree in Commerce and a MBA from the University of Ein Shams in Cairo. He also has a Masters in Islamic Economics.

HADI HUMAIDAN
Chief Operations Officer

Mr. Hadi Humaidan joined Unicorn in January 2008. He has over 27 years banking experience, mainly in banking operations and the implementation of core banking systems. Prior to joining Unicorn, Mr. Humaidan worked for six years at the head office of Investcorp in Bahrain, and was responsible for supporting all of Investcorp's business lines, including asset management, private equity, real estate, technology investments and Gulf growth capital. Mr. Humaidan was also responsible for managing investors' and clients accounts, investment subscriptions, redemptions, "know your client" and anti-money laundering compliance. His last assignment at Investcorp was the implementation of a new core banking system. Prior to Investcorp, Mr. Humaidan worked for Arab Banking Corporation, Bahrain as first vice president, operations and Credit Commercial de France, Bahrain as operations manager. Mr. Humaidan has a MBA in Banking and Finance from the University of Hull, UK.

MUSTAFA KHALIFA
Chief Compliance Officer and Money Laundering Reporting Officer

Prior to joining Unicorn in October 2006, Mr. Mustafa Khalifa was head of tax and legal at KPMG Bahrain, where he advised clients on regulatory and corporate law issues. He assisted major banks and insurance companies in establishing businesses in Bahrain as well as launching IPO's and other capital raisings. Prior to that, he was senior legal counsel of Bank of Sudan (Central Bank) where he initiated and participated in the drafting of major laws and regulations relating to the organisation of banking business in the Sudan. He was also legal counsel for the Bank of Khartoum and participated in the negotiation, structuring and documentation of major finance transactions. Mr. Khalifa holds a Bachelor of Laws, Honours Degree (LL.B, Hon.) from the University of Khartoum in Sudan and Bar Association Certificate and is an enrolled member of the Sudan Bar Association.

DERRICK RODNEY
Head of Human Resources

Mr. Derrick Rodney joined Unicorn in September 2005. He is a human resources management professional with over 20 years senior management experience. Over the years, he has worked with several financial institutions, including Credit Suisse First Boston, Al Bank Al Saudi Al Fransi, Riyad Bank, Al Rajhi Bank, Arab National Bank and Saudi Hollandi Bank. He has worked for global organisations, including the Hay Group UK, a leading human resources consulting firm, where he spent 10 years advising companies on HR management issues across the UK, Europe and the Middle East. He spent nearly two years with KPMG consulting in the UK before relocating to the Middle East five years ago where he led the HR consulting practice for KPMG Bahrain and other GCC countries. Prior to joining Unicorn, he worked for Ahli United Bank setting strategic requirements for a bank-wide HR management system for their Bahrain, London, Qatar and Kuwait operations. Mr Rodney holds a HND in Business and Financial Administration with a focus on Human Resources, from Hertfordshire University, UK.

PHILIP STOCKBURN
Head of Investment Process Office

Mr. Philip Stockburn has over 28 years experience in finance and risk management in the UK and the Middle East. Prior to joining Unicorn in September 2006, Mr. Stockburn worked for Riyad Bank in Saudi Arabia as the Vice President of Financial Risk Management. He initiated and developed risk management disciplines for the Bank's Treasury, Investments, Mutual Funds, Brokerage and Asset & Liability Management businesses and designed and drafted the principal financial risk governance policies of the Bank. Prior to this, he worked in Kuwait, as the Financial Controller of the Commercial Bank of Kuwait, where he worked closely with the CEO to improve the financial strength and credit ratings of the bank. He spearheaded the initial developments of risk management techniques and policies and established the bank's first risk management policy. Prior to moving to the Middle East, Mr. Stockburn worked with several banks in London, including Hill Samuel & Co, ANZ and the Co-operative Bank (where he was the Financial Controller, Treasury and Asset & Liability Management). Mr. Stockburn holds a BA honours degree in Business Studies from Greenwich University, London and is an associate member of the Chartered Institute of Management Accountants.

ANTOINE TOHME
Head of Information Technology

Mr. Antoine Tohme has nearly 10 years IT experience and a proven ability to translate business needs into technological requirements to support business objectives. Prior to joining Unicorn in October 2005, Mr. Tohme worked for TR Technology in Canada where he was involved in planning and implementing multiple IT projects. Clients included IBM, National Bank of Canada, Microcell Telecom, Hydro-Quebec and Montreal Hospital. During that time he successfully managed all stages of IT projects from evaluating the company's needs to vendor selection, implementation and training. Mr. Tohme has worked in the areas of LAN and WAN, telephony, emails and security as well as training and support for using technology. Mr. Tohme has a BSc in Computer Science from Montreal University, Canada and holds a number of professional certifications in systems and networks.

PAUL WALTNER
General Counsel

Prior to joining Unicorn in October 2008, Mr. Paul Waltner was employed for four years as senior attorney for the law firm of Al Sarraf & Al Ruwayeh in Kuwait and served as lead counsel for their Bahrain operations while working as acting general counsel and legal advisor to Unicorn. Before coming to the region, Mr. Waltner worked in private practice and as in-house counsel in the United States, where he specialised in business formations, business transactions, tax planning and regulatory compliance. He served as corporate counsel to a non-profit biotechnology research organisation and as in-house counsel for a non-profit defense contractor advising on contract administration, export controls, intellectual property, employment and tax law. Mr. Waltner holds a Juris Doctorate from Thomas M. Cooley Law School and an undergraduate degree from Eastern Michigan University. Mr. Waltner is a member of the State Bar of Michigan and the American Bar Association.

Compensation of the Board of Directors and Executive Management

The total compensation of the Board of Directors for the year ending 31 December 2008 was US$0.541million. Of the Board of Directors, only the non-executive members receive compensation. This compensation is recommended to the Board of Directors by the Nomination and Remuneration Committee and the Board of Directors then makes the recommendation to the shareholders at the Ordinary General Meeting. Under the Articles of Association, the total remuneration that the Board of Directors may receive shall not exceed ten per cent of the net profit in any one financial year and such remunerations shall be distributed to the members of the Board of Directors in proportion to their actual attendance at meetings of the Board of Directors and its committees.

For the year ended 31 December 2008, the aggregate compensation (including benefits) for the Senior Management team was US$12.478 million.

The Partnership Development Programme (PDP)

The Partnership Development Programme (PDP) is intended to supplement base salaries and benefits by providing long-term incentive opportunities to eligible employees of the Bank.

THE PARTNERSHIP DEVELOPMENT PROGRAMME PROVIDES LONG-TERM INCENTIVES TO ELIGIBLE EMPLOYEES OF THE BANK AND ALIGNS THE INTERESTS OF EMPLOYEES AND SHAREHOLDERS.

The objectives of the Programme include:
- Fostering long-term employee commitment
- Linking performance pay with the equity of the Bank
- Attracting and retaining highly skilled individuals

The PDP is supervised by a committee (the PDP Committee) chaired by the Managing Director and Chief Executive Officer. The PDP was approved by the Board of Directors in September 2006.

The Board of Directors approved the setting aside of 20 per cent of Unicorn's present and future issued and paid-up capital for the PDP. In the event of an increase in the paid-up capital, 20 per cent of such increase is allocated to the PDP.

All full time employees within Unicorn or wholly owned subsidiaries and companies are eligible to participate in the PDP. An employee's eligibility to participate in one or more of the plans in the PDP is subject to the eligibility criteria, based on length of service and grade level in the year in which the plans are being executed.

The PDP operates with four plans, under which different types of awards may be made:

Employees Stock Option Plan (ESOP)
Awards under the ESOP are structured as options where eligible employees are invited to acquire a specified number of Ordinary Shares, based on their performance at an exercise price based on the fair value of an Ordinary Share as at the fiscal year-end in which performance is being reviewed. The fair value is agreed with the Bank's external auditor.

An option vests and shall become capable of exercise as to 20 per cent of the Ordinary Shares subject to it on each of the date of grant and the first four anniversaries thereafter. If not exercised, an option will lapse on the seventh anniversary of the date of grant.

All unvested options will lapse on the resignation of a participant or on termination of employment contract for cause (Termination for Cause). Termination for Cause arises when an employee's employment contract is terminated for any of the following:
- misappropriation, embezzlement or fraud with respect to any money or property of Unicorn, its affiliates, related entities, customers or prospects;
- knowingly providing material misinformation to or concealing material information from appropriate authorities of Unicorn; gross negligence in the performance of duties and responsibility; giving any false document or making any false statement in respect of qualifications, ability, competence or medical fitness or withholding any material information in this regard;
- any breach of the participant's employment contract;
- or any other reason stated in Unicorn's internal regulations and policies as advised to the participant from time to time.

Where employment is terminated without cause for any reason, vested options may be exercised for up to 90 days following termination and unvested options will lapse on the date of termination. All options will become capable of exercise immediately upon the death or incapacity of the participant and may be exercised for up to two years thereafter (provided that no option may be exercised later than the original lapse date of the option).

THE SHARI'AH SUPERVISORY BOARD IS PROACTIVELY INVOLVED IN ALL PRODUCT DEVELOPMENT AND INVESTMENT DECISIONS AND 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.

Employees Share Purchase Plan (ESPP)

Awards under the ESPP are structured as options where eligible employees are invited to acquire a specific number of Ordinary Shares based on their performance at an exercise price equal to 80 per cent of the fair value of an Ordinary Share as at the fiscal year-end in which performance is being reviewed. The fair value is agreed with the Bank's external auditor.

An option vests and shall become capable of exercise as to 20 per cent of the Ordinary Shares subject to it on each of the date of grant and the first four anniversaries thereafter. If not exercised, an option will lapse on the seventh anniversary of the date of grant.

All unvested options will lapse on the resignation of a participant or on termination of employment contract for cause (Termination for Cause).

Where employment is terminated without cause for any reason, vested options may be exercised for up to 90 days following termination and unvested options will lapse on the date of termination. All options will become capable of exercise immediately upon the death or incapacity of the participant and may be exercised for up to two years thereafter (provided that no option may be exercised later than the original lapse date of the option).

An option will vest immediately upon termination without cause or on the death or incapacity of a participant.

Performance Related Cash Bonus and Employees Share Grant (PRCBESG)

Under the PRCBESG plan, a portion of an eligible participant's bonus may be awarded in cash and the award of free Ordinary Shares. The amount of cash and number of Ordinary Shares awarded is based on the Bank's performance, the performance of the participant's business line/function and the individual's performance as assessed by the Annual Performance Appraisal process.

Awards of Ordinary Shares granted under the PRCBESG will vest as to 20 per cent of the Ordinary Shares on each of the date of grant and the first four anniversaries thereafter.

Upon termination of a participant's employment by Unicorn without cause or the death or incapacity of an eligible participant, all unvested Ordinary Shares will vest immediately.

Founder Share Grant (FSG)

Awards of 1.3 million Ordinary Shares were made under the FSG in 2007 to 58 founder employees of the Bank, and they vested on 31 December 2007. This was a one-time allocation and it is not anticipated that any further awards will be made under this plan in the PDP.

Pensions

The Bank does not currently have any pension schemes in operation.

Private Equity Carry Programme

A Carry Programme is being implemented for the Bank's private equity team, whereby part of the profit realised on the exit from one of the Bank's private equity investments is allocated to the private equity team as a carry incentive. This Carry Programme is based on industry practice for this type of programme, whereby any profits realised on the exit from one of the Bank's private equity investments above a 10 per cent hurdle rate are distributed to the investors and the Bank on an 80 per cent/20 per cent basis. The Bank's 20 per cent portion is split equally between the Bank and the private equity team (as a carry incentive). The carry incentive will vest over a five-year period.

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 has been established to provide 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 Islamic finance structuring 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.

Shari'ah Supervisory Board

DR. KHALID MATHKOOR AL-MATHKOOR
Chairman

Dr. Khalid Al-Mathkoor is the Chairman of the Higher Consultative Committee for Finalisation of the Application of the Provisions of Islamic Shari'ah for the State of Kuwait. He is a Lecturer in the Division of Comparative Jurisprudence and Shari'ah Policy of the Faculty of Shari'ah and Islamic Studies at the University of Kuwait. Dr. Al-Mathkoor is a member of the Higher Planning Board of the State of Kuwait, and serves on the Shari'ah Supervisory Boards of a number of Islamic banks. He holds a PhD in Shari'ah from Al-Azhar University.

DR. AGIL JASIM AL-NASHMY

Dr. Agil Al-Nashmy is Professor at the Faculty of Shari'ah and Islamic Studies at the University of Kuwait. He represents the State of Kuwait in the Islamic Fiqh Academy, which evolved from the Organisations of Islamic Conference in Jeddah, Saudi Arabia. He is a member of the Shari'ah Supervisory Boards of a number of Islamic banks, as well as of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Dr. Al-Nashmy also serves on the Fatwa Committee of the Kuwait Ministry of Awqaf and Islamic Affairs. He holds a PhD in Shari'ah from Al-Azhar University.

DR. ABDUL SATTAR ABU GHUDDAH

Dr. Abdul Sattar Abu Ghuddah is a member of the Islamic Fiqh Academy which evolved from the Organisations of Islamic Conference in Jeddah, Saudi Arabia. He sits on both the Standard Board and Shari'ah Board of AAOIFI. He is also a member of the Shari'ah Supervisory Board for a number of Islamic banks. Previously, Dr. Abu Ghuddah held the positions of Expert and Reporter for the Islamic Fiqh Encyclopaedia, Ministry of Awqaf and Islamic Affairs, State of Kuwait. He holds a PhD in Shari'ah from Al-Azhar University.

DR. ALI MUHYEALDIN AL-QURADAGHI

Dr. Ali Al-Quradaghi is a professor and Chairman of the Department of Jurisprudence and its Principles in the Faculty of Shari'ah Law and Islamic Studies at the University of Qatar. He is a member of the Islamic Fiqh Academy, Organisation of Islamic Conference, in the Kingdom of Saudi Arabia. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks. Dr. Al-Quradaghi holds a PhD in Shari'ah from Al-Azhar University.

SH. ABDUL-AZIZ MOHAMMAD AL-GASIM

Sh. Abdul-Aziz Al-Gasim is currently General Manager of "Al-Gasim for Shari'ah and Legal Consultation Office". He is a member of the Saudi Chamber of Commerce and Industry and a legal and Shari'ah consultant for a number of Islamic and conventional banks. Sh. Al-Gasim is presently a PhD candidate in Shari'ah - Applied Law and Philosophy from the College of Shari'ah, Riyadh. He also holds a MS in Legal Systems from the Higher College of Jurisdiction, Riyadh.

SH. NIZAM MOHAMMAD SALEH YAQOUBY

Sh. Nizam Yaqouby is a member of the Shari'ah Supervisory Board of a number of Islamic banks and institutions. He holds a BA in Economics and Comparative Religion from McGill University, Canada and at present is a PhD candidate in Islamic Law at the University of Wales.

DR. MOHAMMAD DAUD BAKAR

Dr. Mohammad Bakar is currently president and CEO of the International Institute of Islamic Finance Inc. and Amanie Business Solutions Sdn. Bhd. Kuala Lumpur, Malaysia. Previously, Dr. Bakar held the position of Deputy Rector for Student Affairs and Development of the International Islamic University, Malaysia. He also served as Dean of the Centre for Postgraduate Studies and Associate Professor of Islamic Law at the International Islamic University, Malaysia. Dr. Bakar is a member of the Shari'ah Advisory Councils of both the Securities Commission and Bank Negara (Central Bank), Malaysia. He holds a PhD in Shari'ah from St. Andrews University, UK.

Consolidated Financial Statements

For the year ended 31 December 2008

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 2008 and the consolidated statement of income, 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 Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those 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 control. 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 2008 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 2008 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 2008 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking licence.

Ernst + Young

12 March 2009
Manama, Kingdom of Bahrain

Shari'ah Supervisory Board Report

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

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

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

We have reviewed through the Shari'ah department and under our supervision the principles and the contacts 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 2008. 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 fatwa's, 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 through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2008 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

28th Safar 1430 H
23rd February 2009 G

Consolidated Balance Sheet

At 31 December 2008

(Amounts in United States Dollars thousands)

	Notes	31 December 2008	31 December 2007 (Restated)
ASSETS			
Cash and balances with banks	3	**23,560**	12,637
Due from financial institutions	4	**396,614**	72,480
Due from non-banks		**14,120**	40,833
Investment securities	5	**328,560**	211,393
Investments in associates	6	**24,427**	28,284
Investment properties	7	**38,538**	-
Inventories		**10,695**	10,667
Other assets	9	**43,838**	19,857
Premises and equipment		**6,778**	38,628
Assets held for sale	10	**39,187**	-
Goodwill and intangible assets	11	**52,453**	53,640
TOTAL ASSETS		**978,770**	488,419
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	12	**399,573**	70,371
Due to non-banks	13	**22,874**	28,537
Other liabilities	14	**88,856**	41,188
Liabilities held for sale		**13,556**	-
TOTAL LIABILITIES		**524,859**	140,096
EQUITY			
Share capital	15	**183,740**	174,704
Share premium	16	**71,216**	70,495
Statutory reserve	17	**15,580**	12,153
Fair value reserve		**61,765**	36,777
Foreign currency translation reserve		**(5,606)**	277
Retained earnings		**2,945**	20,027
		329,640	314,433
Proposed dividend	18	**-**	26,206
Total equity attributable to the shareholders of the parent		**329,640**	340,639
Advances for proposed increase in share capital	19	**110,059**	-
Minority interests		**7,901**	7,684
Minority interests held for sale		**6,311**	-
TOTAL EQUITY		**453,911**	348,323
TOTAL LIABILITIES AND EQUITY		**978,770**	488,419

These consolidated financial statements were authorised for issue by the Board of Directors on 12 March 2009 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 42 form part of the consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2008

(Amounts in United States Dollars thousands)

	Notes	31 December 2008	31 December 2007
Investment banking fees	20	**24,778**	93,775
Net (expense)/income from financial institutions	21	**(2,836)**	2,986
Revenue from non-banking activities	22	**99,804**	5,067
Gain on sale of investment securities		**53,697**	11,851
Gain on sale of assets held for sale		**-**	1,335
Fair value gain on investment securities	25	**44,381**	-
Fair value gain on investment properties		**4,167**	-
Dividend income		**1,154**	2,793
Management fees		**3,186**	2,751
Share of (loss)/profit of associates		**(2,010)**	181
Other income		**4,319**	2,146
TOTAL INCOME		**230,640**	122,885
Staff costs	23	**40,951**	53,679
Other operating expenses	24	**22,611**	18,771
Non-banking activity expenses	22	**93,295**	-
TOTAL EXPENSES		**156,857**	72,450
PROFIT BEFORE IMPAIRMENTS AND FAIR VALUE WRITE-DOWNS		**73,783**	50,435
Impairments	25	**(6,950)**	-
Fair value write-downs on investment securities	25	**(31,822)**	(844)
NET PROFIT		**35,011**	49,591
Attributable to:			
Shareholders of the parent		**34,272**	50,099
Minority interests		**739**	(508)
		35,011	49,591
Earnings per share – US cents	26		
Basic earnings per share		**18.7**	28.3
Diluted earnings per share		**18.6**	28.2

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(Amounts in United States Dollars thousands)

	Attributable to shareholders of the parent								Advances for proposed increase in share capital	Minority interests	Minority interests held for sale	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed dividend	Total				
Balance at 1 January 2008 (restated)	174,704	70,495	12,153	36,777	277	20,027	26,206	340,639	-	7,684	-	348,323
Cumulative changes in fair value	-	-	-	(6,359)	-	-	-	(6,359)	-	-	-	(6,359)
Transferred to consolidated statement of income on sale	-	-	-	(17,201)	-	-	-	(17,201)	-	-	-	(17,201)
Currency translation differences adjustment	-	-	-	-	(5,883)	-	-	(5,883)	-	(522)	-	(6,405)
Income recognised directly in equity	-	-	-	(23,560)	(5,883)	-	-	(29,443)	-	(522)	-	(29,965)
Net profit	-	-	-	-	-	34,272	-	34,272	-	739	-	35,011
Total income and expenses recognised for the year	-	-	-	(23,560)	(5,883)	34,272	-	4,829	-	217	-	5,046
Dividend paid	-	-	-	-	-	-	(26,206)	(26,206)	-	-	-	(26,206)
Transfer to statutory reserve	-	-	3,427	-	-	(3,427)	-	-	-	-	-	-
Transfer to fair value reserve	-	-	-	48,548	-	(48,548)	-	-	-	-	-	-
Issuance of additional shares	9,036	721	-	-	-	-	-	9,757	-	-	-	9,757
Employees share-based payments	-	-	-	-	-	621	-	621	-	-	-	621
Advances for proposed increase in share capital	-	-	-	-	-	-	-	-	110,059	-	-	110,059
Minority interests held for sale	-	-	-	-	-	-	-	-	-	-	6,311	6,311
Balance at 31 December 2008	183,740	71,216	15,580	61,765	(5,606)	2,945	-	329,640	110,059	7,901	6,311	453,911

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2008

(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 fair value	-	-	-	20,604	-	-	-	-	20,604	-	20,604
Transfer to consolidated statement of income on sale	-	-	-	(6,550)	-	-	-	-	(6,550)	-	(6,550)
Premises revaluation	-	-	-	408	-	-	-	-	408	-	408
Currency translation differences adjustment	-	-	-	-	277	-	-	-	277	134	411
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	-	-	-	-	-	-	(1,440)	-	(1,440)	-	(1,440)
Transfer of equity transaction costs to share premium	-	(1,440)	-	-	-	-	1,440	-	-	-	-
Proposed dividend	-	-	-	-	-	(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
Restatement due to business combination (note 8)	-	-	-	-	-	-	-	-	-	6,838	6,838
Balance at 31 December 2007 (restated)	174,704	70,495	12,153	36,777	277	20,027	-	26,206	340,639	7,684	348,323

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2008

(Amounts in United States Dollars thousands)

	2008	2007 (Restated)
OPERATING ACTIVITES		
Net profit	**35,011**	49,591
Adjustments for:		
Investment banking fees	**(3,440)**	(18,800)
Gain on sale of investment securities	**(53,697)**	(11,851)
Fair value gain on investment securities	**(44,381)**	-
Impairment charges	**6,950**	-
Fair value write-downs on investment securities	**31,822**	844
Fair value gain on investment properties	**(4,167)**	-
Gain on sale of assets held for sale	**-**	(1,335)
Share of (loss)/profit of associates	**2,010**	(181)
Share-based payments	**1,643**	4,000
Depreciation and amortisation	**1,793**	819
	(26,456)	23,087
Changes in:		
Due from non-banks	**26,713**	(2,931)
Other assets	**(23,981)**	(13,084)
Inventories	**(28)**	626
Due to financial institutions	**204,202**	70,371
Due to non-banks	**(5,663)**	28,537
Other liabilities	**47,668**	10,443
Proceeds from sale of investment securities	**214,502**	97,625
Proceeds from sale of assets held for sale	**-**	18,771
Purchase of investment securities	**(292,530)**	(140,296)
Purchase of assets held for sale	**(19,320)**	-
Net cash from operating activities	**125,107**	93,149
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(3,651)**	(35,640)
Investment in associates	**(1,325)**	(17,223)
Acquisition of subsidiaries, net of cash acquired	**-**	(63,100)
Net cash used in investing activities	**(4,976)**	(115,963)
FINANCING ACTIVITIES		
Advances for proposed increase in share capital	**110,059**	-
Proceeds from issuance of additional shares	**-**	18,000
Due to financial institutions	**125,000**	-
Dividend paid	**(17,471)**	(15,420)
Net cash from financing activities	**217,588**	2,580
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**337,719**	(20,234)
Foreign currency translation adjustments	**(2,662)**	411
Cash and cash equivalents at the beginning of the year	**85,117**	104,940
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**420,174**	85,117
Cash and cash equivalents comprise:		
Cash and balances with banks	**23,560**	12,637
Due from financial institutions	**396,614**	72,480
	420,174	85,117

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

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;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management that 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;
- developing and managing liquidity products and other treasury products and services; and
- electronic manufacturing and supply chain management services (through a private equity investment that is consolidated).

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 2008 was 491 (restated 2007: 413).

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 investment securities and investment properties 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 ("FAS") 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, 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.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 consolidated 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 of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognised directly in the consolidated 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. The main activities of UIB Capital Inc. are to source investment opportunities in the USA and monitor the performance of the acquired companies on behalf of the Bank and investors.	100%	2004	United States of America
Unicorn International Islamic Bank Malaysia Berhad Unicorn International Islamic Bank Malaysia Berhad 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. Unicorn International Islamic Bank Malaysia Berhad was granted an investment banking licence in 2007 by the Ministry of Finance of Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.	100%	2004	Malaysia
Unicorn Capital Limited Unicorn Capital Limited was granted a commercial licence 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. During 2008, Unicorn Capital Limited was granted a category two licence by the DFSA, to deal in investments as principal.	100%	2006	United Arab Emirates

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Unicorn Capital Menkul Degerler A.S.	91.9%	2007	Turkey
Victron Inc.	80%	2007	United States of America

The Bank acquired 81.77% of Unicorn Capital Menkul Degerler A.S. in 2007. During 2008, the Bank subscribed for an additional 12 million shares which increased the holding of the Bank to 91.9%. Its main activities are to provide investment consultancy, asset management, underwriting and brokerage services.

In 2007, the Bank's private equity business acquired 80% of Victron Inc., a company based in California, USA. Victron specialises in providing sophisticated manufacturing process technologies for complex printed circuit boards, other electronic assemblies and complete products for original equipment manufacturers (note 8).

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 consolidated 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.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For investments that are actively 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.

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

Fair value of financial instruments (continued)

- 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 their cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Impairment of non financial assets

The Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include the restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rates used for extrapolation purposes.

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 amendments to the following IFRS and IFRIC during the year. Adoption of these amendments did not have any effect on the financial performance or position of the Group.

- IAS 39 — Financial Instruments – Recognition and Measurement
- IFRIC 11 — IFRS 2 - Group and Treasury Share Transaction

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.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

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.

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 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rates.

Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand, balances with banks, due from financial institutions, due from non-banks, investment securities and receivables from clients. Financial liabilities consist of due to financial institutions, due to non-banks 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. They 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 murabaha (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the murabaha over the agreed period.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Due from non-banks

Due from non-banks includes trade account receivables arising in the ordinary course of business of Victron Inc., one of the companies acquired by the Bank as a private equity investment. Victron uses the allowance method of accounting for bad debts.

Investment securities

Investment securities are initially recognised at fair value, 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.

Investments classified as "carried at fair value through statement of income" are subsequently remeasured at fair value. The unrealised gains arising from the remeasurement to fair value are included in the statement of income as "fair value gain on investment securities". The unrealised losses arising from the remeasurement to fair value are included in the consolidated statement of income as "fair value write-downs on investment securities". The gains are transferred to the fair value reserve in the consolidated statement of changes in equity in accordance with AAOIFI. Upon realisation, the gains 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 Sukuk.

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. The amounts are stated at principal plus accrued cost payable.

Due to non-banks

Due to non-banks are initially recognised at fair value less directly attributable transaction costs, and are subsequently measured at amortised cost.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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 the loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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 consolidated statement of income – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in equity.

In the case of Sukuk ('Islamic bonds') 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. If, in a subsequent year, the fair value of a Sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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.

Revenue from non-banking activities

Revenue from non-banking activities primarily relates to Victron. The revenues derived from services, including turnkey manufacturing services where Victron purchases and schedules the materials required for completed assembly, are recognised when Victron transfers to the buyer the significant risks and rewards of ownership of the goods. The revenues derived from consignment manufacturing services, where the customer supplies the materials for product assembly, are recognised when the services are rendered.

Dividend income

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

Management fees

Management fees represent recurring fees earned by the Group for rendering management and administrative services to funds managed by the Group. Management fees are recognised over the period of the services rendered.

Other income

Other income is recognised when earned.

Expense recognition

Expenses are recognised on the following bases:

Non-banking activity expenses

Non-banking activity expenses are the direct manufacturing and service costs of Victron. These are recognised in the same period as the related sale.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expense (continued)

Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated balance sheet date. Bahraini employees are covered under the General Organisation for Social Insurance ("GOSI") scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Expense on amounts due to financial institutions

Expense on 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 consolidated statement of cash flows comprises: 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 an associate is carried in the balance sheet at cost plus post acquisition changes in the Bank's share of the 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.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Investment properties

Investment properties are investments that earn rental income and/or are expected to benefit from capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise.

In accordance with AAOIFI, unrealised gains or losses are appropriated to the fair value reserve and are transferred to retained earnings only when realised.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realisable value.

Premises and equipment

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

Assets held for sale

Assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Assets held for sale are measured at the lower of carrying amount or fair value less costs to sell.

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 consolidated 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.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units within the Group that are expected to benefit from the synergies of the business combination.

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 consolidated statement of income.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets include the value of computer software and trade names acquired in a business combination. The cost of intangible assets is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated using the straight-line method to write-down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 10 years
- Trade names 25 years

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 payments to employees

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate valuation model.

The costs of equity settled share-based payment transactions are recognised in the consolidated 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.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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 that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographic segments.

Standards issued but not effective

The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") but are not yet mandatory for these consolidated financial statements:

- IAS 1 - Presentation of Financial Statements (Revised) [effective for annual periods commencing 1 January 2009].
- IFRS 8 Operating Segments [effective for annual periods commencing 1 January 2009].
- IAS 23R Amendment - Borrowing Costs [effective for annual periods commencing 1 January 2009].
- IFRS 2R Amendment - Vesting Conditions and Cancellations [effective for annual periods commencing 1 January 2009].
- IFRS 3R Amendment - Business Combinations and Consequential Amendments [effective for annual periods commencing 1 July 2009].
- IAS 27R Amendment - Consolidated and Separate Financial Statements and Consequential Amendments [effective for annual periods commencing 1 January 2009].
- IAS 32R and IAS 1R Amendment - Puttable Financial Instruments and Obligations Arising on Liquidation [effective for annual periods commencing 1 January 2009].

The application of these standards is not expected to have a material impact on the consolidated financial statements of the Group when they are implemented. However, implementation will result in amendments to the presentation of the consolidated financial statements.

(Amounts in United States Dollars thousands)

3. CASH AND BALANCES WITH BANKS

	2008	2007 (Restated)
Cash on hand	29	10
Balances with banks	23,531	12,627
	23,560	12,637

4. DUE FROM FINANCIAL INSTITUTIONS

	2008	2007 (Restated)
Murabaha receivables	396,774	72,554
Less: deferred profits	(160)	(74)
	396,614	72,480

Due from financial institutions represents murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2008 was equivalent to an average rate of 3.4% per annum (2007: 5.1% per annum).

5. INVESTMENT SECURITIES

	2008	2007
Carried at fair value through statement of income (note 5.1)	271,171	149,094
Available for sale investments at fair value:		
Quoted (note 5.2)	33,455	56,649
Unquoted (note 5.3)	4,702	5,650
Investment-related receivables (note 5.4)	19,232	-
	328,560	211,393

5.1 Investments carried at fair value through statement of income comprise:

	31 December 2008					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Agri-business	-	-	-	2,314	-	2,314
Financial services	127,015	-	-	-	276	127,291
Industrial	-	17,752	-	-	-	17,752
Media	-	14,037	-	-	-	14,037
Real estate and construction	-	38,526	-	-	6,181	44,707
Technology	-	-	39,800	-	-	39,800
Managed funds	25,270	-	-	-	-	25,270
Total	152,285	70,315	39,800	2,314	6,457	271,171

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

5.1 Investments carried at fair value through statement of income comprise: (continued)

	31 December 2007					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Agri-business	-	-	-	-	-	-
Financial services	-	-	-	-	26	26
Industrial	-	10,497	-	-	-	10,497
Media	-	14,906	-	-	-	14,906
Real estate and construction	-	38,526	-	-		38,526
Technology	-	-	53,800	-	-	53,800
Managed funds	31,339	-	-	-	-	31,339
Total	31,339	63,929	53,800	-	26	149,094

5.2 Quoted available for sale investments comprise:

	31 December 2008					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**16,573**	**-**	**-**	**-**	**16,573**
Real estate and construction	**-**	**16,882**	**-**	**-**	**-**	**16,882**
Total	**-**	**33,455**	**-**	**-**	**-**	**33,455**

	31 December 2007					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	14,500	-	-	-	14,500
Real estate and construction	-	42,149	-	-	-	42,149
Total	-	56,649	-	-	-	56,649

5.3 Unquoted available for sale investments comprise:

	31 December 2008					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**-**	**-**	**56**	**-**	**56**
Oil and energy	**-**	**1,047**	**-**	**-**	**3,599**	**4,646**
Total	**-**	**1,047**	**-**	**56**	**3,599**	**4,702**

	31 December 2007					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	-	-	95	-	95
Oil and energy	-	3,647	-	-	1,908	5,555
Total	-	3,647	-	95	1,908	5,650

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

5.4 Investment-related receivables:

The Group has received a US$19.2 million (2007: nil) irrevocable binding commitment from a related party to compensate the Bank in full on any price difference arising on the sale of one of its investments below the cost price to the Bank.

For the year ended 31 December 2008, the Bank recognised a fair value gain of US$19.2 million (2007: nil) on the guarantee. This was off-set by a corresponding fair value loss on the available for sale investment amounting to US$19.2 million (2007: nil).

6. INVESTMENTS IN ASSOCIATES

	2008	2007
Dawood Islamic Bank Limited	**11,689**	13,284
T'azur B.S.C. (c)	**12,738**	15,000
	24,427	28,284

The Bank has a 22.22% (2007: 22.22%) interest in Dawood Islamic Bank Limited (DIB), an unlisted Islamic commercial bank in Pakistan. Subsequent to the year-end 2008, Unicorn has invested a further US$12.5 million in DIB and increased its stake to 37.78%.

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

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

	2008	2007
Share of the associates balance sheet:		
Assets	**40,457**	39,828
Liabilities	**(16,030)**	(11,544)
Net assets	**24,427**	28,284
Carrying amount of the investment	**24,427**	28,284
Share of the associates revenue and profit:		
Revenue	**2,075**	723
(Loss)/profit for the year	**(2,010)**	181

7. INVESTMENTS PROPERTIES

Investment properties comprise a plot of vacant land in the Seef District of the Kingdom of Bahrain. The fair value of this investment property at 31 December 2008 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms as the main basis for the valuation.

During the year, the land has been transferred from premises and equipment to investment properties, due to a change in its intended use.

(Amounts in United States Dollars thousands)

8. BUSINESS COMBINATION

In December 2007, the Group formed a corporation called UII-VAC Inc. (the Company) with an 80% equity interest. On 14 December 2007, the Company acquired all the operating assets and liabilities of Victron Inc., a company based in California, USA, that provides electronic manufacturing and supply chain management services. Subsequent to the acquisition, UII-VAC Inc. and Victron Inc. have been renamed as Victron Inc. and OVLC Inc. respectively.

The investment was originally classified under IFRS 5 as Non-current Assets Held for Sale and Discontinued Operations because the original intent was to sell a majority stake in the investment. Subsequent to 31 December 2007, the management has decided to retain a majority stake and the Company has consequently been consolidated retrospectively and the comparative numbers restated.

The restatement has resulted in an increase of US$41.8 million in total assets and US$34.9 million in total liabilities as at 31 December 2007. The restatement did not have any impact on the net profit for the year ended 31 December 2007 because the acquisition occurred close to 31 December 2007.

The restatement has also resulted in an increase of 276 in the number of Group employees as of 31 December 2007.

On 14 December 2007, being the date of acquisition, the fair value of the identifiable assets and liabilities of Victron Inc., were:

	Carrying value	Fair value recognised on acquisition
Cash and balances with banks	500	500
Due from non-banks	10,019	10,019
Other assets	11,699	11,699
Premises and equipment	1,366	1,366
Other liabilities	(6,981)	(6,981)
Intangible assets	-	8,530
Net identifiable assets acquired	16,603	25,133
Goodwill arising on acquisition of Victron Inc.		42,952
Cost of acquisition of Victron Inc.		68,085

UII-VAC Inc. paid the cost of acquisition to Victron Inc. as follows:

Cash paid	63,491
Shares issued of UII-VAC Inc. (137,779 shares at US$33.3418 per share)	4,594
	68,085

Cash outflow on acquisition:	
Cash paid	63,491
Net cash acquired with the subsidiary	(500)
Net cash outflow	**62,991**

(Amounts in United States Dollars thousands)

9. OTHER ASSETS

	2008	2007 (Restated)
Fees and recoverable expenses outstanding from clients	**16,625**	14,859
Advance payments related to deals	**9,680**	-
Prepaid capital raising costs	**6,989**	-
Prepayments and advances	**4,692**	3,471
Other	**5,852**	1,527
	43,838	19,857

10. ASSETS HELD FOR SALE

In October 2008, the Bank acquired a 75% stake in a leading independent oil services company (the 'Company') based in the Williston Basin in the United States of America. As at 31 December 2008, the Company's total assets and liabilities amounted to US$39.2 million and US$13.6 million respectively, and the minority interest resulting from the acquisition of the Company amounted to US$6.3 million.

11. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets	Total
Cost:			
At 1 January 2008	**45,110**	**8,530**	**53,640**
Exchange adjustment	**(524)**	**-**	**(524)**
At 31 December 2008	**44,586**	**8,530**	**53,116**
Amortisation and impairment:			
Amortisation charge for the year	**-**	**(663)**	**(663)**
At 31 December 2008	**-**	**(663)**	**(663)**
Net book value:			
At 1 January 2008	**45,110**	**8,530**	**53,640**
At 31 December 2008	**44,586**	**7,867**	**52,453**
Cost:			
Additions 2007	45,110	8,530	53,640
At 31 December 2007	45,110	8,530	53,640

(Amounts in United States Dollars thousands)

11. GOODWILL AND INTANGIBLE ASSETS (continued)

Impairment testing of goodwill

For the purpose of impairment testing, goodwill is allocated to the following subsidiaries that are considered as single cash-generating units.

The carrying amount of goodwill is as follows:

	2008	2007
Victron Inc.	**42,952**	42,952
Unicorn Capital Menkul Degerler A.S.	**1,634**	2,158
	44,586	45,110

Victron Inc.

The recoverable amount of goodwill for Victron Inc. has been calculated based on its value in use.

Value in use was determined by discounting the future cash flow projections, based on the financial budgets approved by senior management covering a five year period. These projections were based on the following key assumptions:

- Profit margins, based on values achieved in the four years preceding the start of the budget period.

- Discount rate, namely the rate of return expected by an investor for the perceived risk of the investment. The discount rate applied to the Victron cash flow projections was 20.5%, and it was calculated using the Weighted Average Cost of Capital (WACC) and the implied internal rate of return.

- Market share during the budget period. Management expects the Victron market share to remain stable over the budget period due to Victron's success in maintaining and growing its customer base.

- Long-term expected growth rate of 4.0% for the terminal value calculation.

- Sensitivity to changes in the assumptions. Management believes that reasonable possible changes in the key assumptions that were used to determine the recoverable amount will not result in an impairment of goodwill.

Unicorn Capital Menkul Degerler A.S.

The recoverable amount of goodwill for Unicorn Capital Menkul Degerler A.S. has been calculated based on its fair value less cost to sell. Fair value for Unicorn Capital Menkul Degerler A.S. was determined from known prices that investors have paid for other similar companies active in the same sector.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amount of either subsidiary to decline below the carrying amount.

(Amounts in United States Dollars thousands)

12. DUE TO FINANCIAL INSTITUTIONS

	2008	2007
Murabaha payable	**183,561**	45,649
Wakala payable	**216,012**	24,722
	399,573	70,371

Included in murabaha payable is a 3-year syndicated financing facility of US$125 million repayable in February 2011. The profit is payable biannually at a rate of 6 months LIBOR + 170 basis points. The facility is not secured against the assets of the Bank, but has certain financial covenants that cover the consolidated tangible net worth and the leverage ratio of the Bank. The Bank's leverage ratio as at 31 December 2008 was 91%, which compares favourably with the maximum leverage ratio of 300% specified in the financial covenants of the facility.

13. DUE TO NON-BANKS

Due to non-banks primarily comprises two financing facilities amounting to US$22.9 million (31 December 2007: US$28.5 million) obtained by the Group in relation to the acquisition of Victron Inc. The financing facilities are repayable by 31 March 2014. The average effective profit rate on the financing facilities is 8.615%.

14. OTHER LIABILITIES

	2008	2007 (Restated)
Staff-related payables	**5,287**	19,886
Deal-related payables (14.1)	**62,016**	2,553
Accrued expenses	**3,637**	1,821
Other payables	**17,916**	16,928
	88,856	41,188

14.1 Deal-related payables are related to the purchase of a stake in a portfolio of exchange and remittance companies. Subsequent to the year end 2008, these deal-related payables were fully paid.

15. SHARE CAPITAL

	2008	2007
Authorised:		
750,000,000 ordinary shares of US$1 each	**750,000**	750,000
Issued and fully paid:		
158,304,361 (2007: 158,304,361) ordinary shares of US$1 each, issued against cash	**158,305**	158,305
23,801,343 (2007: 15,066,151) ordinary shares of US$1 each, issued in kind	**23,801**	15,066
1,633,994 (2007: 1,333,333) ordinary shares of US$1 each, granted to Employees	**1,634**	1,333
	183,740	174,704

(Amounts in United States Dollars thousands)

15. SHARE CAPITAL (continued)

	No. of shares (thousands)	Nominal value
At 1 January 2007	154,201	154,201
Issued during the year	20,503	20,503
At 1 January 2008	**174,704**	**174,704**
Issued during the year	**9,036**	**9,036**
At 31 December 2008	**183,740**	**183,740**

16. 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.

17. STATUTORY RESERVE

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve t otals 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.

18. PROPOSED DIVIDEND

No dividend has been proposed for 2008 since the Board and management deem it prudent under the prevailing market conditions to preserve the cash generated by the Bank during 2008 as there is still considerable uncertainty as to how long the current global economic slowdown will last.

A cash dividend of US$0.10 per share (totalling US$17.471 million) and a stock dividend of 5% per share (totalling US$8.735 million) was approved at the 2007 Annual General Meeting and was paid following that approval.

19. ADVANCES FOR PROPOSED INCREASE IN SHARE CAPITAL

During 2008, the Bank increased its equity by US$110.059 million through an international private placement.

20. INVESTMENT BANKING FEES

	2008	2007
Advisory and placement fees	**12,248**	14,272
Structuring fees	**6,159**	28,755
Arrangement and underwriting fees	**1,358**	49,974
Performance fees	**5,013**	774
	24,778	93,775

Included in the investment banking fees is an amount of US$3.4 million (2007: US$18.8 million), that was settled in kind.

(Amounts in United States Dollars thousands)

21. NET (EXPENSE)/INCOME FROM FINANCIAL INSTITUTIONS

	2008	2007
Income due from financial institutions	6,178	4,869
Expense due to financial institutions	(9,014)	(1,883)
Net (expense)/income from financial institutions	(2,836)	2,986

22. REVENUE AND EXPENSES FROM NON-BANKING ACTIVITIES

	2008	2007
Sales from Victron Inc.	99,104	-
Less cost of sales from Victron Inc.	(80,907)	-
Gross profit from Victron Inc.	18,197	-
Other expenses from Victron Inc.	(12,388)	-
Other income	700	5,067
Net revenue from non-banking activities	6,509	5,067

23. STAFF COSTS

Staff costs includes an expense amounting to US$1.643 million (2007: nil) arising from equity-settled share-based payment transactions made with employees of the Group. The shares vest over an effective four year period, with 20% of the shares vesting on the date of the grant and 20% vesting on the first four anniversaries thereafter. The expense reflects the number of shares vesting in the reporting period multiplied by the fair value of the shares at the date of grant.

24. OTHER OPERATING EXPENSES

	2008	2007
General and administrative	6,561	5,584
Legal and professional	5,312	4,355
Business development	4,496	2,290
Bad debts	-	1,823
Premises	2,452	1,410
Advertising	1,042	1,077
Depreciation	925	819
Deal-related	-	461
Other	1,823	952
	22,611	18,771

(Amounts in United States Dollars thousands)

25. FAIR VALUE GAIN AND FAIR WRITE-DOWNS ON INVESTMENT SECURITIES

	2008	2007
Fair value gain on investment securities	44,381	-
Fair value write-downs on investment securities	(31,822)	(844)
Net fair value gain/(loss) on investment securities	12,559	(844)
Impairments	(6,950)	-

In light of the adverse effects of the global financial crisis, the Bank adopted a conservative approach to the valuation of its assets and recorded investment write-downs of US$31.8 million against its private equity portfolio and impairment charges of US$7.0 million against Sukuk and equity securities.

26. EARNINGS PER SHARE

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

	2008	2007 (Restated)
Net profit attributable to the shareholders of the parent	34,272	50,099
Total weighted average number of shares (thousands) (26.1)	183,677	177,277
Basic earnings per share (US cents)	18.7	28.3
Diluted earnings per share (US cents)	18.6	28.2

26.1 The Annual General Assembly meeting on 16 March 2008 approved the issue of 8,735,195 ordinary shares as bonus shares to the shareholders registered in the Bank's records as at 31 December 2007. For the purposes of the earnings per share calculations, the 2007 weighted average number of shares has been retrospectively adjusted for this bonus issue.

27. INVESTMENT SECURITIES RECORDED AT FAIR VALUE

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involve the use of non-market observable inputs.

	Quoted market price 2008	Valuation techniques market observable inputs 2008	Valuation techniques non-market observable inputs 2008	Total 2008
Investment securities				
Investment securities carried at fair value through statement of income	-	271,171	-	271,171
Investment securities designated as available for sale	33,455	4,702	-	38,157
	33,455	275,873	-	309,328

(Amounts in United States Dollars thousands)

27. INVESTMENT SECURITIES RECORDED AT FAIR VALUE (continued)

	Quoted market price 2007	Valuation techniques market observable inputs 2007	Valuation techniques non-market observable inputs 2007	Total 2007
Investment securities				
Investment securities carried at fair value through statement of income	-	149,094	-	149,094
Investment securities designated as available for sale	56,649	5,650	-	62,299
	56,649	154,744	-	211,393

28. ASSETS UNDER MANAGEMENT

	2008	2007
Proprietary	**88,427**	90,300
Clients	**275,959**	272,900
	364,386	363,200

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.

29. COMMITMENTS

	2008	2007 (Restated)
Investment-related	**35,980**	25,502
Lease commitments	**6,515**	-
	42,495	25,502
Guarantees	**4,167**	-
	46,662	25,502

30. 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.

	2008	2007
Short term employee benefits	**10,430**	19,086
Post employment benefits	**1,327**	971
Share-based payments	**721**	1,830
	12,478	21,887

(Amounts in United States Dollars thousands)

30. RELATED PARTY TRANSACTIONS (continued)

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.

	2008			2007 (Restated)		
	Shareholders/ Directors	Senior management	Other entities	Shareholders/ Directors	Senior management	Other entities
Assets						
Due from non-banks	-	-	-	-	-	32,017
Investment securities	-	-	252,132	-	-	136,301
Investments in associates	-	-	24,427	-	-	28,284
Other assets	-	95	16,155	-	71	13,569
Liabilities						
Due to financial institutions	-	-	109,858	-	-	9,262
Due to non-banks	-	-	5,329	-	-	5,028
Other liabilities	2,877	-	66,535	-	-	5,826
Shareholders' equity						
Equity transaction costs	-	-	-	360	1,080	-

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

	2008	2007
Investment banking fees	24,098	88,988
Expense due to financial institutions	595	62
Revenue from non-banking activities	24	4,134
Gain on sale of investment securities	47,615	5,845
Gain on sale of assets held for sale	-	513
Dividend income	1,117	2,387
Management fees	3,186	2,751
Share of (loss)/profit of associates	(2,010)	181
Other income	379	248
Directors' remuneration and expenses	(541)	(541)
Shari'ah supervisory board remuneration and expenses	(398)	(285)

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

31. 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, reputation 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 has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework.

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 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.

31. 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).

Risk Management 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. Internal Control and Risk Management conduct position monitoring for profit rate and foreign exchange exposure purposes, subject to regular review by ALCO.

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 and reduce geographical exposure and concentration risks.

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 relating 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 acquisition 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.

31. RISK MANAGEMENT (continued)

Risk identification and monitoring

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

Business	Risk profile	Risk strategies
Private equity	Investment risk	The Group conducts extensive due diligence activities and risk management is 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 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. Proprietary real estate transactions are also undertaken	The Group conducts extensive due diligence activities and risk management 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.

32. 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. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activity and proposes limits for review and approval by ALCO. ALCO periodically reviews these limits for appropriateness in prevailing market conditions.

(Amounts in United States Dollars thousands)

32. 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 2008	Gross maximum exposure 2007 (Restated)
Balances with banks	**23,531**	12,627
Due from financial institutions	**396,614**	72,480
Due from non-banks	**14,120**	40,833
Investment securities	**29,382**	14,500
Other assets – fees and recoverable expenses outstanding from clients	**16,625**	14,859
Total	**480,272**	155,299
Guarantees	**4,167**	-
Total credit risk exposure	**484,439**	155,299

Gross and average credit risk

The following are gross credit risk exposures of the Bank classified as per disclosure in the financial statements:

(Amounts in US$ thousands)	Funded exposure	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Balances with banks	23,531	-	23,531	16,082
Due from financial institutions	396,614	-	396,614	202,212
Due from non banks	14,120	-	14,120	18,528
Investment securities	29,382	-	29,382	17,502
Other assets - fees and recoverable expenses outstanding from clients	16,625	-	16,625	20,309
	480,272	**-**	**480,272**	**274,633**
Guarantees	4,167	-	4,167	1,415
Total credit risk exposure	**484,439**	**-**	**484,439**	**276,048**

*Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during year ended 31 December 2008.

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 2008 was US$44.1 million (2007: US$37.6 million)

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

	Banks & financial institutions 2008	Others 2008	Total 2008
Bahrain	**211,309**	**3,304**	**214,613**
Other Middle East	**139,195**	**42,218**	**181,413**
North America	**8,263**	**17,120**	**25,383**
Asia Pacific	**4,244**	**-**	**4,244**
Europe	**57,132**	**1,654**	**58,786**
Total	**420,143**	**64,296**	**484,439**

(Amounts in United States Dollars thousands)

32. CREDIT RISK (continued)

Risk concentration of the maximum exposure to credit risk (continued)

	Banks & financial institutions 2007	Others 2007	Total 2007
Bahrain	66,069	-	66,069
Other Middle East	18,149	44,993	63,142
North America (2007 restated)	7,904	8,793	16,697
Asia Pacific	4,420	-	4,420
Europe	4,911	60	4,971
Total	101,453	53,846	155,299

The distribution of assets and off-balance-sheet items by industry sector is as follows:

Industry Sector	**Assets**	**Off-balance-sheet**	**Total 2008**	Total 2007
Financial services	**434,357**	**1,167**	**435,524**	100,050
Industrial	**141**	**-**	**141**	21
Real estate and construction	**30,529**	**-**	**30,529**	12,889
Technology	**14,120**	**3,000**	**17,120**	40,833
In-house funds	**1,125**	**-**	**1,125**	1,506
Total	**480,272**	**4,167**	**484,439**	155,299

Collateral and other credit enhancements

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

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 2008.

33. 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 the perceived credit-worthiness 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.

33. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Liquidity methodology (continued)

- 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 that 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

Liquidity strategy

The Group further strengthened its liquidity management activities during 2008 in order to ensure that the Group maintains a stable funding base and strong liquidity during the prevailing period of globalmarket crisis. Cash flow planning was enhanced and discretionary expenditures were deferred. The Group also significantly strengthened its fund raising activities with the specific objective of lengthening the maturity profile of the Group's borrowing.

Liquidity strategy	Note
Medium term funding	The Group obtained 3-year medium term financing totalling US$125 million early in 2008. This provided major relief against short term funding pressures.
Equity capital	The Group raised new equity capital during 2008 through an international private placement. Approximately US$110 million of the new capital raise proceeds had been received as at 31 December 2008.
Short term funding and interbank activities	The Group has actively expanded its short term funding capacity from the interbank markets to diversify its funding sources by counterparty and maturity. The Group continues to lengthen its liability maturity profile and has commenced treasury activity in Malaysia to further diversify the Group's funding operations.
Standby credit facilities	The Group has established equivalent standby facilities of approximately US$30 million during 2008.

(Amounts in United States Dollars thousands)

33. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

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.

During late 2008, the Group effectively invoked the liquidity contingency plan to protect the Bank against the potential risks of the distressed global economy and the tight global financial market conditions. The Group has successfully strengthened its liquidity resources and continues to strengthen its scale of treasury and liquidity management.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2008 based on contractual undiscounted repayment obligations.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
As at 31 December 2008					
Due to financial institutions	**9,945**	**264,628**	**-**	**125,000**	**399,573**
Due to non-banks	**-**	**-**	**-**	**22,874**	**22,874**
Other liabilities	**-**	**64,250**	**20,659**	**3,947**	**88,856**
Total financial liabilities	**9,945**	**328,878**	**20,659**	**151,821**	**511,303**
Total undiscounted financial liabilities	**9,945**	**330,835**	**25,246**	**162,661**	**528,687**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
As at 31 December 2007 (Restated)					
Due to financial institutions	34,747	-	35,624	-	70,371
Due to non banks	-	-	-	28,537	28,537
Other liabilities	1,015	35,864	2,279	2,030	41,188
Total financial liabilities	35,762	35,864	37,903	30,567	140,096
Total undiscounted financial liabilities	35,815	35,864	38,660	30,567	140,906

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
2008						
Commitments	**12,970**	**23,372**	**1,086**	**5,067**	**-**	**42,495**
Guarantees	**4,167**	**-**	**-**	**-**	**-**	**4,167**
Total	**17,137**	**23,372**	**1,086**	**5,067**	**-**	**46,662**
2007						
Commitments	25,502	-	-	-	-	25,502
Total	25,502	-	-	-	-	25,502

(Amounts in United States Dollars thousands)

34. 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 has significant market risk exposures from its foreign currency investments.

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. The Group's assets and liabilities that are exposed to profit rate risk include: due from financial institutions, Sukuk, due to financial institutions and due to non-banks.

Market Risk: Non-trading (continued)

Profit rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2008	Change in profit rate (+/-) 2008	Effect on net profit (+/-) 2008	2007	Change in profit rate (+/-) 2007	Effect on net profit (+/-) 2007
Assets						
Due from financial institutions	**396,614**	**200**	**7,932**	72,480	200	1,450
Investment in Sukuk	**10,150**	**200**	**203**	14,500	200	290
Liabilities						
Due to financial institutions	**399,573**	**200**	**(7,991)**	70,371	200	(1,407)
Due to non-banks	**22,874**	**200**	**(457)**	28,537	200	(571)
Total			**(313)**			(238)

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 indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and the consolidated statement of changes in equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

Currency	Exposure (US$ equivalent) 2008	Effect on net profit (+/-) 2008	Effect on equity (+/-) 2008	Exposure (US$ equivalent) 2007	Effect on Net profit (+/-) 2007	Effect on equity (+/-) 2007
Kuwaiti Dinar	**22,695**	**4,330**	**209**	59,581	11,188	728
Jordanian Dinar	**38,526**	**7,705**	**-**	38,526	7,705	-
Pakistan Rupee	**14,003**	**463**	**2,338**	13,284	-	2,657
Turkish Lira	**10,674**	**-**	**2,135**	4,650	-	232
Malaysian Ringgit	**(3,602)**	**-**	**720**	3,113	-	623
Euro	**5,826**	**-**	**1,165**	1,908	-	382

(Amounts in United States Dollars thousands)

34. MARKET RISK (continued)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the 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.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2008) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$39.626 million and US$4.201 million, respectively (2007: US$22.364 million and US$7.170 million, respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

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

The Group is not exposed to any significant prepayment risk.

35. OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

The Bankhas met the 2008 regulatory requirements for Basel II implementation, and as part of Basel II implementation, the Bank has put an operational risk framework in place. Under this framework the following have been carried out:

- In 2008, the Bank significantly strengthened its takaful coverage, which has significantly mitigated the Group's operational risk profile by establishing comprehensive directors and officers, fund liability, fraud and professional indemnity insurance with the London underwriting market.

- In 2008, the Bank initiated a programme to implement a comprehensive Basel II, Pillar 2 framework. The Bank is in the process of conducting a risk assessment in accordance with the requirements of the Central Bank of Bahrain. This is due to be completed in April 2009.

The Board of Directors has approved the Group's operational risk framework and has delegated the day-to-day supervision of operational risk to the risk management officer. In order to manage operational risk effectively, the Group has designed a structure to facilitate the flow of information between risk management, the various lines of business, senior management and the Board of Directors. This open and collaborative organisational structure provides an effective and regular reporting oversight on operational risk to the management and the Board, thereby allowing for immediate action in instances where the level of operational risk is high.

Capital charge for operational risk	2008	2007
Gross Income	**134,572**	109,699
Average for preceding three years	**91,428**	53,114
Alpha	**15%**	15%
Capital charge for operational risk	**13,714**	7,967

(Amounts in United States Dollars thousands)

36. 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 2008	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	23,560	-	-	-	-	-	23,560
Due from financial institutions	353,478	43,136	-	-	-	-	396,614
Due from non-banks	-	14,120	-	-	-	-	14,120
Investment securities	-	-	-	76,137	252,423	-	328,560
Investments in associates	-	-	-	-	24,427	-	24,427
Investment properties	-	-	-	-	38,538	-	38,538
Inventories	-	-	-	10,695	-	-	10,695
Other assets	6,398	17,331	19,100	-	-	1,009	43,838
Premises and equipment	-	-	-	-	-	6,778	6,778
Assets held for sale	-	-	-	39,187	-	-	39,187
Goodwill and intangible assets	-	-	-	-	-	52,453	52,453
Total assets	383,436	74,587	19,100	126,019	315,388	60,240	978,770
LIABILITIES							
Due to financial institutions	258,875	5,010	9,851	-	125,837	-	399,573
Due to non-banks	-	-	-	-	22,874	-	22,874
Other liabilities	61,506	22,762	1,141	-	-	3,447	88,856
Liabilities held for sale	-	-	-	13,556	-	-	13,556
Total liabilities	320,381	27,772	10,992	13,556	148,711	3,447	524,859
Net liquidity gap	63,055	46,815	8,108	112,463	166,677	56,793	453,911
Net cumulative gap	-	109,870	117,978	230,441	397,118		

31 December 2007 (Restated)	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	12,637	-	-	-	-	-	12,637
Due from financial institutions	63,682	8,798	-	-	-	-	72,480
Due from non-banks	32,017	8,816	-	-	-	-	40,833
Investment securities	-	-	-	56,745	154,648	-	211,393
Investments in associates	-	-	-	-	28,284	-	28,284
Inventories	-	-	-	10,667	-	-	10,667
Other assets	-	14,882	2,914	2,061	-	-	19,857
Premises and equipment	-	-	-	-	-	38,628	38,628
Goodwill and intangible assets	-	-	-	-	-	53,640	53,640
Total assets	108,336	32,496	2,914	69,473	182,932	92,268	488,419
LIABILITIES							
Due to financial institutions	34,747	-	30,474	5,150	-	-	70,371
Due to non-banks	-	-	-	-	28,537	-	28,537
Other liabilities	2,987	17,851	10,413	6,934	973	2,030	41,188
Total liabilities	37,734	17,851	40,887	12,084	29,510	2,030	140,096
Net liquidity gap	70,602	14,645	(37,973)	57,389	153,422	90,238	348,323
Net cumulative gap	-	85,247	47,274	104,663	258,085		

37. SEGMENT INFORMATION

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

Capital markets: The Group's capital markets business is engaged in structuring, managing and placing financing and equity offerings and securitisation transactions for corporate clients. It also targets sovereign clients. The Shari'ah compliant products include Sukuk, asset backed securitisations and syndicated facilities. Capital markets also provides credit rating advisory services and maintains a proprietary investment book.

Private equity: The Group's private equity business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. The business acquires portfolio companies through direct investments and also manages the Bank's Global Private Equity Fund.

Corporate finance: The Group's corporate finance business provides clients with corporate finance advisory services for capital planning and funding strategy, financial restructuring and mergers and acquisitions. The services include balance sheet structuring, valuation, financing alternatives and strategic business advisory services.

Asset management: The Group's asset management business is engaged in real estate funds, real estate private equity opportunities and equity funds.

Strategic mergers and acquisitions ("SM&A"): The Group's SM&A business is primarily responsible for acquiring investment banking businesses, opening new offices and securing the appropriate banking licenses in order to expand the Group's global footprint. SM&A also sources and manages investment on behalf of the Bank's Strategic Acquisition Fund.

Treasury: The Group's treasury business provides Shari'ah compliant funding, liquidity and hedging products and services. Treasury is currently focused on meeting the Group's internal cash management needs.

Other: 'Other' comprises the central management and support functions of the Group.

Victron: Victron Inc. is an electronic manufacturing and supply chain management services company based in California, USA, that was acquired by the Group's private equity business in December 2007.

(Amounts in United States Dollars thousands)

37. SEGMENT INFORMATION (continued)

Business segment information

	Capital Markets 2008	Private Equity 2008	Corporate Finance 2008	Asset Management 2008	Strategic M&A 2008	Treasury 2008	Other 2008	Victron 2008	Total 2008
Income									
Investment banking fees	9,450	6,858	3,941	590	2,400	-	1,539	-	24,778
Net (expense)/income from financial institutions	(886)	(3,013)	(420)	(693)	(2,441)	5,114	(497)	-	(2,836)
Revenue from non-banking activities	700	-	-	-	-	-	-	99,104	99,804
Gain on sale of investment securities	-	8,574	17,680	5,604	21,839	-	-	-	53,697
Fair value gain on investment securities	-	-	384	989	43,008	-	-	-	44,381
Fair value gain on investment properties	-	-	-	4,167	-	-	-	-	4,167
Dividend income	-	-	1,117	-	-	-	37	-	1,154
Management fees	-	1,296	-	323	1,567	-	-	-	3,186
Share of (loss) of associates	-	-	-	-	(2,010)	-	-	-	(2,010)
Other income	-	3,179	393	580	-	-	167	-	4,319
Total Income	9,264	16,894	23,095	11,560	64,363	5,114	1,246	99,104	230,640
Staff costs	1,311	4,308	1,149	2,289	2,211	106	29,577	-	40,951
Other operating expenses	242	336	112	1,071	1,783	7	19,060	-	22,611
Non-banking activity expenses	-	-	-	-	-	-	-	93,295	93,295
Total expenses (37.1)	1,553	4,644	1,261	3,360	3,994	113	48,637	93,295	156,857
Profit/(loss) before impairments and fair value write-downs	7,711	12,250	21,834	8,200	60,369	5,001	(47,391)	5,809	73,783
Impairments	(4,350)	-	-	-	(2,600)	-	-	-	(6,950)
Fair value write-downs on investment securities	-	(26,117)	-	-	(5,705)	-	-	-	(31,822)
Net profit/(loss)	3,361	(13,867)	21,834	8,200	52,064	5,001	(47,391)	5,809	35,011
Assets and liabilities									
Segment assets	52,687	142,326	24,178	44,719	142,043	416,947	50,122	81,321	954,343
Investments in associates	-	-	-	-	24,427	-	-	-	24,427
Total assets	52,687	142,326	24,178	44,719	166,470	416,947	50,122	81,321	978,770
Total liabilities	125,000	13,556	-	-	-	274,573	77,229	34,501	524,859
Other segment information for the year									
Capital expenditure - Premises and equipment	-	-	-	-	-	-	3,651	-	3,651
Depreciation and amortisation	-	-	-	-	-	-	925	868	1,793
Goodwill and intangible assets	-	-	-	-	-	-	1,634	50,819	52,453

(Amounts in United States Dollars thousands)

37. SEGMENT INFORMATION (continued)

Business segment information (continued)

	Capital Markets 2007	Private Equity 2007	Corporate Finance 2007	Asset Management 2007	Strategic M&A 2007	Treasury 2007	Other 2007	Victron 2007	Total 2007
Income									
Investment banking fees	49,583	23,281	13,411	-	7,500	-	-	-	93,775
Net (expense)/income from financial institutions	-	-	-	-	-	2,986	-	-	2,986
Revenue from non-banking activities	934	4,133	-	-	-	-	-	-	5,067
Gain on sale of investment securities	-	1,683	6,006	514	3,648	-	-	-	11,851
Gain on sale of assets held for sale	-	1,335	-	-	-	-	-	-	1,335
Dividend income	-	32	2,365	23	362	-	11	-	2,793
Management fees	-	1,073	-	969	709	-	-	-	2,751
Share of profit of associates	-	-	-	-	-	-	181	-	181
Other income	71	113	(41)	482	459	-	1,062	-	2,146
Total Income	50,588	31,650	21,741	1,988	12,678	2,986	1,254	-	122,885
Staff costs	1,566	1,635	494	1,578	537	-	47,869	-	53,679
Other operating expenses	385	280	284	2,268	443	-	15,111	-	18,771
Non-banking activity expenses	-	-	-	-	-	-	-	-	-
Total expenses (37.1)	1,951	1,915	778	3,846	980	-	62,980	-	72,450
Profit/(loss) before fair value write-downs	48,637	29,735	20,963	(1,858)	11,698	2,986	(61,726)	-	50,435
Fair value write-downs on investment securities	-	-	-	(844)	-	-	-	-	(844)
Net profit/(loss)	48,637	29,735	20,963	(2,702)	11,698	2,986	(61,726)	-	49,591
Assets and liabilities (2007 restated)									
Segment assets	56,649	163,555	14,906	4,156	11,522	81,771	59,162	68,414	460,135
Investments in associates	-	-	-	-	28,284	-	-	-	28,284
Total assets	56,649	163,555	14,906	4,156	39,806	81,771	59,162	68,414	488,419
Total liabilities	-	-	-	-	-	70,371	34,813	34,912	140,096
Other segment information for the year (2007 restated)									
Capital expenditure - Premises and equipment	-	-	-	-	-	-	35,640	-	35,640
Depreciation	-	-	-	-	-	-	819	-	819
Goodwill and intangible assets	-	-	-	-	-	-	2,159	51,481	53,640

37.1 Expense figures represent the direct operating expenses of each business segment. Unallocated central overheads are included in 'Other'.

(Amounts in United States Dollars thousands)

37. 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 profit, 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 2008 and 2007.

	Bahrain 2008	Other Middle East 2008	North America 2008	Asia Pacific 2008	Europe 2008	Total 2008
Income						
Investment banking fees	7,389	14,377	1,234	1,538	240	24,778
Net (expense)/income from financial institutions	(3,900)	89	1	-	974	(2,836)
Revenue from non-banking activities	-	700	99,104	-	-	99,804
Gain on sale of investment securities	8,575	39,518	-	-	5,604	53,697
Fair value gain on investment securities	-	43,392	-	-	989	44,381
Fair value gain on investment properties	4,167	-	-	-	-	4,167
Dividend income	-	1,117	-	7	30	1,154
Management fees	1,296	1,568	-	-	322	3,186
Share of (loss)/profit of associates	(2,262)	-	-	252	-	(2,010)
Other income	1,807	-	1,378	160	974	4,319
Total income	17,072	100,761	101,717	1,957	9,133	230,640
Staff costs	36,089	1,276	2,076	501	1,009	40,951
Other operating expenses	15,396	696	2,659	974	2,886	22,611
Non-banking activity expenses	-	-	93,295	-	-	93,295
Total expenses	51,485	1,972	98,030	1,475	3,895	156,857
(Loss)/profit before impairments and fair value write-downs	(34,413)	98,789	3,687	482	5,238	73,783
Impairment charges	-	(6,950)	-	-	-	(6,950)
Fair value write-downs on investment securities	(9,022)	(1,800)	(21,000)	-	-	(31,822)
Net (loss)/profit	(43,435)	90,039	(17,313)	482	5,238	35,011
Total assets	407,433	266,373	185,616	49,545	69,803	978,770
Total liabilities	172,239	276,013	12,250	10,191	54,166	524,859
Capital expenditure –						
Premises and equipment	2,903	39	134	587	(12)	3,651
Goodwill and intangible assets	-	-	50,819	-	1,634	52,453

(Amounts in United States Dollars thousands)

37. SEGMENT INFORMATION (continued)

Geographical segment information (continued)

	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
Revenue from non-banking activities	-	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
Dividend income	-	2,750	32	11	-	2,793
Management fees	1,077	1,674	-	-	-	2,751
Share of profit of associates	-	-	-	181	-	181
Other income	805	-	-	69	1,272	2,146
Total income	7,456	90,215	23,681	261	1,272	122,885
Staff costs	47,816	2,557	1,635	248	1,423	53,679
Other operating expenses	14,721	1,026	280	362	2,382	18,771
Total expenses	62,537	3,583	1,915	610	3,805	72,450
(Loss)/profit before fair value write-downs	(55,081)	86,632	21,766	(349)	(2,533)	50,435
Fair value write-downs on investment securities	(844)	-	-	-	-	(844)
Net (loss)/profit	(55,925)	86,632	21,766	(349)	(2,533)	49,591
Total assets	152,183	174,745	137,468	18,130	5,893	488,419
Total liabilities	51,979	50,505	36,272	5	1,335	140,096
Capital expenditure –						
Premises and equipment	34,800	311	14	-	-	35,125
Goodwill and intangible assets	-	-	51,482	-	2,158	53,640

38. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

39. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

40. SOCIAL RESPONSIBILITIES

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

41. ZAKAH

In accordance with the instructions of the Shari'ah Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to these consolidated financial statements.

(Amounts in United States Dollars thousands)

42. CAPITAL

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:

	2008 (Basel II)	2007 (Basel II)	2007 (Basel I)
Regulatory capital base:			
Tier 1 capital	**197,150**	268,843	276,343
Tier 2 capital	**-**	9,050	16,550
Total regulatory capital	**197,150**	277,893	292,893
Risk-weighted assets	**1,022,093**	620,992	442,988
Tier 1 capital adequacy ratio	**19.29%**	43.29%	62.38%
Total capital adequacy ratio	**19.29%**	44.75%	66.12%

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 figures do not include the benefit of the capital raise funds received as at 31 December 2008 from the 2008 private placement. These funds increase Tier 1 capital by US$110.059 million and consequently increase the capital adequacy ratio to 31.09% (total) and 31.09% (Tier 1).