2010
Annual Report

Unicorn
Investment Bank

H.R.H. Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

H.M. King Hamad bin Isa Al Khalifa

The King of Bahrain

H.R.H. Prince Salman bin Hamad Al Khalifa

The Crown Prince and Deputy Supreme Commander of the Kingdom of Bahrain

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Financial Highlights

5-Year Consolidated Performance Summary

(Amounts in US$ thousands)	**2010**	2009	2008	2007	2006
(Loss)/profit before impairments, provisions & fair value movements (restated)	**(56,963)**	21,266	33,197	50,435	17,229
Net (loss)/profit	**(229,496)**	2,235	35,011	49,591	30,139
Total assets	**727,359**	1,033,619	978,770	488,419	293,342
Due from financial & non-financial institutions	**301,850**	301,043	369,614	113,313	117,686
Investment securities	**122,413**	247,999	328,560	211,393	123,456
Total liabilities	**525,542**	609,967	524,859	140,096	23,851
Due to financial & non-financial institutions	**393,980**	521,423	422,447	98,908	NIL
Shareholders' equity	**151,939**	379,709	329,640	314,433	254,071
Total equity	**201,817**	423,652	453,911	348,323	269,491
Return on average assets (percent)	**-26.1%**	0.2%	4.8%	12.7%	13.6%
Return on average equity (percent)	**-86.3%**	0.6%	10.9%	17.4%	16.1%
Cost:income ratio (percent)	**561.8%**	78.0%	65.7%	57.9%	55.0%
Financial leverage (percent)	**293.0%**	150.5%	90.9%	22.4%	n/a
Capital adequacy ratio (percent)	**13.6%**	23.1%	30.8%	44.7%	70.8%

Board of Directors

Yousef A. Al-Shelash
Chairman

Ayman Ismail Abudawood

Hethloul Saleh Al-Hethloul

Bader Sulaiman Al-Jarallah

Abdullatif Abdullah Al-Shalash

Waleed Ahmad Al-Sharhan

Ayman Abdullah Boodai

Bader Abdulaziz Kanoo

Shari'ah Supervisory Board

Dr. Khalid Mathkoor Al-Mathkoor
Chairman

Dr. Aagil Jasim Al-Nashmy
Deputy Chairman

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

Dr. Ali Muhyealdin Al-Quradaghi

Dr. Mohammad Daud Baker

Sh. Nizam Mohammad Saleh Yaqouby

Chairman's Message

We are pleased to present the Annual Report of Unicorn Investment Bank B.S.C. (c) (Unicorn, or the Bank) for the year ended 31 December 2010, which was the Bank's sixth full year of operation. 2010 was the most challenging year for Unicorn since the inception of the Bank, but with the continuing steadfast support of the Board of Directors, Shareholders, Clients, Employees and the Central Bank of Bahrain (CBB), we are confident that the Bank will move forward strongly in 2011.

For the first time in the history of the Bank, Unicorn produced an annual net loss, which reflected the continuing effects of the global financial markets meltdown. The net loss for the year was US$229.5 million after provisions, down from a profit of US$2.2 million for 2009. The stressed financial and operating environment has had a severe impact on Unicorn, affecting both its client advisory and proprietary investment business. Total income for 2010 was US$12.3 million, down from US$96.5 million in 2009. With limited exceptions, the reduction in income was due to a general lowering of deal flows, within the most difficult of market conditions.

In light of the prevailing adverse economic conditions, the Board of Directors and Management of Unicorn took concrete measures during the year to safeguard Unicorn's financial position and enhance its ability to meet its commitments. Operating expenses for 2010 were US$69.3 million, down from US$75.2 million in 2009. The cost decreases were due to a combination of restructuring within the Bank to reduce the infrastructure and resources, which were supporting reduced levels of business and generally tighter cost control throughout the Bank.

Unicorn continued to focus very closely on liquidity requirements throughout 2010, which saw major deleveraging of the balance sheet with the timely repayment of approximately US$250 million of short term funds.

Furthermore, we are pleased to advise that the Bank has recently repaid its Syndicated Commodity Murabaha Facility totalling US$125 million upon its due repayment date in January 2011. Unicorn's ability to fully repay its borrowing obligations in a timely fashion and to avoid the banking industry's reliance on restructuring demonstrates the major resolve of the Bank in taking full responsibility and meeting the most difficult of its challenges face to face. The successful repayment of the syndicated facility has reduced Unicorn's liabilities from US$610 million in 2009 to minimal levels, and leaves the Bank in a strong position relative to many of its peers in the Islamic banking industry. Following the major reduction in funding liabilities throughout 2010, Unicorn's net funding costs decreased from US$9.3 million in 2009 to US$5.5 million in 2010.

Unicorn made investment and other provisions of US$53.9 million and fair value write-downs of US$118.6 million in 2010. These write-downs reflect a general drop in the earnings multiples used for valuation within the private equity industry, although this does not indicate adverse levels of performance within the respective operating companies.

Unicorn did not realise any material credit losses in 2010 within its financing arrangements, and write-downs and provisions were mainly against investments made prior to 2008 when market valuations were much higher. Unicorn's approach has been conservative in 2010 and we believe that this approach will provide a solid basis for balance sheet regeneration in 2011. Although the global economic recession is not showing any sustainable signs of recovery and major market uncertainty continues, the strong corrective measures taken during the year leave the Bank in a strong position to move forward and rebuild its market position. Following the major investment provisioning in 2010, Unicorn's capital adequacy ratio has reduced to 13.6%, which is still above the CBB minimum requirement of 12%. Unicorn will be addressing capital strengthening measures within the first half of 2011.

The Board took important measures to strengthen the Bank's operating capabilities in 2010. During the year, the Board made significant changes to the senior leadership of the Bank, resulting in the departure of the Bank's former Chief Executive Officer (CEO) in August and the appointment of Mr. Ikbal Daredia, Global Head of Capital Markets, Institutional Banking and Treasury, as Acting Chief Executive Officer of the Bank. The Board believes that a change in the leadership of the Bank is the right course of action for Unicorn at this time and is in the best interests of the Bank as it re-aligns its strategy.

In the latter half of 2010, the Board took the major decision to exit the US markets to focus on the Bank's core markets in the GCC region, Malaysia and Turkey. This resulted in the closure of Unicorn's Chicago office and the plan to sell the Bank's US private equity investments.

The Bank also significantly strengthened its Group Risk Management function during the year following the appointment of a Group Chief Risk Officer in 2009, achieving an integrated and harmonised Group risk architecture and framework. Accordingly, in 2010, the Board approved a revamped Group Risk Management Framework covering critical Unicorn entities. The Group Risk Management Framework establishes Unicorn's risk management standards, processes and structures, and defines the Bank's risk philosophy. The Board has also approved a number of supporting risk policies designed to support this Framework as well as Basel II compliance efforts.

Unicorn is now following its 2011 business plan, which focuses on returning to profit within the year. The Board is committed to making Unicorn a stronger institution and is evaluating the feasibility of developing strategic alliances within the GCC region. The Board will continue to work with Unicorn's Management to address the challenges that the Bank faces, and we are confident that Unicorn will emerge an institution of strength in 2011. We remain tremendously grateful for the support and goodwill of all of our stakeholders.

Yousef A. Al-Shelash
Chairman of the Board

Financial Review

Unicorn recorded its first annual loss in 2010, reflecting the continuing effects of the global financial crisis and general market uncertainty. The net loss for the year was US$229.5 million in 2010, compared to a net profit of US$2.2 million in 2009. The loss before impairment charges and investment write-downs was US$57 million in 2010, in comparison with a profit of US$21.3 million in 2009.

SUMMARY OF FINANCIAL PERFORMANCE

(US$ millions)	2010	2009	2008
Investment banking fees	**8.1**	74.1	24.8
Other investment banking income	**2.9**	14.3	67.2
Investment banking income	**11.0**	88.4	92.0
Net expense from FI's & non-FI's	**(5.5)**	(9.3)	(2.8)
Net income from non-banking activities	**-**	21.1	9.5
Share of profit/(loss) of associates and joint ventures	**6.8**	(3.7)	(2.0)
Total income	**12.3**	96.5	96.7
Operating expenses	**(69.3)**	(75.2)	(63.5)
Total operating expenses	**(69.3)**	(75.2)	(63.5)
(Loss)/profit before impairments, provisions and fair value movements	**(57.0)**	21.3	33.2
Impairments and provisions	**(53.9)**	(7.9)	(7.0)
Fair value movements on investment securities	**(118.6)**	(9.0)	12.6
(Loss)/profit for the year from continuing operations and before tax	**(229.5)**	4.4	38.8
Profit from assets held for sale	**-**	1.2	-
(Loss)/profit before tax	**(229.5)**	5.6	38.8
Income tax expense	**-**	(3.4)	(3.8)
Net (loss)/profit	**(229.5)**	2.2	35.0

The fair value write-downs and impairments recorded by Unicorn in 2010 are in line with the general decrease in valuations across the globe. Unicorn did not realise any material financing losses in 2010 and the write-downs and impairment provisions are mainly against investments made prior to 2008, when market prices were higher. Provisions during the year included fair value write-downs of US$118.6 million, mainly against the Bank's private equity portfolio, and impairment and provisions consisting of: US$53.9 million against the Bank's available for sale investments (US$11.8 million); investments in associates (US$21.1 million); provisions against restructuring charges and receivables (US$12.4 million); goodwill (US$2 million); and provisions in respect of unsecured amounts due from non-financial institutions (US$6.6 million).

Investment banking income decreased to US$11.0 million in 2010, from US$88.4 million in 2009, reflecting the major reduction in the Bank's 2010 deal flow. Operating expenses for 2010 decreased by US$5.9 million, to US$69.3 million. The decrease was the result of lower levels of business activity and restructuring within the Bank to reduce infrastructure and expenses. The Bank reduced its costs significantly within the second half of 2010, and cost reductions will be evident within the 2011 operating results.

Net borrowing costs decreased from US$9.3 million in 2009 to US$5.5 million in 2010. This was the result of major deleveraging of the Bank's balance sheet during 2010. Substantial decreases in borrowings were achieved as Unicorn repaid all of its borrowing obligations as they became due. The cost reduction was also the result of a drop in market profit rates, which declined from an average rate of 500 basis points per annum in 2009 to an approximate average rate of 250 basis points per annum in 2010.

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In 2010, the Bank made profits from its share of associates' activities of US$6.8 million, up from losses of US$3.7 million in 2009. This included share of a loss from t'azur of US$0.9 million, down from a loss of US$2.3 million in 2009, as the company continued to increase revenues from expanding its business and geographic market share. The Bank's share of losses from Dawood Islamic Bank Limited (DIBL) was US$2.4 million for 2010. DIBL suffered from provisions in non-performing loans and the economic effects of the recent floods in Pakistan. These losses were outweighed by the share of profits from other associates: US$6.0 million from BFC Group Holdings (formerly known as Condor Exchange Holding Company); US$2.2 million from UII Victron Inc; and US$1.9 million from Sunwell Services Inc.

Investment Banking Fee Income

(US$ millions)	2010	2009	2008
Advisory and placement fees	**3.8**	66.5	12.2
Structuring fees	**0.2**	0.1	6.2
Arrangement and underwriting fees	**4.1**	7.5	1.4
Performance fees	**-**	-	5.0
Total investment banking fees	**8.1**	74.1	24.8

Investment banking fee income decreased by US$66.0 million in 2010, from US$74.1 million in 2009 to US$8.1 million in 2010. The substantial decrease in advisory and placement fees reflected the drop in services provided to major related parties in 2010 as well as a drop in third party business. Client mandates totaling US$30 million were cancelled by the Bank in mutual agreement with a major related party (Emaar Al Bayader) because the services were not provided by the Bank. This cancellation was reviewed and approved by independent members of the Bank's Board of Directors and has been subject to a separate report to the Bank's shareholders and the Central Bank of Bahrain (CBB). Further details regarding related party matters are provided in the section titled Transactions, Arrangement and Agreements Involving Related Parties (page 16).

Arrangement and underwriting fees decreased from US$7.5 million in 2009 to US$4.1 million in 2010. Income in 2010 included arrangement fees from the issuance of a US$450 million Sukuk for Dar Al Arkan Real Estate Development Company (Dar Al Arkan), based in the Kingdom of Saudi Arabia, in early 2010. The Sukuk marked the first international issue out of the GCC region in 2010 and the first '144a' issue by a company in Saudi Arabia.

Other Investment Banking Income

(US$ millions)	2010	2009	2008
Gain on sale of investments securities	**4.9**	5.4	53.7
Fair value (loss)/gain on investment properties	**(11.5)**	(9.4)	4.2
Dividend income	**1.1**	13.0	1.1
Management fees	**3.3**	3.4	3.2
Other income	**5.1**	1.9	5.0
Other investment banking income	**2.9**	14.3	67.2

Other investment banking income fell substantially in 2010, from US$14.3 million in 2009 to US$2.9 million. Gain on sale of investments in 2010 was mainly attributable to the proceeds from the sale of Qatar Construction & Engineering Company WLL (QCon), the leading contractor in Qatar's oil and gas sector, and the partial sale of the Bank's Turkish equity funds.

The Bank wrote down the fair value of its investment in a plot of land in Manama, Bahrain, recording a fair value loss of US$11.5 million in 2010 compared to US$9.4 million in 2009. The fair value as at 31 December 2010 was determined by independent valuers.

Dividend income decreased from US$12.9 million in 2009 to US$1.1 million in 2010. The 2010 dividend income relates to dividends received mainly from the Bank's investment in a listed entity in the Kingdom of Saudi Arabia. In 2009, the dividend income was mainly attributable to the Bank's share of profits from its investment in BFC Group Holdings. No dividend was declared by BFC Group Holdings in 2010.

Management fees were earned mainly from the Bank's Global Private Equity Fund I and the Strategic Acquisition Fund. Fees totaling US$3.3 million for 2010 were received, comparable with earlier years.

Other income in 2010 increased to US$5.1 million from US$1.9 million in 2009, chiefly reflecting third party service fees earned by the Bank's overseas subsidiaries.

Operating Expenses

(US$ millions)	2010	2009	2008
Total staff costs and employee-related benefits	**41.2**	47.9	40.9
General and administrative expenses	**4.8**	5.1	6.9
Legal and professional fees	**10.2**	7.2	5.0
Business development costs	**4.3**	4.9	4.5
Premises and depreciation costs	**5.7**	5.9	3.4
Other non-staff costs	**3.1**	4.2	2.8
Non-staff costs	**28.1**	27.3	22.6
Total operating expenses	**69.3**	75.2	63.5
Cost:income ratio before impairments & fair value write-downs & write-backs (percent)	**562%**	78%	66%

Operating expenses were US$69.3 million in 2010, a decrease of US$5.9 million from US$75.2 million in 2009. Staff costs decreased by US$6.7 million (14%), from US$47.9 million in 2009 to US$41.2 million in 2010, mainly due to headcount reductions as the Bank addressed the restructuring of its organisational and operational processes.

The Bank initiated a restructuring program in 2010 and significantly streamlined management and support services in view of the lowered level of business activity. Furthermore, the Bank took the decision to exit the US market in order to focus on the Bank's core markets in the GCC, Malaysia and Turkey. This resulted in the closure of the Bank's Chicago office. The full impact of the cost reductions made in the second half of 2010 will be reflected in Unicorn's 2011 operating results.

Non-staff expenses marginally increased by US$0.8 million (3%), from US$27.3 million in 2009 to US$28.1 million in 2010.

Financial Position Analysis

Selected financial position data (US$ millions)	2010	2009	2008
Cash and balances with banks	**43.9**	135.9	23.6
Due from FIs and non-FIs	**301.9**	301.0	396.6
Total cash and cash equivalents	**345.8**	436.9	420.2
Investment securities	**122.4**	248.0	328.6
Investments in associates & joint ventures	**104.7**	151.3	24.4
Investment properties	**17.7**	29.2	38.5
Goodwill & intangible assets	**-**	2.0	52.5
Due to FIs and non-FIs	**394.0**	521.4	422.4
Subordinated morabaha	**51.2**	50.0	-
Shareholders' equity	**151.9**	379.7	329.6
Advances for proposed increase in share capital	**-**	-	110.1
Non-controlling interest	**49.9**	43.9	14.2
Return on average shareholders' equity (percent)	**-86.3%**	0.6%	10.9%
Return on average assets (percent)	**-26.1%**	0.2%	4.8%
Liquidity ratio (percent)	**75.3%**	106.6%	129.1%
Leverage ratio (percent)	**293.0%**	150.5%	90.9%

Unicorn's balance sheet decreased in 2010, with total assets decreasing by US$306.2 million, from US$1,033.6 million as at 31 December 2009 to US$727.4 million as at 31 December 2010.

Total cash and cash equivalents decreased by US$92 million, from US$135.9 million to US$43.9 million. The 2009 balance sheet included US$50 million cash in transit relating to Unicorn's issuance of Tier 2 capital.

As at 31 December 2010, Unicorn had total bank and non-bank borrowings of approximately US$394 million, in the form of reverse Murabaha and Wakala deposits. These borrowings included a US$125 million 3-year syndicated commodity Murabaha facility provided by regional and international banks, which was successfully repaid by Unicorn on the due repayment date in January 2011. The repayment was achieved without reliance on refinancing, restructuring or the 'fire sale' of assets. This is a very positive sign that the Bank has passed a major liquidity stress test, with the Board of Directors and Management of the Bank continuing to focus on closely managing

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the Bank's liquidity throughout 2010. The remaining borrowings in 2010 (US$269 million) comprised short-term (i.e. up to 12 months) reverse Murabaha and Wakala deposits by regional and international financial and non-financial institutions.

In 2010, Unicorn also undertook a conservative assessment of its investment portfolio, resulting in a major write-down of the portfolio totaling US$172.5 million.

Shareholders' equity as reported on 31 December 2010 decreased by US$227.8 million from US$379.7 million in 2009 to US$151.9 million in 2010. Overall the net loss attributable to Unicorn shareholders in 2010 was US$226.8 million. Under these circumstances, the Board of Directors has agreed not to pay a dividend for 2010.

As a result of its 2010 losses, the Bank is carrying a deficit within its reserves of US$215 million. The Bank therefore proposes to conduct a capital reduction by way of cancellation of shares in 2011, subject to regulatory and shareholder approval. An extraordinary general meeting of the Bank's shareholders duly approved the capital reduction on 7 April 2011.

The proposed capital reduction will achieve the following benefits:

- The accumulated losses of US$215 million would potentially take many years to recover to enable the Bank to pay dividends from retained earnings; the capital reduction will allow a more orderly return to profitability, which could provide the basis of earlier future dividend payments;
- The capital reduction will apply evenly to all shareholders and not affect any one or single shareholder's proportional ownership in the Bank;
- The effect of the share cancellation will be to maintain the par value of the shares at US$1 and will also provide flexibility for the Bank to invite additional capital during 2011.

As at 31 December 2010, the equity of the Bank consisted of the following:

(US$ thousands)	
Share capital	215,578
Share premium	141,708
Statutory reserve	15,580
Fair value reserve	189
Foreign currency retranslation reserve	(6,112)
Accumulated losses	(215,004)
Total equity attributable to the shareholders of the parent	**151,939**
Non-controlling interests	34,605
Non-controlling interests held for sale	15,273
Total equity	**201,817**

The proposed capital reduction will cancel approximately 57.7 million ordinary shares and will be implemented as follows:

Proposed Capital Reduction, Offsetting Accumulated Losses, Against Share Capital and Other Reserves

(US$ thousands)	2010 Financial Position	Capital Reduction	Post Capital Reduction
Share capital	215,578	(57,716)	157,862
Share premium	141,708	(141,708)	-
Statutory reserve	15,580	(15,580)	-
Accumulated losses	(215,004)	215,004	-
Residual capital	**157,862**	**-**	**157,862**

CAPITAL MANAGEMENT AND ALLOCATION

Unicorn Investment Bank B.S.C. (c) (Unicorn) is a closed, unlisted company incorporated in the Kingdom of Bahrain and licensed as a Wholesale Bank (Islamic Principles) by the CBB. It has subsidiaries in the Kingdom of Saudi Arabia, Malaysia and Turkey and associated undertakings in the United Arab Emirates, Pakistan and Bahrain. The Bank recently took the decision to exit the US market, resulting in the closure of its Chicago office.

Unicorn is required to comply with the regulatory capital adequacy guidelines promulgated by the CBB, based on the standards established by the Basel Committee on Banking Supervision (the Basel Committee) of the Bank for International Settlements (BIS). In accordance with CBB guidelines, Unicorn must maintain a minimum target capital adequacy ratio of 12.5% on a consolidated basis.

Capital Structure

The following table details the regulatory capital resources for Unicorn as at 31 December 2010, 31 December 2009 and 31 December 2008, detailing between Tier 1 and Tier 2 capital:

Composition of Capital

(US$ millions)	**2010**	2009	2008
Tier 1 capital			
Paid-up share capital	**215.6**	215.6	215.6
Share premium	**141.7**	141.7	142.0
Reserves	**(97.5)**	15.6	42.9
Non-controlling interest	**34.6**	37.3	0.1
Less: goodwill	**(38.1)**	(2.0)	(2.0)
Less: unrealised net fair value losses on investment securities	**(118.3)**	(12.4)	(32.0)
Less: 50% of investment in Dawood Islamic Bank	**(7.0)**	(10.9)	(5.9)
Less: 50% of investment in t'azur	**(5.0)**	(5.4)	(6.4)
Less: 50% of investment in BFC Group Holdings	**-**	(44.7)	-
Less: excess amounts over maximum permitted large exposure limits	**(20.7)**	(14.3)	(19.1)
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**-**	(25.2)	(17.7)
Total qualifying Tier 1 capital	**105.3**	295.3	317.5
Tier 2 capital			
Subordinated Murabaha	**50.0**	50.0	-
Fair value gains	**0.1**	0.3	49.0
Less: regulatory discount (55%) on fair value gains	**-**	(0.2)	(26.9)
Less: 50% of investment in Dawood Islamic Bank	**(7.0)**	(10.9)	(5.9)
Less: 50% of investment in t'azur	**(5.0)**	(5.4)	(6.4)
Less: 50% of investment in BFC Group Holdings	**-**	(44.7)	-
Less: excess amounts over maximum permitted large exposure limits	**(20.7)**	(14.3)	(27.5)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**-**	25.2	17.7
Total qualifying Tier 2 capital	**17.4**	-	-
Total eligible regulatory capital	**122.7**	295.3	317.5

Capital Management

Unicorn's capital adequacy policy is to maintain a strong capital base to support the Bank's financial position. 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 following tables detail the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for the Unicorn Group as at 31 December 2010, 31 December 2009 and 31 December 2008. The figures are based on the Basel II standardised approach for credit risk, market risk and the Basel II basic indicator approach for operational risk. The Bank considers Standard & Poor's, Fitch and Moody's as External Credit Assessment Institutions (ECAI's) for the risk weighting of assets by type of claims. If different risk weights arise, the assessments corresponding to the two lowest risk weights are referred to and the higher of those two risk weights is applied.

The Bank does not deal with, finance or hold securities on behalf of Highly Leveraged Institutions (HLI's) or other high-risk counterparties as defined by the Basel Committee on Bank Supervision (BCBS). The Bank's methodology and approach for establishing and approving counterparty and credit limits is based on an extensive review and analysis of a counterparty's financial condition and performance, trading history, due diligence covering licensing, regulatory oversight and anti-money laundering compliance review – tools which are all designed to exclude HLI's. Unicorn's treasury counterparts are fully licensed and regulated financial institutions, the majority of which are also rated by credit rating agencies.

The Bank uses the Standardised Approach for allocating capital for credit risk and consequently uses the same approach for allocating capital for counterparty credit risk. Before establishing limits all counterparties undergo a thorough credit risk assessment and due diligence review before approval by the Risk Committee. In 2011 the Bank plans to further strengthen the counterparty credit risk assessment and due diligence review process by implementing a quantitative rating methodology that will provide a mechanism for grading counterparties and a basis for establishing counterparty limits. The internal credit rating methodology will strengthen the counterparty risk management process by providing a more objective, risk-based and deeper analysis of counterparty financial condition and performance.

As part of its collateral management policy the Bank only accepts collateral in line with Shari'ah requirements and with a view to minimising wrong-way risk exposure. The Bank also manages its collateral with a view to minimising collateral concentration risk either by specific issuer, market or instrument. Currently the Bank does not hold collateral which is dependent on the credit rating of the counterparty.

The Bank's credit policy defines the approach to be used when determining provisions and this depends on the number of days outstanding and credit risk rating. All exposures graded as non-

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performing have provisions provided for. Provisions are calculated after incorporating the value of realisable collateral net of any disposal costs.

Past Due Facilities

In line with CBB guidelines as well as the Bank's Credit Risk Policy, credit facilities are deemed non-accrual once repayment of principal and or profit charges have been outstanding for more than 90 days or there are other indications of reduced likelihood and capacity to pay, including insolvency and bankruptcy. However, the Bank deems all facilities that have profit or principal payments outstanding beyond the due date as past-due. Where repayments are scheduled on intervals of three months or longer, the credit facility is impaired as soon as default occurs, unless the facility does not exhibit any weakness that would render it impaired as determined by the Bank's Risk Management department. Profit income from non-performing facilities is suspended except in cases where the facility is secured by cash, government securities and government guarantees, in which case it shall accrue up to the value of the recoverable collateral.

Credit Risk-Weighted Assets

Under the CBB standardised approach, credit risk exposures are assigned to one of fourteen standard portfolios as shown below, risk-weighted accordingly.

	Risk-weighted equivalents			Basel II risk-weightings
(US$ millions)	**2010**	2009	2008	
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	**41.1**	98.9	167.6	20%-100%
Claims on investment firms	**-**	-	-	50%
Claims on corporates	**193.7**	206.1	78.5	100%
Regulatory retail portfolios	**-**	-	-	n/a
Residential property	**-**	-	-	n/a
Commercial real estate	**134.8**	204.5	194.1	200%
Past due exposures	**-**	-	-	n/a
Investments in equities and funds:				
Investments in listed equities	**0.1**	11.8	6.4	100%
Investments in unlisted equities	**125.5**	239.5	265.6	150%
Investments in unrated funds	**53.7**	66.1	62.8	150%
Other assets	**39.8**	26.9	16.0	100%
Underwriting assets	-	-	-	n/a
Credit risk-weighted assets	**588.7**	853.8	791.0	

Disclosure of Counterparties Above 15% of Regulatory Capital

Counterparty	Amount of exposure in US$ thousands	% of exposure to capital
Counterparty A	60,949	37.2
Counterparty B	35,936	21.9
Counterparty C	29,025	17.7

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 the five categories shown in the table below.

The details of Unicorn market risk capital charge and the equivalent market risk-weighted assets, as at 31 December 2010, 31 December 2009 and 31 December 2008, are:

(US$ millions)	**2010**	2009	2008
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**5.4**	9.8	5.6
Commodities risk	**-**	-	-
Total capital requirement for market risk	**5.4**	9.8	5.6
CBB muliplier	**12.5**	12.5	12.5
Market risk-weighted assets	**67.5**	122.5	70.0

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 (weighted by an arbitrary 15%) 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 details of Unicorn's operational risk capital charge, and the equivalent operational risk-weighted exposure, as at 31 December 2010, 31 December 2009 and 31 December 2008 are shown opposite:

(US$ millions)	2010	2009	2008
Total gross operating income	**17.8**	199.1	179.0
3 year average gross income	**132.0**	162.6	91.4
Basic indicator factor	**15%**	15%	15%
Capital charge for operational risk	**19.8**	24.4	13.7
CBB muliplier	**12.5**	12.5	12.5
Total operational risk-weighted exposure	**247.5**	304.9	171.4

Risk-Weighted Assets

Risk-weighted assets decreased by US$377.5 million (29%) in 2010, from US$1,281.2 million as at 31 December 2009 to US$903.7 million as detailed below:

(US$ millions)	2010	2009	2008
Credit risk-weighted assets	**588.7**	853.8	791.0
Market risk-weighted assets	**67.5**	122.5	70.0
Operational risk-weighted exposure	**247.5**	304.9	171.4
Total risk-weighted assets	**903.7**	1,281.2	1,032.4

Group Structure

The Group's financial statements are prepared on a full consolidation basis, with all subsidiaries being consolidated in accordance with International Financial Reporting Standards (IFRS). For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries and associates and basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
Subsidiaries			
UIB Capital Inc.	United States of America	100%	Full Consolidation
Unicorn International Islamic Bank Malaysia Berhad	Malaysia	100%	Full Consolidation
Unicorn Capital Menkul Değerler A.Ş.	Republic of Turkey	91.9%	Full Consolidation
Unicorn Capital Saudi Arabia	Kingdom of Saudi Arabia	53.4%	Full Consolidation
Associates			
BFC Group Holdings Ltd.	United Arab Emirates	43.4%	Pro-rata Consolidation
Dawood Islamic Bank Limited	Islamic Republic of Pakistan	37.7%	Full Deduction
t'azur B.S.C. (c)	Kingdom of Bahrain	25.9%	Full Deduction

There are no investments in subsidiaries that are treated as a deduction from the Group's regulatory capital. There are no restrictions on the transfer of funds or regulatory capital within the Group.

Capital Adequacy Ratio - Consolidated & Subsidiaries Above 5% of Group Regulatory Capital

	2010		2009	
(Percent)	Total Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Capital Ratio
Unicorn Group	**13.6**	**11.7**	23.1	23.1
Unicorn International Islamic Bank Malaysia Berhad	**28.9**	**28.9**	23.9	23.9
Unicorn Capital Saudi Arabia	**157.8**	**157.8**	202.9	202.9

Capital Adequacy Ratio - Group

(Percent)	2010	2009	2008
Tier 1 capital adequacy ratio	**11.7**	23.1	30.8
Total capital adequacy ratio	**13.6**	23.1	30.8

The impairment and fair value loss on investment securities charged in 2010 resulted in a reduction in the Bank's capital adequacy position. The Basel II Tier I capital adequacy ratio declined from 23.1% as at 31 December 2009 to 11.7% as at 31 December 2010. The Basel II total capital adequacy ratio similarly declined, from 23.1% to 13.6% over the same period.

Despite these reductions, the 2010 year-end Group total capital adequacy ratio remains above the CBB minimum target ratio of 12.5%.

The minimum capital required by Unicorn to maintain compliance at 12.5% is shown in the table below.

Minimum Capital Requirements

(US$ millions)	2010	2009	2008
Credit risk	**73.6**	106.7	98.9
Market risk	**8.4**	15.3	8.7
Operational risk	**30.9**	38.1	21.4
Total capital requirements	**112.9**	160.1	129.0

RISK MANAGEMENT AND LIQUIDITY

In 2010 the Bank completed the implementation of the Group Operational Risk Framework including the appointment of critical Risk Champions from business and support functions to spearhead

Financial Review continued

Risk and Control Self Assessments (RCSA). The Bank established its operational risk database incorporating several Key Risk Indicators (KRI's) used for monitoring operational risks. The supporting risk framework in the form of the Group Operational Risk Policy was approved by the Board and lays down the Group's philosophy and methodology in the management of operational risks. In 2011 and beyond the operational risk framework already rolled-out in Bahrain will be implemented in other Unicorn geographic offices. With the implementation of the operational risk framework, operational risk reporting is now part of Group risk reporting forming part of the Group Risk Report submitted to the Board on a quarterly basis.

Additionally the Risk Management Department took on the role of information security risk management oversight and in 2011 will start inventorying all information assets with a view to developing tools and controls for managing and securing information assets. The policy framework for information security risk management is now in place and was approved by the Group Risk Executive Committee (REXCO). The Bank takes a proactive approach to the management of business continuity risks and in 2010 the Bank conducted a successful annual test of its Business Continuity Plan (BCP).

Gross and Average Credit Risk

The table below shows the average gross credit risk exposure of the Bank, classified as per the disclosure in the financial statements:

Balance sheet items (US$ millions)	Funded exposure	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Balances with banks	43.9	-	43.9	60.8
Due from FI's and non-FI's	301.9	-	301.9	340.6
Investment securities	13.5	-	13.5	17.2
Other assets - fees and recoverable expenses outstanding from clients	3.2	-	3.2	35.3
	362.5	**-**	**362.5**	**453.9**
Guarantees	-	3.4	3.4	3.5
Total credit risk exposure	**362.5**	**3.4**	**365.9**	**457.4**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2010.

RESTRICTED INVESTMENT ACCOUNTS

The Bank offers Restricted Investment Accounts (RIA's) to both financial and non-financial institutions. All RIA offering documents are prepared and issued with input from the business lines. The Shari'ah Assurance, Financial Control, Legal and Risk Management departments are charged with ensuring that all investors have sufficient information to consider all risk factors, allowing them to make an informed decision. The Bank has clear guidelines and procedures for the development, management and risk mitigation of its RIA's. The Bank has established a robust operational and functional infrastructure to ensure that effective internal control systems are in place and RIA holders' interests are protected at all times. The Bank fully complies with its fiduciary duties and responsibilities in managing RIA's.

TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING RELATED PARTIES

Related parties comprise major shareholders, directors and senior management personnel of the Unicorn 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 related parties arose from the ordinary course of business at normal commercial rates.

Compensation of Senior Management Personnel

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

(US$ thousands)	**2010**	2009
Short term employee benefits	**7,110**	13,706
Post employment benefits	**595**	536
Share-based payments	**-**	1,220
Total compensation of senior management	**7,705**	15,462

(US$ thousands)	2010 Shareholders / Directors	2010 Senior management	2010 Other entities	2009 Shareholders / Directors	2009 Senior management	2009 Other entities
Assets						
Due from financial and non-financial institutions	-	-	**26,812**	-	-	85,304
Investment securities	-	-	**84,385**	-	-	143,399
Investments in associates and joint ventures	-	-	**104,745**	-	-	151,348
Other assets	-	**277**	**3,861**	-	110	81,053
Assets held for sale	-	-	**120,923**	-	-	40,622
Liabilities						
Due to financial and non-financial institutions	-	-	**47,066**	-	-	47,422
Subordinated Murabaha	-	-	**51,249**	-	-	50,000
Other liabilities	**1,566**	**2,390**	**3,692**	1,040	1,032	8,242
Liabilities held for sale	-	-	**52,617**	-	-	13,556
Shareholders' equity						
Equity transaction costs	-	-	-	10,953	6,780	-
Statement of income						
Investment banking fees	-	-	**2,097**	-	-	69,647
Other investment banking income	-	-	**5,071**	-	-	12,447
Net (expense)/income from financial and non-financial institutions	-	-	**(3,039)**	-	-	188
Impairments and provisions	-	-	**(39,218)**	-	-	(5,000)
Share of profit/(loss) of associates	-	-	**6,788**	-	-	(3,662)
Victron Inc. expenses	-	-	-	-	-	(359)
Fair value movements on investment securities	-	-	**(66,445)**	-	-	12,701
Fair value loss on investment-related receivables	-	-	**(10,000)**	-	-	(10,000)
Directors' and Shari'ah Board remuneration and expenses	**(712)**	-	**(421)**	(656)	-	(409)

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

The Bank and another related party entity mutually agreed to cancel investment banking fee mandates due to the Bank amounting to US$30 million (31 December 2009: Nil), as Management was of the view that the services under these mandates were not provided for by the Bank during 2010. This cancellation was ratified by the Bank's Board of Directors and the shareholders at its Annual General Meeting of 7 April 2010.

In 2010, the Bank released a related party from its undertaking to reimburse the Bank for potential losses to be incurred on the sale of one of its quoted investments.

The Bank has a significant strategic relationship with its Principal Related Parties. The Principal Related Parties are mainly Emaar Al Bayader, Dar Al Arkan and Kingdom Installment Company, companies associated with members of the Bank's Board of Directors, based in the Kingdom of Saudi Arabia. Over the last seven years, since the Bank's inception, the Principal Related Parties have provided significant financial support to the Bank, in the form of: income from advisory and other services; investment in the Bank's share capital; co-investment in the Bank's investment portfolios; and in the Bank's Tier 2 Capital issued in 2009.

Financial Review continued

Income Support

Over the last seven years, Unicorn's Principal Related Parties have provided the major source of the Bank's income which has supported the Bank's operations, either from direct services, or indirectly from income from the investments/co-investments. Consideration was provided either by issuance of Dar Al Arkan shares, or in cash. The history of this support is shown below:

Principal Related Party Transaction Summary

(US$ millions) Year	2010	2009**	2008	2007**	2006	2005	2004	**Cumulative Total**
Revenue								
Principal Related Party Revenue	4.8	68.8	29.6	75.0	34.7	50.5	35.3	**298.7**
Other Revenue	7.5	32.4	111.5	47.0	32.3	2.2	1.1	**234.0**
Total Gross Revenue	12.3	101.2	141.1	122.0	67.0	52.7	36.4	**532.7**
%	39.0%	68.0%	21.0%	61.5%	51.8%	95.8%	97.0%	**56.1%**
Cancellation Re Fee Receivables	-	5.0						**5.0**
Cancellation for Receivables re Dar Al Arkan shares (KIC)*	10.0	10.0						**20.0**
Total Principal Related Party Cancellations/Reversals	10.0	15.0						**25.0**

* Dar Al Arkan shares effectively mark to market

** 2007 & 2009 accounts have not been re-instated as per the 2010 financials

The Principal Related Parties have provided approximately US$298.7 million of gross income, which varied between 21% and 97% of Unicorn's total revenues over the last seven years, in aggregate 56%, or 53% after offsetting reversal/cancellations relating to receivables.

As Unicorn was adversely affected by the global economic meltdown in 2009, the Principal Related Parties continued to provide strong financial support. This was required as:

a) Unicorn's capital adequacy position was under pressure; and

b) Unicorn was experiencing pressures in meeting the requirements of the Bank's 3 year US$125 million Syndication covenants, which required a minimum tangible net worth of US$275 million.

Consequently in 2009, the Bank agreed with Emaar Al Bayader to provide investment advisory mandates. These were in respect of a range of real estate financing assignments totaling US$90 million. Based on discussions with the CBB and the external auditors, only services paid for in cash could be recognised in the financial statements on a conservative basis. The Bank recognised US$60 million of revenue, which was subsequently received in cash in early 2010. During 2010, the Bank and Emaar Al Bayader discussed at length the extent of the services provided under the remaining mandates amounting to US$30 million. Considering the overall strategic relationship and that Unicorn had not provided the services under these mandates, it was mutually agreed to cancel both the mandates totaling US$30 million, which have therefore not been included in the Bank's income.

Equity Support

The Principal Related Parties have contributed US$119 million of equity capital to Unicorn:

(US$ millions) Years	2007	2004	Total
Related parties investment in Bank's share capital (No. Shares)	18.0	101.0	**119.0**
Value at Par US$ 1	18.0	101.0	**119.0**

Co-Investment Support Since the Bank's Inception

The Principal Related Parties also made major co-investments to support the Bank in its investment portfolio development from inception. This involved major strategic developments, including the Strategic Acquisition Fund, the Unicorn Global Private Equity Fund I as well as within the Bank's direct proprietary investments (Open-Silicon and t'azur). Original funds (some were later sold down or repaid) invested by Principal Related Parties were as follows:

(US$ millions)

Years	2007	2006	Total
Principal Related Party investments in:			
PE Fund		15.0	**15.0**
SAF	18.7		**18.7**
Open-Silicon*	100.0		**100.0**
t'azur	15.0		**15.0**
Seef Land	4.0**		**4.0**
Total	**137.7**	**15.0**	**152.7**

* Open-Silicon holding subsequently sold down to US$59.4m

** Repaid during 2010

Dar Al Arkan Share Related Matters

Dar Al Arkan shares were provided to Unicorn as consideration for advisory services in 2004/5. During 2008, the value of Dar Al Arkan shares fell significantly. Shareholder support via Kingdom Installment Company (KIC) of US$20 million was provided in the form of a guarantee in 2008 to cover any reduction in the value of the Dar Al Arkan shares, if sold by Unicorn. As part of this arrangement, the CBB required KIC to account for this in their financial statements as a provision. Unicorn cancelled US$10 million of receivables in its 2009 consolidated financial statements, based on discussions with the auditors and the CBB. In the context of the overall shareholder support that Unicorn has received, it agreed to release KIC of its obligation under the guarantee during 2010. Consequently, Unicorn cancelled the balance of US$10 million receivables in June 2010.

> "In 2010, Unicorn completed the implementation of the Group Operational Risk Framework and adopted a Board-approved Group Operational Risk Policy which lays down Unicorn's philosophy and methodology in the management of operational risks."

Tier 2 Capital Support 2009

Further to the Principal Related Party support mentioned above, Unicorn also required increased regulatory capital to strengthen the Bank's weakening capital adequacy ratio. Accordingly, the Principal Related Parties provided Unicorn with US$50 million of Tier 2 capital, paid in cash, which substantially strengthened Unicorn's capital adequacy position and enabled compliance with the Syndication covenant.

To conclude, Principal Related Parties have provided significant financial support to Unicorn since its inception, amounting to approximately US$620 million in aggregate as follows:

(US$ millions)	Total
Mandates/income	298.6
Equity	119.0
Co-investment (initial)	152.7
Tier 2 Capital	50.0
Total	**620.3**

Operational Review

In 2010, Unicorn continued to demonstrate the discipline and resilience that has characterised the Bank since its inception in 2004. Despite the challenging operating environment, the Bank took concrete measures to safeguard its financial position during the year. This included significant measures to cut operating expenses, the full impact of which will be reflected in the Bank's 2011 financial results.

Unicorn also achieved major deleveraging of the balance sheet in 2010 with the timely repayment of approximately US$250 million of short-term funds, as well as the successful repayment of a US$125 million Syndicated Commodity Murabaha Facility on its due repayment date in January 2011. Unicorn's liabilities are currently at minimal levels, leaving the Bank in a strong position relative to many of its peers in the Islamic banking industry.

Throughout 2010, the Bank continued to strengthen each of its business lines, geographic subsidiaries and associates, while maintaining rigorous control of its core operations and risk management policies and procedures.

Private Equity

Unicorn's private equity strategy is to make selective investments in privately-held companies with strong growth prospects. The division's investment focus is on the oil & gas services, industrial services, building materials, retail, logistics, health care and agribusiness sectors in the GCC and MENA regions, including Turkey.

The Bank successfully closed acquisitions and exits of a number of private equity transactions in 2009 and 2010, despite the challenging environment for private equity, both regionally and internationally.

The energy services platform: Since 2009, the division has primarily focused on the energy services sector and has successfully concluded a number of transactions in this space, thereby advancing the Bank's private equity strategy of building an energy services platform with regional expertise in the oil & gas sector. The energy services platform reflects the Bank's confidence in the ability of the energy sector to continue to lead regional economic growth and allows the Private Equity division to leverage the synergies between its energy services-related portfolio companies. Key activities in this area have included:

- The establishment of Regional Energy Services Holding Company WLL (RESH) to serve as a platform for acquisitions, joint ventures and collaborations in the regional energy sector;
- The acquisition of a 70% stake in Gulf Strategic Partners WLL (GSP), a Bahrain-based company operating throughout the GCC and India and specialising in pre-operational chemical cleaning services for petrochemical, oil & gas and process facilities, by the Unicorn Global Private Equity Fund I; and the subsequent transfer of the Fund's shareholding in GSP to RESH;
- The further acquisition of 28% of GSP by the Unicorn Global Private Equity Fund I;
- The acquisition of a 70% stake in Bahrain Maintenance and Diving Services WLL (BMDS) by RESH;
- The sale of 10% of RESH to Eastern Industrial & Oilfield Services Holding Company BSC (c) (EIOS), generating a 105% cash on cash return on investment in less than a year;
- The sale of 12.9% of RESH to retail investors;
- The acquisition of 100% of Qatar Engineering & Construction Company WLL (QCon), the leading local contractor and maintenance services provider in Qatar's oil & gas sector, from Qatar Shipping, along with other co-investors; and
- The Bank's exit from its 10% stake in QCon following a period of six months, generating a cash-on-cash return on investment of 144.6%.

Unicorn's Private Equity strategy is to continue to support its existing portfolio and to source and structure new deals within the division's targeted geographical areas. The Private Equity division will continue to expand its energy services platform and has identified investors who share the Bank's interest in this sector. Furthermore, the division will also focus on the other sectors within its mandate. Private Equity is currently in negotiations with a number of potential target investments across the GCC and Turkey.

The Private Equity division's key enablers include:

- Strong pipeline with an ability to effectively execute cross border transactions;
- Established and experienced team, with expertise in deal sourcing, structuring, placement, closing and post-acquisition management;
- Licenses in Saudi Arabia, Turkey and Malaysia as well as a headquarter presence in Bahrain providing access to key markets;
- Strong relationships with strategic co-investors in each sector and an extensive client base across the region; and
- Access to very attractive proprietary transactions in the GCC region and Turkey.

Capital Markets

2010 was a challenging year for the international Sukuk market, which continued to suffer from low volumes as a result of the difficult market conditions and tighter regional liquidity, and the associated negative

Operational Review continued

impact on the global debt markets. In the face of more expensive financing, borrowings continued to be delayed, and the default of three Sukuk and the continuing Dubai World debt restructuring throughout the year created further uncertainty in an already jittery market. 2010 also saw no resolution to the Investment Dar restructuring, with the original steering committee resigning and a new one being set up to continue the negotiations for the credit holders.

In spite of these adverse conditions, the Bank's Capital Markets division was able to leverage its outstanding track record and proven capabilities to win a number of mandates. In early 2010, the division successfully closed a US$450 million international Sukuk issue for Dar Al Arkan Real Estate Development Company (Dar Al Arkan), a leading residential real estate developer in the Kingdom of Saudi Arabia, in a landmark transaction that is expected to set the benchmark for GCC corporate borrowers going forward. This Sukuk marked the first international issue out of the GCC region in 2010 and was jointly lead managed by Unicorn, Deutsche Bank Securities and Goldman Sachs International. Unicorn was also the sole Shari'ah advisor to the transaction.

The Dar Al Arkan Sukuk, which marks the company's fourth Sukuk issue to date, offers a yield of 11% per annum and was priced in one of the most difficult weeks in 2010 during which many other transactions failed to close or were withdrawn from the market. Furthermore, as the first '144a' (US Securities and Exchange Commission (SEC) rule facilitating the resale of privately placed securities that are without SEC registration) issue by a company in Saudi Arabia, the landmark Sukuk made it possible for US investors to directly participate in a Saudi Arabia transaction for the first time. It is also the first ever sub-investment grade Sukuk.

The Bank also successfully advised and executed a profit rate swap for Dar Al Arkan, to enable the issuer to lower its borrowing cost on its recently issued Sukuk. Furthermore, the Capital Markets team has assisted several clients in obtaining private financing through leverage of their equity and fixed income portfolios. Structures have included equity monetisation, collar financing, leveraged Sukuk trade and margin lending. The team continues to roll out products based on proprietary and innovative Shari'ah-compliant structures to its shareholders and clients.

The Capital Markets division expects market conditions to remain challenging in 2011 but is well-placed to take advantage of the recovery when it comes. The division has several mandates in the pipeline and continues to evaluate new client requests. In addition to Sukuk, the division offers a full suite of capital markets products and services, including asset-backed securitisations, syndicated facilities and credit rating advisory services.

The Capital Markets division also maintains a proprietary fixed income book through which it is developing the capability for secondary market trading, with the intention of enabling the Bank to engage in market making activities. In 2010, the Bank bought and sold over US$300 million Sukuk paper internationally, increasing its investor network while providing liquidity in the secondary market for transactions for which the Bank was a Bookrunner. 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 make a market in Sukuk and other Shari'ah-compliant capital markets products, thereby improving liquidity in the Islamic financial markets.

Asset Management

Unicorn's Asset Management strategy was refocused in 2010 to strengthen the division's ability to generate fee income over time. Going forward, Asset Management will focus on two main activities: family office services to benefit the Bank's shareholders and third party business through the launch of Unicorn-branded funds as well as the development of a "one-stop-shop" for Shari'ah-compliant investment solutions.

In 2010, the Asset Management division successfully supported a client's portfolio requirements by generating return and liquidity profile enhancements through innovative Shari'ah-compliant transactions, with the support of an international bank.

On the funds side, Asset Management continued to achieve outstanding returns in its two equity funds, managed by Unicorn Portföy in Turkey. The Unicorn Istanbul Fund achieved a net return of 26% in US dollar terms, over-performing its benchmark by 6%, while the Dow Jones Islamic Turkey Index Fund which tracks the Index achieved a 21% net return during the same period. In the second half of 2010, Unicorn Capital Saudi Arabia worked to register its initial funds offering, including the Unicorn Saudi Equity Fund, the Unicorn Sukuk Plus Fund and the Unicorn Income Generating Real Estate Fund I. Regulatory approval is expected during the first half of 2011. Going forward, Unicorn Capital Saudi Arabia and Unicorn Portföy intend to work together more closely in order to increase assets under management (AuM).

Unicorn's Asset Management division has previously structured and launched several funds in the GCC region. In 2005, the division structured and closed KSA Real Estate Fund I, a US$52.5 million fund investing in a residential real estate development in Riyadh and one of the first funds to allow non-Saudi nationals to participate in the rapid growth of the Saudi real estate market. Unicorn successfully exited this investment in 2007. In 2008, the division successfully exited the Gulf Springs Real Estate Fund, a real estate fund launched in 2006 to provide investors with a vehicle to participate in and capitalise on immediate opportunities in the regional real estate market. In 2008 the Asset Management division also successfully closed capital raising for the Turquoise Coast Investment Company, a US$120 million project investing in the development of vacation homes in Bodrum, a coastal town on Turkey's Aegean Coast.

Strategic Mergers & Acquisitions

Unicorn's Strategic Mergers & Acquisitions division is engaged in three main areas of business: the acquisition of financial service institutions as direct investments; strategic monitoring of Unicorn's subsidiaries and associates, including BFC Group Holdings, t'azur, the Strategic Acquisition Fund and Dawood Islamic Bank (Pakistan); and greenfield projects in the area of Islamic finance designed to further Unicorn's strategy and enhance shareholder value.

BFC Group Holdings (BFC Group): In January 2009, Unicorn successfully concluded the acquisition of a controlling stake in BFC Group (formerly Condor Exchange Holding Company), one of the leading foreign exchange and remittance houses in the GCC region. The acquisition included Bahrain Financing Company (BFC) in Bahrain, Bahrain Exchange Company (BEC) in Kuwait and EzRemit in the United Kingdom. The Strategic Acquisition Fund also acquired a significant stake in the company.

Founded in 1917, BFC Group was Bahrain's first foreign exchange company and the first financial services institution to be established in the GCC region. It is the market leader in foreign exchange and money transfer services in Bahrain. The company has recorded consistent growth and profitability over the past several decades and has developed an extensive correspondent network in over 60 countries globally.

In 2010, BFC Group underwent an extensive rebranding exercise which saw the company rebrand its 25 retail shops in Bahrain and develop new websites for the BFC Group, BFC in Bahrain, the company's UK business which now trades as BFC Exchange, and EzRemit, the company's global remittance business. The rebranding exercise will conclude in 2011 with the rebranding of the 21 branches of BEC in Kuwait.

In Bahrain, BFC Group developed and successfully launched a new online remittance product, BFC Smart Money, in 2010. The company also launched the MoneyGram products across its entire retail network in Bahrain, Kuwait and the UK.

On an operational level, improvements have been made to the existing payment application to increase capacity and resilience. These improvements will ensure that the transaction growth expected across the business can be sufficiently met in 2011.

EzRemit was restructured in 2010, with the set up of a new Hong Kong entity called EzRemit International Money Transfer to handle international remittance transactions. In addition, a new representative office and a second customer contact centre were established in the Philippines to enable customer service almost 24/7 globally. During the year, the BFC Group's network of global agents expanded by over ten thousand locations across the company's key markets.

t'azur: t'azur is a regional Takaful company established in 2007 following two years of intensive research and development led by Unicorn. The company was founded in conjunction with a group of strategic founding investors from across the GCC to capitalise on the largely untapped opportunities within the Takaful sector. t'azur offers both General and Family Takaful products and services and seeks to meet the demands of a vast and fragmented market for Shari'ah-compliant insurance and savings solutions, both within the GCC region and internationally.

2009 and 2010 were years of significant progress for t'azur, on both strategic and operational levels. The company's regional expansion plans were boosted in September 2009 when t'azur became the first company to be awarded a license by the Qatar Financial Centre Regulatory Authority (QFCRA) to operate a General Takaful business at the Qatar Financial Centre (QFC). t'azur will offer its full range of General Takaful products in Qatar, including property, engineering, marine, medical and motor insurance. Furthermore, in the third quarter of 2010, t'azur increased its equity stake in its Kuwaiti affiliate to 70% from 40%, giving the company better control over operations in Kuwait. t'azur is now active in three countries – Bahrain, Kuwait and Qatar, and continues to actively pursue further expansion into other GCC and MENA countries.

On an operational level, t'azur continued to strengthen its capabilities within its two key areas of focus: General Takaful and Family Takaful. Despite being a recent entrant to the market, t'azur has issued over 10,000 motor policies in Bahrain to date, equivalent to a 2.5 percent

Operational Review continued

market share. The company has also built up close to a 10 percent share of the medical insurance market in Bahrain. t'azur has added several major public and private institutions in Bahrain to its portfolio of clients and has developed and implemented strategic marketing, advertising and communications plans which have helped the company to increase its customer base and gain significant traction in the market.

Strategic Acquisition Fund (SAF): SAF is a closed investment fund promoted and managed by Unicorn and registered with the CBB. It was launched in 2007 and has reached US$210 million worth of commitments, of which US$187.5 million is paid-up, from a broad array of GCC based investors.

SAF was established in response to the lack of specialised investment vehicles targeted at supporting the growth of Shari'ah-compliant financial services institutions. By establishing SAF, the Bank was able to leverage the significant professional banking and M&A expertise it has assembled within its Strategic Mergers & Acquisitions division.

To date, SAF has successfully closed investments in three GCC based financial services institutions and is closely reviewing a number of additional investment opportunities. Whilst independent from the Bank and having its own Board and Investment Committee on which selected SAF unitholders are also represented, SAF profitably co-invested alongside the Bank in BFC Group Holdings and would consider co-investing with the Bank again should the right opportunity present itself.

Dawood Islamic Bank: Unicorn is a founder and the largest shareholder of Dawood Islamic Bank, a Shari'ah-compliant retail bank based in Pakistan. In 2009, Unicorn increased its shareholding in Dawood Islamic Bank from 22.2% to 37.7%. In 2010, the Strategic Mergers & Acquisitions division continued to work closely with Dawood Islamic Bank to advise on the bank's strategy and future growth plans.

International Subsidiaries

Saudi Arabia: In August 2009, Unicorn Capital Saudi Arabia (UCSA) received authorisation by Saudi Arabia's Capital Market Authority (CMA) to commence operations in Saudi Arabia. Unicorn is a majority shareholder in UCSA, and accordingly, UCSA brings to the Saudi market the full support and depth of an established Shari'ah-compliant financial services group with a comprehensive products and services offering and a geographic presence in Malaysia and Turkey, in addition to its headquarter presence in Bahrain.

Unicorn has long viewed Saudi Arabia as a core element of its long term strategy. Saudi Arabia is the largest and deepest market in the GCC region, and the Bank's presence in the Kingdom will allow the Bank to better support its local clients and to capitalise on the many opportunities within the underserved Islamic finance sector in the Kingdom. UCSA's integrated business lines include Asset Management, Capital Markets, Corporate Finance, Private Equity and Brokerage, for which UCSA was granted a commencement letter by the CMA in December 2010.

In 2011, UCSA will continue to invest in developing its resources and infrastructure and, subject to market conditions, intends to launch several new products and transactions. UCSA's Asset Management division is currently developing and structuring a number of funds, including a listed domestic equities fund, a global Sukuk fund and a real estate fund, and expects to commence discretionary portfolio management services in the second quarter of 2011. The Capital Markets division is working on Sukuk mandates and continues to evaluate new client requests, while Corporate Finance is in the process of executing several restructuring and M&A mandates which the company will seek to close by the end of the second quarter of 2011. The Brokerage division has gone live with local brokerage and is working on giving its clients access to GCC markets during the second half of 2011. The Brokerage division's main differentiation will be its ability to provide clients with access to key markets through a single multi-currency settlement account.

Malaysia: Unicorn International Islamic Bank Malaysia Berhad (Unicorn Malaysia) closed a number of transactions in 2010 and continued to strengthen its operating capabilities. Unicorn Malaysia was the first foreign International Islamic bank to be licensed to conduct a full range of non-Malaysian Ringgit banking activities under the Malaysia International Islamic Financial Centre (MIFC) initiative. The Bank's primary focus is on three core business lines: Corporate Banking, Treasury and Investment Banking to complement the Bank's existing operations in Bahrain. Unicorn Malaysia's staff strength of 24 includes eight senior management personnel with an average of 19 years of experience each in the banking and financial services sector.

As at 31st December 2010, Unicorn Malaysia had total deposits of MYR408 million (approximately US$132 million) and total assets of MYR491 million (approximately US$159 million). Treasury and Corporate Banking were the key drivers of Unicorn Malaysia's business in 2010. As at 31st December 2010, the Corporate Banking division's financing to customers totalled US$123 million.

In Treasury, Unicorn Malaysia was the first institution to obtain approval from Bank Negara Malaysia for its Wakala Deposit and

Restricted Wakala Deposit products and successfully introduced these to the market. Unicorn Malaysia also signed Malaysia's Standardised Commodity Murabaha Master Agreement and Master Wakala Agreement along with 22 other banks in Malaysia. These agreements are intended to promote uniformity and operating efficiencies within the Islamic banking sector. During the year, Treasury was successful in launching a maiden US$78 million Restricted Wakala Product in Malaysia. This six-month maturity product was launched in April 2010 and completed in September 2010. Unicorn Malaysia also successfully expanded the Wakala deposit product to a broader client base across Malaysia, including government agencies, financial institutions and public listed companies.

Going forward, Unicorn Malaysia will continue to build on its Treasury and Corporate Banking products. The Bank is also working to establish an asset management company under the MIFC umbrella.

Turkey: Unicorn Capital Turkey was established in 2007 following the Bank's acquisition of Turkish brokerage and asset management company, Inter Yatirim Menkul Değerler A.Ş. and Inter Portföy Yönetimi A.Ş. The company's main lines of business are: Asset Management, Real Estate & Private Equity, Brokerage and Research. As a vast and significantly under-served Islamic finance market with enormous potential for growth, Turkey is a key market for the Bank and an important component of the Bank's growing international capabilities.

The Turkish economy registered a strong V-shaped recovery and stood as one of the fastest growing economies in the world in 2010. GDP grew by 11% in the first half of 2010 and closed the year at total growth of 8.9%. In addition to vigorous growth prospects, relatively strong macroeconomic fundamentals together with a well-capitalised banking sector are expected to carry the Turkish economy to the "investment grade" level in the second half of 2011.

In 2010, Unicorn Capital Turkey strengthened its Private Equity & Real Estate business line, and the new team successfully built up a strong pipeline of proprietary deals in the agro-food and healthcare space as well as in income generating assets.

On the asset management side, Unicorn Capital Turkey has continued to achieve remarkable returns in its two managed equity funds, managed by its subsidiary Unicorn Portföy. The Istanbul Fund, a Shari'ah-compliant managed equities fund, achieved a net return of 26% in US dollar terms over performing its benchmark by 6%, while the Dow Jones Islamic Turkey Index Fund, which tracks the Index, achieved a 21% net return during the same period. The US$7.6 million investment by Unicorn into the funds achieved a net return of 28% in US dollar terms at the end of 2010.

On the back of the strong markets in 2010, the Istanbul Stock Exchange launched an IPO programme and completed 22 transactions, with Unicorn Capital Turkey successfully participating in three of these IPO's as part of its brokerage services.

Unicorn Capital Turkey also continued to provide management services to the Bank's 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 through its Carian Bay project, where the first phase of construction has already started.

In 2011, Turkey is expected to continue achieving the highest rate of growth among emerging market countries globally. Re-rating of the Turkish economy has resulted in a growing appetite on the part of foreign investors for exposure to Turkey, and Unicorn Capital Turkey intends to leverage these developments to attract further investment from the GCC region to Turkey.

United States: Until late 2010 UIB Capital Inc. (a wholly owned subsidiary of Unicorn located in Chicago, Illinois) acted as the Bank's private equity arm to originate, manage and exit private equity investments in the United States. In the latter half of 2010, the Board took the major decision to exit the US market to focus on the Bank's core markets in Saudi Arabia, Malaysia, Turkey and the GCC region. This resulted in the closure of Unicorn's Chicago office, and the Bank has undertaken plans to sell the Bank's US private equity investments in an orderly fashion, drawing on resources available in Bahrain.

Industry Recognition

Unicorn has received extensive industry recognition for its outstanding achievements and vision in the area of Islamic finance. In 2010, the Bank's successful close of a US$450 million 5-year Sukuk on behalf of Dar Al Arkan was named 'Islamic Finance Deal of the Year for the Middle East' by leading international business magazine The Banker. The Bank was also named the 'Best Islamic Bank in Bahrain' and the 'Best Investment Bank in Bahrain' by Asiamoney and Global Finance magazines respectively.

Corporate Governance, Risk Management and Compliance

Corporate Governance and the Board of Directors

As a Bahrain-based bank, Unicorn is subject to the corporate governance standards of the Central Bank of Bahrain (CBB) and the Bahrain Commercial Companies Law. 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 and recently enacted new corporate governance rules within the CBB rulebook (Higher Corporate Governance Module, or HC Module) to foster a culture for proactive boards of directors that are accountable and responsible for the affairs and performance of their banks.

Unicorn is in the process of reviewing its current corporate governance framework in order to implement the new CBB corporate governance rules, which specify, among other things, 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;
- Board members must ensure regular attendance or face possible removal;
- the Board should be provided with the ability to seek advice from external consultants;
- the Board should be provided with training, and periodic evaluation of the effectiveness of the Board, Board committees and individual Board members should be undertaken;
- the financial statements of the Bank should accurately disclose the Bank's financial position;
- the effectiveness and independence of the external audit function should be monitored;
- the remuneration of senior management should be monitored and reported to the shareholders;
- Board members should not take actions that would place them in a conflict of interest with the Bank or confer benefits to individual members for personal gain;
- the Board and individual Board members should act in the best interest of all shareholders including minority shareholders; and
- the transparency of the Bank's corporate governance processes should be ensured.

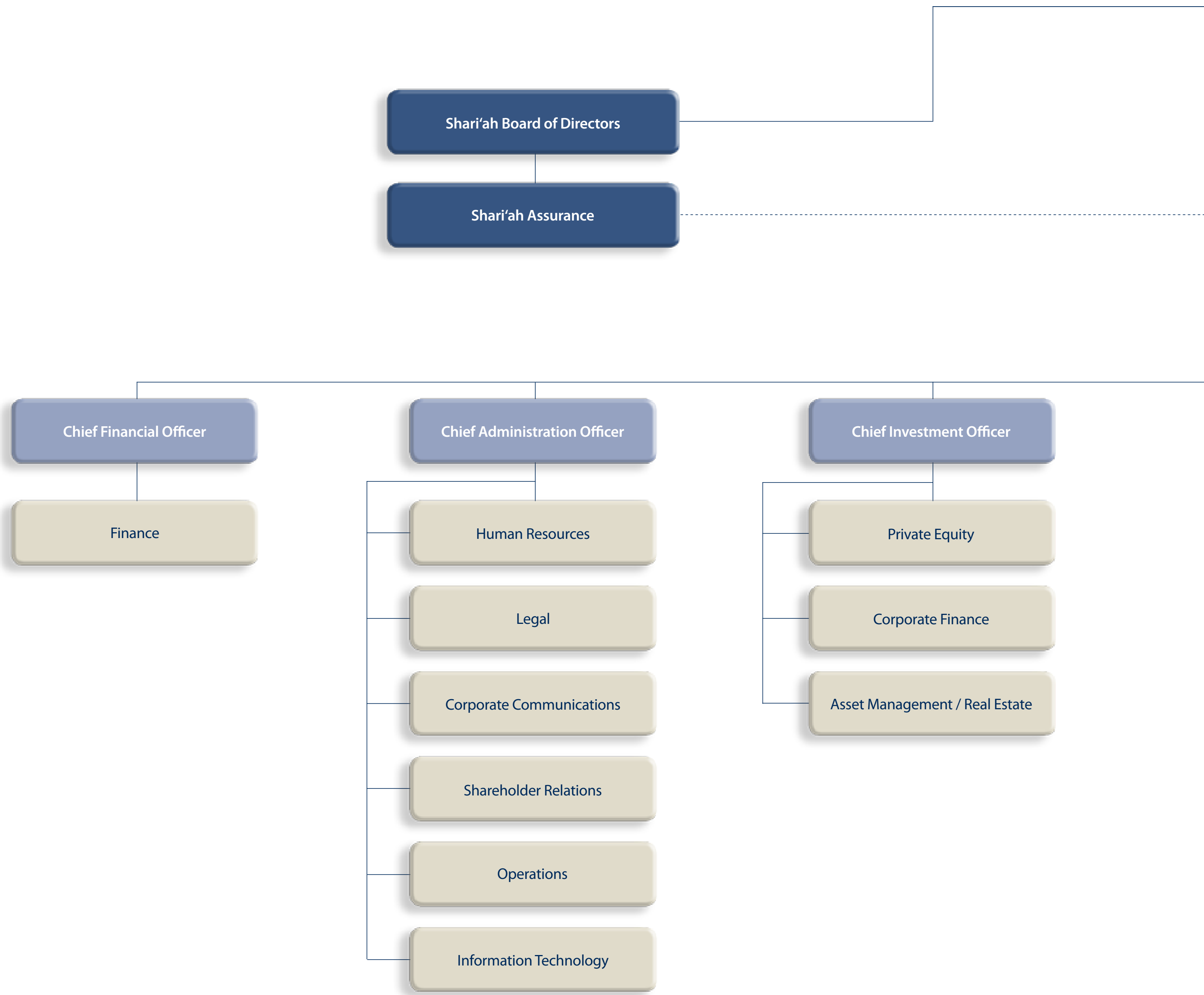
> "Unicorn has already instituted many of the new CBB Corporate Governance requirements and is undertaking a review of its policies to ensure full compliance with both CBB standards and international best practice."

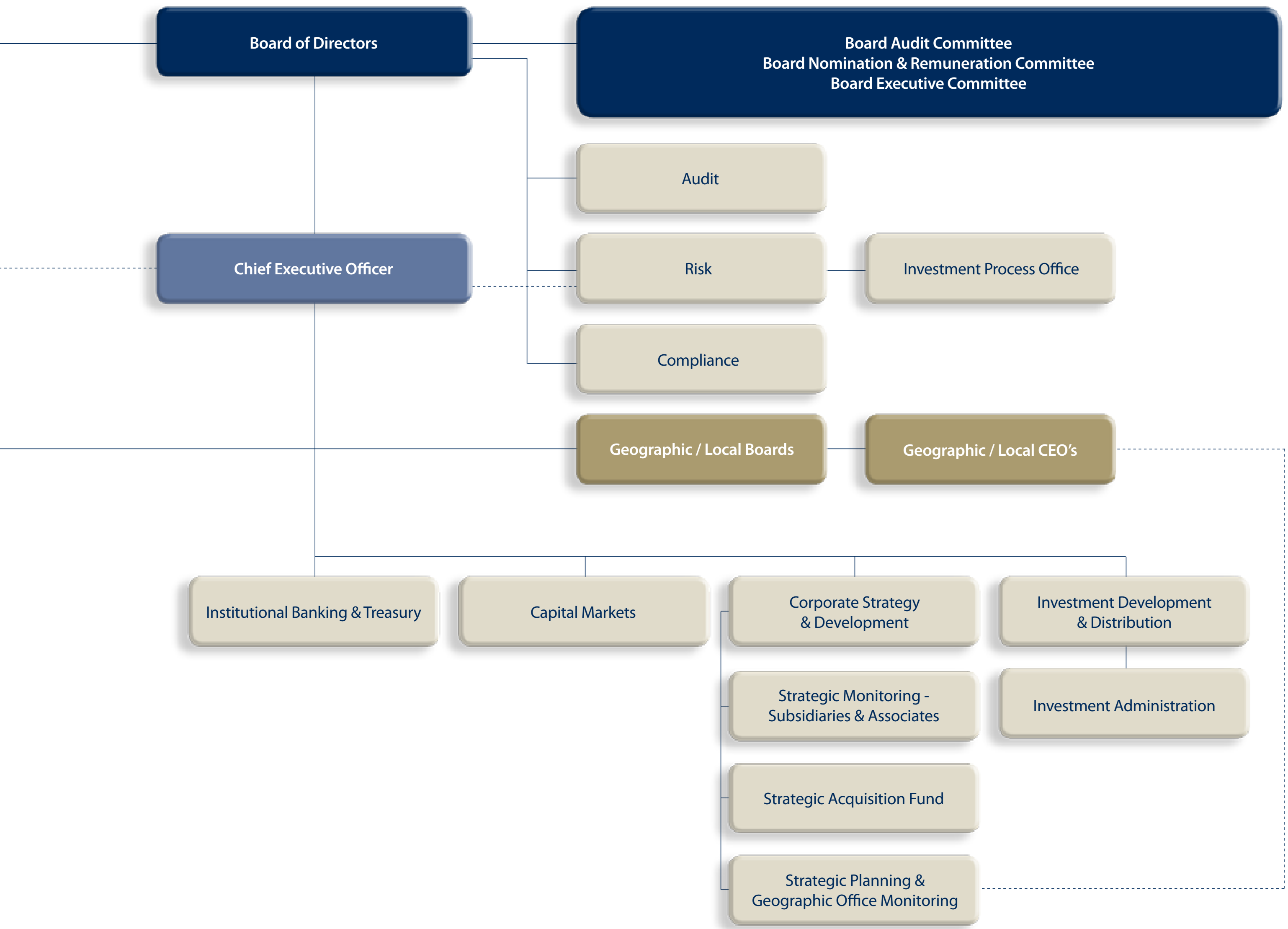
Unicorn has already instituted many of the new requirements and is undertaking a review of its polices to ensure full compliance with both the CBB standards and international best practice. Major actions taken by the Bank to date to ensure compliance with the CBB's HC Module include a thorough review of the Bank's Corporate Governance Charter and a detailed gap analysis of the status of the current Corporate Governance Charter in relation to the CBB's new HC Module requirements, as well as the appointment of an external consultant to review and enhance the Bank's Corporate Governance framework and oversee the implementation process.

Currently the Bank has an approval process for related party transactions reflected in Bank's Group Code of Conduct and Corporate Governance Policy. In addition the Bank has complied with Article 32(3) of the Bank's Articles of Association and Article 189 of the Bahrain Commercial Companies Law CCL in this regard.

Corporate Governance, Risk Management and Compliance continued

The organisation chart below shows the Board and Management committee structure and reporting lines:




Board of Directors
Board Audit Committee
Board Nomination & Remuneration Committee
Board Executive Committee
Audit
Chief Executive Officer
Risk
Investment Process Office
Compliance
Geographic / Local Boards
Geographic / Local CEO's
Institutional Banking & Treasury
Capital Markets
Corporate Strategy & Development
Investment Development & Distribution
Strategic Monitoring - Subsidiaries & Associates
Investment Administration
Strategic Acquisition Fund
Strategic Planning & Geographic Office Monitoring

Corporate Governance, Risk Management and Compliance continued

The Board of Directors

The prime responsibility of the Board of Directors (the Board) is to provide effective governance over the Bank in exercising its fiduciary duty towards its shareholders, customers, employees and other stakeholders. Unicorn is reviewing its Corporate Governance Charter and related policies to ensure that the Board follows the new CBB rules on Corporate Governance and practices the highest standards of ethical conduct, reports results with accuracy, transparency and integrity and maintains 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.

During 2010 there were nine directors on the Board, each serving a three-year term the latest of which began in July of 2010. The former CEO Mr. Majid Al-Refai was removed as a director by a vote of the shareholders at an extraordinary general assembly meeting held on 17 October 2010. All of the current directors are non-executive, and three are independent.

The election and termination of directors is governed by the Bahrain Commercial Companies Law and the Bank's Articles of Association which require election of directors by written ballot. The Board term for members is three years.

The new CBB Corporate Governance rules require that new members to the Board receive a comprehensive induction program, which the Bank will develop and implement during the fiscal year of 2011. In addition a regular evaluation program will be developed and implemented to assess the effectiveness and contribution of the Board, its committees and its individual members.

Several members of the Board of Directors also own shares in the Bank. In 2010 the former CEO Mr. Majid Al-Refai transferred 15.75 million shares held in his name to Sultan Adbulrahman Abalkheel. No other transfer of shares by directors or senior managers occurred in 2010. Senior management individually own less than 1% of the Bank's shares.

A distribution of ownership of shares by director is below:

Shareholder Name	Shares	Percentage
1. Bader Abdulaziz Qassim Kanoo	768,887	**0.49%**
2. Yousef Abdullah Al-Shelash	11,533,292	**7.31%**
3. Hethoul Saleh Mohammed Al Hethloul	10,764,406	**6.82%**
4. Abdullatif Abdullah Shalash Al-Shalash	10,764,406	**6.82%**

Board Committees

Board Executive Committee

The Board Executive Committee is a standing committee of select members from 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, among which is the power and authority to approve certain investment proposals. In accordance with the Bank's Corporate Governance Charter the Executive Committee meets on an as needed basis.

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; and
- Staff remuneration policy and fees for non-executive directors and for the Shari'ah Supervisory Board.

In accordance with the CBB rules and the Bank's Corporate Governance Charter this Committee shall meet at least twice each year.

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; and
- Overseeing the Bank's risk profile and risk appetite.

In accordance with the CBB rules and the Bank's Corporate Governance Charter this Committee shall meet at least four times each year.

Board of Director Biographies

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

Chairman of the Board's Executive Committee
Member of the Nomination & Remuneration Committee
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 an 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 has also earned diplomas in both Banking and Combating Financial Crimes. Mr. Al-Shelash is one of the pioneers of the real estate development industry in the Kingdom of Saudi Arabia, beginning over two decades ago in the early 1990's. He also initiated the real estate mortgage industry in Saudi Arabia in 1998.
Number of years of experience: Over 20 years

AYMAN ISMAIL ABUDAWOOD
Independent Non-Executive Director

Member of the Board's Executive Committee
Mr. Ayman Abudawood is Vice President of Finance, Regional & Overseas Investments, and Legal Structuring at the Abudawood Group, a diversified international conglomerate based in Saudi Arabia with investments in the Middle East, Europe and the USA. He has held senior management positions at the Abudawood Group for over 20 years and serves on the boards of Al-Khabeer Merchant Finance Corporation (Saudi Arabia), Helvetia Arab General Trade Company (Kuwait) and Oryx Capital (Saudi Arabia). He is also the Chairman of Alpine Wealth Management, an independent wealth management advisory group based in Bahrain. Mr. Abudawood holds a BS in Mechanical Engineering from the University of Arizona in the United States.
Number of years of experience: Over 20 years

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

Member of the Board's Executive Committee
Chairman of the Nomination & Remuneration Committee
Mr. Hethloul Bin Saleh Al-Hethloul is a Saudi national, founding shareholder and member of Dar Al Arkan's Board of Directors. He has 20 years of experience in real estate investment and finance, specifically conceptualising real estate strategies and related managerial plans. For the last five years, Mr. Al-Hethloul has been a member of Dar Al Arkan's Board of Directors, General Manager of Kingdom Installment Company and a member of Unicorn's Board of Directors. Mr. Al-Hethloul holds a diploma of Commercial Secondary Institutes in Riyadh (1990).
Number of years of experience: Over 20 years

Corporate Governance, Risk Management and Compliance continued

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

Member of the Board's Executive Committee
Member of the Nomination & Remuneration Committee
Chairman of the Audit Committee
Mr. Al Abdullatif Al-Shalash is a Saudi national and has considerable experience in financial and information management systems. Mr. Al-Shalash occupies the position of Managing Director at Dar Al Arkan in addition to his role as a board member of Unicorn Investment Bank. Mr. Al-Shalash holds a Bachelor's degree in Organization, Leadership and Supervision from Purdue University, USA and an MBA from Findlay University, USA.
Number of years of experience: Over 18 years

AYMAN ABDULLAH BOODAI
Non-Executive Director

Member of the Board's Executive Committee
Mr. Ayman Boodai is the Chairman and Managing Director of The Securities House K.S.C.C. (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. He is the Vice-Chairman of The Securities House Real Estate Company KSCC – Kuwait, Previously, Mr. Boodai was the 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. He was also a board member of the Arab Turkish Bank and the Kuwait Commercial Markets Company, as well as a board member of the Al Mal Real Estate Company and Vice-Chairman of Al Salam Hospital. Mr. Boodai holds a diploma from the Institute of Banking Studies in Kuwait and is trained in financial analysis, portfolio management and monetary policy programmes.
Number of years of experience: Over 34 years

BADER ABDULAZIZ KANOO
Independent Non-Executive Director and founder shareholder

Member of the Audit Committee
Mr. Bader Kanoo has spent more than 20 years in various positions within the Yusuf Bin Ahmed Kanoo (YBAK) organisation, a 120-year-old, family-owned group of companies operating in Saudi Arabia and throughout the GCC. He is currently responsible for the Kanoo Joint Ventures Division and Business Development. Mr. Kanoo is a board member of a number of YBAK's joint venture and other companies, including Methanol Chemicals Co. Ltd. (Chemanol), Dammam 7 Petrochemicals Co. Ltd. and BioME W.L.L. Mr. Kanoo's main focus is on Petrochemical Downstream and Biotechnology. He also sits on YBAK's finance and holding company board committees. Mr. Kanoo holds a degree in Management from Mercer University, Georgia, United States.
Number of years of experience: Over 20 years

WALEED AHMAD AL-SHARHAN
Independent Non-Executive Director

Member of the Nomination & Remuneration Committee
Mr. Waleed Al-Sharhan has been the Vice-Chairman and Chairman of the Executive Committee of Al Safwa Group Holding Co. since 2005. Mr. Al-Sharhan has held a series of senior positions in the industrial and financial sectors throughout his career, including 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 Vice-Chairman from 1997 to 1999 and Chairman from 2000 to 2002. He is currently Vice-Chairman of United Industries Co., a position he has held since 1992.
Number of years of experience: Over 40 years

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

Mr. Bader Al-Jarallah served on the Board of Directors from the Bank's inception until his resignation from the Board in January of 2011. He 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, Kuwait

MAJID AL SAYED BADER AL-REFAI (Removed)
Executive Director and founder shareholder

Mr. Majid Al-Refai, the former Chief Executive Officer of Unicorn, served on the Board of Directors from the Bank's inception until his removal from the Board in October 2010. 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.

Shari'ah Supervisory Board and Shari'ah Assurance

Shari'ah compliance is the cornerstone of Unicorn's operations. A six-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 division 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.

"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 division under the direct oversight of the Shari'ah Supervisory Board."

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.

The Shari'ah Assurance division actively monitors all transactions and forms an integral part of the investment process from the outset. It is also a member of the Investment and Post-Investment Management Committee and has recently become a member of the Risk Committee. The Shari'ah Assurance division validates all business propositions against both Shari'ah principles and Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards.

In 2010, the Bank reported minimal non-Shari'ah compliant income to the Shari'ah Supervisory Board which advised the Bank to donate this income to registered charities and submit the list of beneficiaries once payment has been made.

Corporate Governance, Risk Management and Compliance continued

Shari'ah Supervisory Board Biographies

DR. KHALID MATHKOOR AL-MATHKOOR
Chairman

Dr. Khalid Mathkoor 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. Dr. Al-Mathkoor holds a PhD in Shari'ah from Al-Azhar University.

DR. AAGIL JASIM AL-NASHMY
Deputy Chairman

Dr. Aagil Jasim Al-Nashmy is a 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. Dr. Al-Nashmy 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. Dr. Abu Ghuddah holds a PhD in Shari'ah from Al-Azhar University.

DR. ALI MUHYEALDIN AL-QURADAGHI

Dr. Ali Muhyealdin 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.

DR. MOHAMMAD DAUD BAKAR

Dr. Mohammad Daud 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. Dr. Bakar holds a PhD in Shari'ah from St. Andrews University, UK. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks.

SH. NIZAM MOHAMMAD SALEH YAQOUBY

Sh. Nizam Mohammad Saleh 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. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks.

Management Committees

Management Executive Committee (MEC)

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

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)

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 statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital market activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short, medium and long term funding strategies is developed in conjunction with the Bank's Treasury and Capital Markets functions.

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 all operational activities of the Bank, and reviews and approves risk management principles, frameworks, policies, projects, limit processes and procedures. Furthermore it is the first institutional body to approve all counterparty, market risk, business line and country limits on a group wide basis. It is also responsible for assessing all fundamental risk issues within the general development strategy of the Bank.

Information Technology Steering Committee (ITSC)

The ITSC 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 ITSC is also responsible for the strategic direction, implementation and significant enhancement of the Bank's information technology systems and its infrastructure.

Senior Management Biographies

IKBAL DAREDIA
Acting Chief Executive Officer & Head of Capital Markets, Institutional Banking and Treasury
Chief Executive Officer, Unicorn International Islamic Bank Malaysia

Mr. Ikbal Daredia has 20 years of 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.

Corporate Governance, Risk Management and Compliance continued

DR. MUHAMMAD AL-BASHIR M. AL-AMINE
Deputy Head of Shari'ah

Dr. Muhammad Al-Bashir M. Al-Amine joined Unicorn in 2005 and is currently the Deputy Head of Shari'ah. Dr. Al-Bashir's responsibilities include managing the Bank's Shari'ah affairs in terms of compliance, audit and product development through close coordination with the Bank's Shari'ah Supervisory Board and the senior management team; supervising the Shari'ah affairs of Unicorn's subsidiaries in Saudi Arabia, Malaysia, and Turkey; and organising workshops to educate the Bank's employees on structures and Shari'ah principles of Islamic finance. Prior to joining Unicorn, Dr. Al-Bashir was the Head of Product Development and Shari'ah Compliance at the International Islamic Financial Market (IIFM). He was also a part-time lecturer at the Faculty of Laws International Islamic University Malaysia; Ibn Sina Institute of Technology (Malaysia); the Matriculation Center International Islamic University (Malaysia), the Bahrain Institute of Banking and Finance; the Kingdom University (Bahrain); and The Open University of Malaysia in Bahrain. Dr. Al-Bashir is the author of Sukuk and Islamic Securitization Markets: Financial Engineering and Product Development (Brill, forthcoming); Risk Management in Islamic Finance: An Islamic Analysis of Derivatives Instruments in Commodity Markets (Brill, 2008) and Istisna (Manufacturing Contract) in Islamic Banking and Finance Law and Practice (A.S. Noordeen, 2001 & 2006). He has also contributed to a number of articles published in international journals. Dr. Al-Bashir holds a LLB (Shari'ah) from the Islamic University of Madina and a Masters of Comparative Law (MCL) and PhD in Law from the International Islamic University Malaysia.

PHILIP STOCKBURN
Chief Financial Officer

Mr. Philip Stockburn has over 30 years of 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 Riyad 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.

PAUL J. M. WALTNER
Chief Administration Officer & Money Laundering Reporting Officer (MLRO)

Mr. Paul Waltner is currently serving as Chief Administration Officer managing the Legal, Human Resources and Investor Relations departments. He also acts as MLRO for Unicorn. Mr. Waltner has over six years experience in the region, much of this working with Unicorn initially on a secondment basis and later as its General Counsel and Chief Compliance Officer. Mr. Waltner worked in private practice and as in-house counsel in the United States. He specialised in business formations, business transactions, tax planning and regulatory compliance. Mr. Waltner holds a Juris Doctorate from Thomas M. Cooley Law School and an undergraduate degree from Eastern Michigan University. He is a member of the State Bar of Michigan and the American Bar Association.

KUBRA ALI MIRZA
Chief Compliance Officer & Board Secretary

Mrs. Kubra Ali Mirza has over 14 years of experience in investment banking, financial regulations, corporate governance, compliance, financial crimes and anti-money laundering. Mrs. Mirza joined Unicorn in January 2011 as the Chief Compliance Officer and Board Secretary. She is also the Secretary of the Bank's Audit Committee and the Nominations & Remunerations Committee. Prior to joining Unicorn, Mrs. Mirza was the Head of Compliance, MLRO and Board Secretary; Secretary of the Corporate Governance Committee and Secretary of the Finance & Investment Committee at Venture Capital Bank, a wholesale Islamic bank in the Kingdom of Bahrain. She was also responsible for providing the board of directors, senior management team and staff with training in governance, compliance and anti-money laundering related topics. Mrs. Mirza was also a Program Director at Tatweer Consulting Company. From 2003 to 2007, Mrs. Mirza was the Head of Policy & Central Risk Unit at the Central Bank of Bahrain (CBB). She was also a member of several management committees of the CBB, including the Basel II Committee, Financial Institutions Law Committee, Regulatory Policy Committee, Banking Supervision Committee and the E-government Committee. Mrs. Mirza was also a member of several local and international regulatory working groups and task forces including the Basel II (Pillars I & 2) Working Group, the Islamic Financial Service Board's (IFSB's) Market Conduct Working Group, and the Arab Monetary Fund's Banking Supervision Working Group. Mrs. Mirza holds a Bachelors degree in Accounting and an Executive MBA from the University of Bahrain. She is a certified anti-money laundering specialist and holds a CAMS credential issued by the Association of Certified Anti-Money Laundering Specialists (ACAMS). Mrs. Mirza is also a certified compliance officer and a member of the American Academy of Financial Management.

> "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 for administering and enforcing these policies."

AYHAM GHARAIBEH
General Counsel & Deputy MLRO

Mr. Ayham Gharaibeh has over 10 years of legal experience in investment banking, specialising in Private Equity, Asset Management, Capital Markets, Mergers & Acquisitions, and Corporate Finance transactions. Mr. Gharaibeh has structured and successfully closed over 30 sizable transactions at Unicorn to date. He also serves as the Co-Secretary of the Board of Directors, and a member of the Investment Committee. Mr. Gharaibeh is also a Director in over 15 companies held by the Unicorn group. Prior to joining Unicorn, Mr. Gharaibeh was the General Counsel and Chief Compliance Officer at Atlas Investment Group (AB Invest), the investment banking arm of Arab Bank - Amman, Jordan. Mr. Gharaibeh holds a BA and a Masters degree in International Business Law.

Corporate Governance, Risk Management and Compliance continued

LARS HUELSMANN
Chief Risk Officer

Mr. Lars Huelsmann joined Unicorn in 2009 as Chief Risk Officer, responsible for managing all business related and operational risks for the Group. Mr. Huelsmann has 15 years of experience in the financial services industry with a strong background in risk management and restructuring/change management. Prior to joining Unicorn, Mr. Huelsmann was a Managing Director at Dresdner Kleinwort Investment Bank in London where he successfully implemented the Advanced Internal Rating Based approach (AIRB) of Basel II worldwide. Before leaving Germany for London, Mr. Huelsmann advised European clients as a Strategy Consultant at Accenture (Munich) where he gained experience in business modeling, outsourcing and process optimisation across the financial services industry. Mr. Huelsmann began his career in 1995 as a graduate trainee in the corporate banking division (risk management) of HypoVereinsbank AG based in Munich, Germany. He ended his tenure at HVB in 2001, at which point he held the position of Team Head, Financial Institutions and Process Management in International Markets, Investment Banking Division. Mr. Huelsmann holds a Masters degree in Business Economics from the Ludwig-Maximillian University, Munich.

SEBNEM KALYONCUOGLU
Chief Executive Officer and General Manager, Unicorn Capital Menkul Değerler A.Ş. (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 an MSc in Finance from the London School of Economics and a BSc in Management from Bogaziçi University in Turkey.

PATRICK VAN SURELL
Acting Chief Executive Officer, Unicorn Capital Saudi Arabia and 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 Bachelor's degree in Law and a MA in Business and Tax Law, both from the University Pantheon Sorbonne, Paris.

AHMED ABDULRAHMAN
Head of Private Equity - GCC

Mr. Ahmed Abdulrahman joined Unicorn's Private Equity division in 2005 and is currently Head of Private Equity – GCC, responsible for sourcing, structuring and closing private equity transactions in the Middle East, with a focus on the GCC, the Levant and Turkey. Mr. Abdulrahman has been actively involved in many of Unicorn's high profile private equity transactions and is the Chairman of the Investment Committee of the Unicorn Global Private Equity Fund I, a US$100 million fund that has acquired stakes in seven companies in the US, GCC and Jordan. He also leads Unicorn's regional oil & gas services platform and is the Chairman of the holding company. Prior to joining Unicorn, Mr. Abdulrahman was a Relationship Manager in the Corporate/Project Finance Division of Ahli United Bank where his main responsibilities included sourcing large scale financing transactions, preparing credit applications to finance projects, conducting full scale feasibility studies including financial modeling and managing all related requirements for clients. Mr. Abdulrahman started his career in 2002 as a Research Associate in the Financial Services Department at BDO Jawad Habib and subsequently as a Relationship Manager in the Corporate Finance/Venture Capital Department of Kuwait Finance House (Bahrain). During his time at Kuwait Finance House, Mr. Abdulrahman successfully created and managed over 80 accredited corporate accounts with a total exposure exceeding BD50 million in the form of Murabaha, Ijara, Estisna'a, Commodities Murabaha, and Convertible Murabaha. Mr. Abdulrahman holds a Bachelor's degree (with honors) in Business Systems and Information Technology from the University of Northumbria, Newcastle.

MARCO MAURI

Acting Head of Asset Management, Unicorn Capital Saudi Arabia

Mr. Marco Mauri has 11 years of experience in asset management and financial markets, first as an analyst and subsequently as a fund and portfolio manager covering fixed income, currencies and global emerging market equities including MENA. Prior to joining Unicorn, Mr. Mauri worked for a number of European asset managers: for Primegest as fixed income analyst and portfolio manager; for Generali Asset Management; and for ARCA Sgr, co-managing and supervising portfolios investing in Asian and emerging markets and contributing to the development of the equity research framework and capabilities. Mr. Mauri was assistant professor in Microeconomics and International Monetary Economy for seven years at Università Cattolica in Milan, which involved collaborating with the Economic and Finance departments in research activity and seminars on credit derivatives pricing, international financial markets, emerging market economies and Islamic finance. He holds a Bachelor's degree in Banking and Finance from Universita' Cattolica, Milan and received the 'Islamic Finance Qualification' certificate from IFQ Institute (Securities & Investment Institute, London) in 2007.

NICOLAS MARTIN

Managing Director, Strategic Mergers & Acquisitions

Mr. Nicolas Martin joined Unicorn Investment Bank in 2009 as Managing Director, Strategic M&A. Mr. Martin has extensive international experience and throughout his 20 year career has managed some of the largest and most high profile M&A transactions recorded. Prior to joining Unicorn, Mr. Martin was General Manager, Strategic M&A, at Fortis (based in Brussels and Hong Kong). During the three years that he held this position, Mr. Martin coordinated the entire M&A process of Fortis' joint acquisition of ABN AMRO (EUR744 billion), managing a team of 50 to close the transaction. Mr. Martin began his career with ABN AMRO as a director in the bank's Corporate Finance division. During his 15 years at ABN AMRO, he held various positions based in London, Amsterdam and Hong Kong, and was Executive Director, Business Development, prior to leaving the bank in 2004. Between 2004 and 2006, Mr. Martin was a Client Industry Executive at EDS (London). He was responsible for the coverage of key French and Belgian financial institutions, driving financial institutions' business development in EMEA South and heading up the global banking and capital markets group's mandate to develop EDS' future-state strategy. Mr. Martin graduated from the University of Geneva with a BA in Business Administration (1984) and holds an MBA from INSEAD (1989).

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 subcommittee 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 an 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.

ANTOINE TOHME

Head of Information Technology

Mr. Antoine Tohme has over 10 years of 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.

Corporate Governance, Risk Management and Compliance continued

Compensation of the Board of Directors and Executive Management

Of the current 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 annual general meeting. Under the Articles of Association, the total remuneration that the Board of Directors may receive shall not exceed 10 percent of the net profit in any one financial year after allowing for statutory reserves.

For the year ended 31 December 2010, the aggregate compensation (including benefits) for the senior management team was US$7.705 million.

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.

Compliance

Unicorn is committed to meeting the highest levels of ethical standards in all areas of its operations. The Board of Directors of Unicorn was keen to establish a strong and independent Compliance department to assist the Senior Management of the Bank in effectively managing its compliance risk. The Compliance department reports functionally to the Board of Directors and administratively to the CEO, and is responsible for overseeing the Bank's compliance programme. It is responsible solely for compliance-related issues and functions independently from other business activities, including those where the department's independence and objectivity may be compromised. The Compliance department is responsible for the management of compliance risk at the Group level for the Bank and its subsidiaries, and for ensuring that the Group's policies, procedures and operations are in line with all applicable rules and regulations. It also assists Senior Management in educating staff and increasing awareness regarding compliance issues across the Group.

Anti-Money Laundering (AML) and Know Your Customer (KYC)

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

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 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 percent 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 percent 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 percent 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 responsibilities;
- 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).

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 percent 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 percent 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.

> "The Unicorn 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."

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.

Corporate Governance, Risk Management and Compliance continued

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 percent 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.

No PDP awards under the ESOP, ESPP or PRCBESG were made during 2010.

Risk Management

Risk is an inherent part of the Unicorn 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, report and actively manage risks 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 & acquisitions, corporate finance and lending as well capital markets, is identified through the Group's risk management infrastructure. In 2010, the Bank's risk management infrastructure and governance model was significantly enhanced by the setup of specific risk management units for the handling of all risk policies, processes and infrastructures; the analysis of credit, investment and counterparty risk; as well as the monitoring and controlling of exposures on a global basis. Furthermore, local risk teams have been strengthened. This process continues through expansion of the Group's risk management infrastructure.

- **Risk measurement:** The Group measures risk using various rating models for credit, counterparty and investment risks as well as 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 (per business line and country). In addition, individual limits per counterparty or market risks are applied and monitored on a daily basis.

- **Risk reporting:** The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. The information is reported to the Group Asset and Liability Committee (ALCO), the Group Risk Executive Committee (REXCO), the Investment and Post Investment Committee as well as the Audit Committee of the Group on a regular basis.

Group 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. The Group has witnessed tremendous growth in operations and geographic footprint since its formative years, and arising from this growth is the need to adopt a harmonised Group risk architecture and framework. In 2010 the Board approved a revamped Group Risk Management

Framework which establishes the Group risk governance framework covering critical Group entities. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy. The Board has approved a number of supporting risk policies designed to support the framework as well as Basel II compliance efforts.

The year 2010 saw the establishment of the Risk Committee based in Bahrain as the Bank's Group Risk Executive Committee (REXCO) to act as the senior management Group risk oversight authority with all subsidiary Risk and Credit Committees having a reporting line to REXCO. The establishment of REXCO is designed to support effective Group risk oversight and governance across the Group through ensuring harmonisation of Group risk standards, policies and reporting processes. The redesigning of the Group Risk Framework and architecture has brought the Bank in compliance with the group risk governance recommendations of the Basel Committee on Bank Supervision (BCBS) in its "Principles for Enhancing Corporate Governance" guidelines for banking entities with group structures issued in October 2010.

Board of Directors' Oversight of Risk Management

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. As part of the newly established Group Risk Framework, the Audit Committee of the Board took on the additional responsibility for risk management oversight and the committee is now a key part of the risk governance framework and receives periodic Group-wide risk reports from the Chief Risk Officer. To ensure the independence of the Risk Management Function, the Chief Risk Officer (CRO) reports functionally to the Board and administratively to the Chief Executive Officer.

Internal Audit and Independent Review

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 Committee.

Risk Management Department

The Risk Management department is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. Risk Management reports directly to the Board of Directors (via the CRO) and conducts risk assessments of strategic developments, and business area plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. It is responsible for the implementation of the Group's Business Change Implementation Guidelines, which define 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.

To support effective Board risk management oversight after the implementation of the various risk management tools, policies, risk framework and strategy, and the creation of Group risk architecture and infrastructure, the Bank introduced Group risk reporting incorporating investment risk reporting, capital adequacy reporting, operational risk reporting, information security risk reporting, liquidity risk reporting, market risk reporting and credit risk reporting. The Board Audit Committee now receives and deliberates on the Group Risk Report on a quarterly basis.

Corporate Governance, Risk Management and Compliance continued

Group Risk Strategy

In 2010 the Bank developed a Group-level risk management strategy which articulates risk appetite statements, and defines country risk and business line risk management strategies, and which was subsequently approved by the Board in 2010. The Group Risk Management Strategy is designed to outline risk management strategies in response to the articulated business plans and risks. The risk strategy defines risk appetite along five dimensions: risk tolerance, return on equity, business strategy, asset growth and regulatory standing.

The risk strategy establishes limits for individual countries and country exposure limits incorporating a country risk rating model. Countries are clustered into Core Countries (countries in which 80% of Group revenues are generated), Network Countries (mostly peripheral countries) and Extended Countries (where the Bank takes a very opportunistic view but with a very limited business focus). Furthermore, the risk strategy establishes limits for business lines based on multi-dimensional risk management assessments of risks arising from business lines. Implementation of the Group Risk Strategy has improved Group risk management processes in certain respects, including the establishment of country limits, defining a more active role for the Investment Process Office (IPO) run under the Risk Management Function and recommending critical changes to the business strategy. The Risk Strategy will form a critical part of the risk policy framework for the Group and will be continuously reviewed and updated by the Risk Management function.

Basel II Compliance and Internal Capital Adequacy Assessment Plans (ICAAP)

The Bank made great strides in its Basel II compliance efforts in 2010 with the implementation of various critical risk policies, tools, Group Risk Framework and Group Risk Strategy, and the establishment of risk architecture and other critical risk infrastructure. The Bank is now compliant with Pillar 1 of Basel II (Minimum Capital Requirements), Pillar 3 (Market Disclosure) and is now finalising tools and policies for implementing Pillar 2 (Supervisory Review) incorporating the ICAAP. Tools to be implemented to support capital adequacy assessment include a stress testing model which analyses the impact of changes in risk factors on balance sheet components using a stochastic modelling approach. The second tool is a capital adequacy computation tool which will be used for computing capital adequacy ratios and stress testing capital adequacy. To drive its Basel II Agenda, the Bank has in place a Basel II Steering Committee composed of members from critical business and support functions. Reports on the progress and status of Basel II compliance plans are submitted to the CBB on a monthly basis.

Consolidated Financial Statements

For the year ended 31 December 2010

Contents

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

Report on the Consolidated Financial Statements
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 statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, changes in equity, cash flows and restricted investment accounts for the year then ended, notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements
The Bank's 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 and International Financial Reporting Standards and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. 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 our 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, we consider 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 in 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 Bank's 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 consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Matters
We confirm that, in our opinion, proper accounting records have been kept by the Group 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 2010 that might have had a material adverse effect on the business of the Group or on its financial position and that the Bank has complied with the terms of its banking license and has also complied with the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Bank.

Ernst + Young

31 January 2011
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 2010. 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 2010 are in compliance with the rules and principles of Islamic Shari'ah, except the investment in Taj Mall project which the Shari'ah Board advised in a previous resolution to exit as soon as possible.

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) The Shari'ah Board advised the Bank's management that all earnings that have been realised from sources or by means prohibited by rules and principles of Islamic Shari'ah principles shall be disposed off and given to charity under the supervision of the Shari'ah Board.

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

Dr. Aagil Jasim Al-Nashmy

Dr. Abdul Sattar Abu Ghuddah

Dr. Ali Muhyealdin Al- Quradaghi

Sh. Nizam Mohammed Yaqouby

Dr. Mohammed Daud Baker

31 January 2011 G

Consolidated Statement of Financial Position

At 31 December 2010

(Amounts in United States Dollars thousands)

	Notes	31 December 2010	31 December 2009
ASSETS			
Cash and balances with banks	3	**43,943**	135,918
Due from financial and non-financial institutions	4	**301,850**	301,043
Investment securities	5	**122,413**	247,999
Investments in associates and joint ventures	6	**104,745**	151,348
Investment properties	7	**17,706**	29,164
Other assets	8	**8,632**	116,710
Premises and equipment		**7,147**	8,797
Assets held for sale	9	**120,923**	40,622
Goodwill and intangible assets	10	**-**	2,018
TOTAL ASSETS		**727,359**	1,033,619
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial and non-financial institutions	11	**393,980**	521,423
Subordinated Murabaha	12	**51,249**	50,000
Other liabilities	13	**27,696**	24,988
Liabilities relating to assets held for sale		**52,617**	13,556
TOTAL LIABILITIES		**525,542**	609,967
EQUITY			
Share capital	14	**215,578**	215,578
Share premium	15	**141,708**	141,708
Statutory reserve	16	**15,580**	15,580
Fair value reserve		**189**	10,280
Foreign currency translation reserve		**(6,112)**	(6,761)
(Accumulated losses)/retained earnings		**(215,004)**	3,324
Total equity attributable to the shareholders of the parent		**151,939**	379,709
Non-controlling interests		**34,605**	37,321
Non-controlling interests held for sale		**15,273**	6,622
TOTAL EQUITY		**201,817**	423,652
TOTAL LIABILITIES AND EQUITY		**727,359**	1,033,619

The consolidated financial statements were authorised for issue by the Board of Directors on 31 January 2011 and signed on their behalf by:

Yousef Abdullah Al-Shelash
Chairman

Hethloul Saleh Al-Hethloul
Board Member

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	Notes	31 December 2010	31 December 2009
Investment banking fees	17	**8,145**	74,146
Other investment banking income	18	**2,898**	14,266
Investment banking income		**11,043**	88,412
Net expense from financial and non-financial institutions	19	**(5,495)**	(9,327)
Net income from non-banking activities		**-**	21,056
Share of profit/(loss) of associates and joint ventures		**6,788**	(3,662)
Total income		**12,336**	96,479
Operating expenses	20	**(69,299)**	(75,213)
(Loss)/profit before impairments and provisions and fair value movements		**(56,963)**	21,266
Impairments and provisions	21	**(53,936)**	(7,900)
Fair value movements on investment securities	21	**(118,597)**	(8,966)
(Loss)/profit for the year from continuing operations and before tax		**(229,496)**	4,400
Profit from assets held for sale		**-**	1,246
(LOSS)/PROFIT BEFORE TAX		**(229,496)**	5,646
Income tax expense		**-**	(3,411)
NET (LOSS)/PROFIT		**(229,496)**	2,235
Attributable to:			
Shareholders of the parent		**(226,811)**	(5,079)
Non-controlling interests		**(2,685)**	7,003
Non-controlling interests held for sale		**-**	311
		(229,496)	2,235

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	31 December 2010	31 December 2009
Net (loss)/profit	**(229,496)**	2,235
Other comprehensive loss:		
Exchange differences on translating foreign operations	**(294)**	(1,149)
Changes in investment securities fair value	**(1,468)**	(190)
Share of other comprehensive income of associates	**772**	175
Other comprehensive loss for the year	**(990)**	(1,164)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(230,486)**	1,071
Attributable to:		
Shareholders of the parent	**(227,770)**	(6,253)
Non-controlling interests	**(2,716)**	7,013
Non-controlling interests held for sale	**-**	311
	(230,486)	1,071

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	Attributable to the shareholders of the parent							Advances for proposed increase in share capital	Non-controlling interests	Non-controlling interests held for sale	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	(Accumulated losses)/ retained earnings	Total				
Balance at 1 January 2010	**215,578**	**141,708**	**15,580**	**10,280**	**(6,761)**	**3,324**	**379,709**	**-**	**37,321**	**6,622**	**423,652**
Net loss	**-**	**-**	**-**	**-**	**-**	**(226,811)**	**(226,811)**	**-**	**(2,685)**	**-**	**(229,496)**
Other comprehensive (loss)/profit for the year	**-**	**-**	**-**	**(1,608)**	**649**	**-**	**(959)**	**-**	**(31)**	**-**	**(990)**
Transfer from fair value reserve	**-**	**-**	**-**	**(8,483)**	**-**	**8,483**	**-**	**-**	**-**	**-**	**-**
Net movement in non-controlling interests held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,651**	**8,651**
Balance at 31 December 2010	**215,578**	**141,708**	**15,580**	**189**	**(6,112)**	**(215,004)**	**151,939**	**-**	**34,605**	**15,273**	**201,817**
Balance at 1 January 2009	183,740	71,216	15,580	61,765	(5,606)	2,945	329,640	110,059	7,901	6,311	453,911
Net (loss)/income	-	-	-	-	-	(5,079)	(5,079)	-	7,003	311	2,235
Other comprehensive (loss)/profit for the year	-	-	-	(19)	(1,155)	-	(1,174)	-	10	-	(1,164)
Transfer from fair value reserve	-	-	-	(5,458)	-	5,458	-	-	-	-	-
Business combination related movements	-	-	-	(46,008)	-	-	(46,008)	-	-	-	(46,008)
Issuance of additional shares	31,838	95,514	-	-	-	-	127,352	(110,059)	-	-	17,293
Equity transaction costs incurred	-	(25,022)	-	-	-	-	(25,022)	-	-	-	(25,022)
Loss of controlling interests	-	-	-	-	-	-	-	-	(34,742)	-	(34,742)
Non-controlling interests arising on business combination	-	-	-	-	-	-	-	-	57,149	-	57,149
Balance at 31 December 2009	215,578	141,708	15,580	10,280	(6,761)	3,324	379,709	-	37,321	6,622	423,652

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	31 December 2010	31 December 2009
OPERATING ACTIVITIES		
Net (loss)/profit for the year	**(229,496)**	2,235
Adjustments for:		
Gain on sale of investment securities	**(4,874)**	(5,440)
Fair value loss on investment properties	**11,458**	9,374
Impairments and provisions	**48,316**	7,900
Fair value movements on investment securities	**118,597**	8,966
Share of (profit)/loss of associates and joint ventures	**(6,788)**	3,662
Profit from assets held for sale	**-**	(1,246)
Share-based payments	**-**	1,375
Depreciation and amortisation	**2,480**	3,027
Subordinated Murabaha	**1,249**	-
	(59,058)	29,853
Changes in:		
Due from financial and non-financial institutions	**(132,404)**	(3,106)
Other assets	**98,236**	(55,901)
Inventories	**-**	2,869
Due to financial and non-financial institutions	**(127,443)**	119,276
Other liabilities	**(1,702)**	(73,444)
Proceeds from sale of investment securities	**52,879**	62,265
Purchase of investment securities	**(40,610)**	(119,388)
Net cash used in operating activities	**(210,102)**	(37,576)
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(299)**	(8,566)
Disposals of assets held for sale	**7,049**	-
Investment in associates	**-**	(12,527)
Purchase of assets held for sale	**(20,144)**	-
Net cash on disposal of subsidiary	**-**	(89,310)
Acquisition of subsidiaries, net of cash acquired	**-**	111,586
Net cash (used in) from investing activities	**(13,394)**	1,183
FINANCING ACTIVITIES		
Subordinated Murabaha	**-**	50,000
Net cash from financing activities	**-**	50,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(223,496)**	13,607
Foreign currency translation adjustments	**(76)**	74
Cash and cash equivalents at the beginning of the year	**433,855**	420,174
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**210,283**	433,855
Cash and cash equivalents comprise:		
Cash and balances with banks (note 3)	**43,943**	135,918
Due from financial and non-financial institutions	**166,340**	297,937
	210,283	433,855

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

Consolidated Statement of Restricted Investment Accounts

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	At 1 January 2010	Deposit	Gross Income	Wakil Fee	Withdrawals	At 31 December 2010
Wakala contract	**240,132**	**78,929**	**4,931**	**(956)**	**(323,036)**	**-**

	At 1 January 2009	Deposit	Gross Income	Wakil Fee	Withdrawals	At 31 December 2009
Wakala contract	-	240,000	188	(56)	-	240,132

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 revised 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 3rd to 7th floors of Building No. 2304, Road No. 2830, 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 and brokerage services that aim to meet investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers;
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory; and
- developing and managing liquidity products and other treasury products and services.

The Group's Shari'ah Supervisory Board consists of six 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 at 31 December 2010 was 156 (2009: 187).

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.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 31.

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.

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 up to the date of disposal or up to when control ceases to exist, as appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Non-controlling 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 statement of financial position, separately from the parent shareholders' equity. A change in the ownership interest of the subsidiary, without a change in control, is accounted for as an equity transaction. 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.	100%	2004	United States of America ("USA")
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.			
The operations of UIB Inc. were closed in 2010 due to a strategic shift from North America to core regional markets.			
Unicorn International Islamic Bank Malaysia Berhad	100%	2004	Malaysia
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.			
Unicorn Capital Menkul Değerler A.Ş.	91.9%	2007	Turkey
The main activities of Unicorn Capital Menkul Değerler A.Ş. are to provide investment consultancy, asset management, underwriting and brokerage services.			
Unicorn Capital Saudi Arabia	53.4%	2009	Kingdom of Saudi Arabia
Unicorn Capital Saudi Arabia ("UCSA") was granted a certificate of incorporation by the Saudi Arabia Capital Markets Authority in March 2009. Its principal activities are Investment banking.			

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

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. Estimates and judgements are evaluated on the continuous basis, and also based on past experience including expectations of future events. The most significant use of judgments and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

On account of the significant losses incurred during 2010, the Bank anticipates a rights issue targeting a capital increase of US$200 million, consisting of 200 million shares at a price of US$1 per share with expected closing date on 30 June 2011. The rights issue will be conditional on the approval by the shareholders at an extra ordinary general meeting expected to be held by March 2011 and approval from the relevant regulatory authorities.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

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

- For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market price prevailing on the consolidated statement of financial position date.

- For unquoted private equity investments, fair value is determined by reference to recent arm's length market transactions with non related parties, current fair value of another instrument that is substantially the same and other valuation models including but not limited to the net present value of estimated future cash flows. Where the management has decided to shift focus and dispose its unquoted private equity portfolio, fair value is also determined based on indicative offers made to the Bank from the prospective buyers.

- 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.

Impairment of goodwill

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on the 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

New and amended standards and interpretations
The following are amendments in IFRS, IFRIC interpretations and FAS that are relevant to the Group, which became effective in 2010:

Standard	Content	Applicable for financial years beginning on/after
IFRS 2	Share-based payments (Revised) – Cash settled share based transactions	1 January 2010
IFRS 3	Business combinations (Revised)	1 January 2010
IAS 27	Consolidated and Seperate Financial Statements (Amended)	1 January 2010
IFRIC 17	Distributions of non-cash assets to owners	1 January 2010
FAS 23	Consolidation	1 January 2010
FAS 24	Associates	1 January 2010

The adoption of the standards or interpretations is described below:

2.3 Changes in accounting policies and disclosures
IFRS 2 Share-based payments (Revised) - Cash settled share based transactions
The International Accounting Standards Board (IASB) issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The adoption of this amendment did not have a material impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

IFRIC 17 Distributions of non-cash assets to owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of this interpretation did not have a material impact on the financial position or performance of the Group.

Financial Accounting Standard No. 23 Consolidation and Financial Accounting Standard No. 24 Associates
FAS 23 sets out the principles for determining entities that are subject to be included in the consolidated financial statements of a parent and prescribes the accounting for investment in subsidiaries by parent.

FAS 24 sets out the accounting principles for recognising, measuring, presenting and disclosing the investments in associate.

The requirements of FAS 23 and FAS 24 are largely in line with the current policies followed by the Group for accounting of subsidiaries and associates and the adoption of these standards are not expected to have any material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

The adoption of the above amendments did not have a material impact on the financial position or performance of the Group at 31 December 2010.

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. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the consolidated statement of financial position 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. Translation differences on non-monetary items held at fair value through profit or loss are recognised as part of fair value gains or loss and those on non-monetary items classifies as held for sale are included in the fair value reserve in equity.

Group companies

As at the reporting date, the assets and liabilities of subsidiaries, associates and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the consolidated statement of financial position 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 and balances with banks, due from financial and non-financial institutions, investment securities and receivables from clients. Financial liabilities consist of due to financial and non financial institutions, subordinated Murabaha and other liabilities.

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement 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 and non-financial institutions

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)
Financial instruments – initial recognition and subsequent measurement (continued)

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

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 (i.e. initial recognition) as carried at fair value through statement of income. The Group's venture capital ("VC") investments that fall under IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures 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 and IAS 31 are classified as associates.

Investments classified as "carried at fair value through statement of income" are subsequently remeasured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the statement of income as "other investment banking income". The gains and losses are transferred to/from the fair value reserve in the consolidated statement of changes in equity in accordance with AAOIFI.

(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 investments and Sukuk.

Sukuk in this category are those instruments which are intended to be held for an indefinite period of time over the Sukuk's maturity and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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.

Due to financial and non-financial institutions

This represents funds payable to financial and non-financial institutions on the principles of Murabaha and Wakala. The amounts are stated at principal plus accrued cost payable.

Subordinated Murabaha

Subordinated Murabaha are based on the principles of Murabaha contracts and are convertible in to Bank's ordinary shares at a mutually agreed price, at the discretion of the seller. Subordinated Murabaha are initially recognised at the fair value of consideration and are subsequently measured at amortised cost.

De-recognition of financial instruments

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 when:

- the right to receive cash flows from the asset has expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

De-recognition of financial instruments (continued)

- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group 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 statement of financial position 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. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original 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 other comprehensive income.

In the case of Sukuk 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 will stop accruing from the date of impairment. 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.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in profit or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.

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 in the statement of income 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. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses relating to goodwill cannot be reversed for subsequent increases in the recoverable amount in future periods.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

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 statement of financial position 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.

Restricted investment accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

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) arrangement and underwriting fees; (iii) performance fees; and (iv) structuring 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 and non-financial institutions

Income from financial and non-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.

Other investment banking income

Other investment banking income includes dividend income, fair value (write-downs)/gain on investment properties, gain on sale of investment securities, management fees and other income.

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

Expense recognition

Expenses are recognised on the following bases:

Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Bahraini employees are covered under the Social Insurance Organisation ("SIO") 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 due to financial and non-financial institutions

Expense due to financial and non-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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Expense recognition (continued)

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 and non-financial institutions with an original maturity of three months or less.

Investments in associates

The Group's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group 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 statement of financial position at cost plus post acquisition changes in the Group'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 Group 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 Group'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 Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of other comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Distributions received from an associate reduce the carrying amount of investment.

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

Investments in joint venture

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity with another entity that is subject to joint control. The joint venture is accounted for using the equity method of accounting. Under the equity method, the joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The consolidated statement of income reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in the statement of comprehensive income of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income.

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

Profits and losses resulting from transactions with a joint venture are eliminated to the extent of the Group's share in the joint venture.

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 statement of financial position 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Investment properties (continued)

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.

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 acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date through profit and loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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.

Fiduciary assets

The Group provides fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Equity transaction costs

Incremental equity transaction costs are directly attributable to the issue of new shares and are shown in equity as a deduction, from share premium.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Capital Markets and Treasury, Private Equity, Corporate Finance, Asset Management, Strategic Mergers and Acquisitions and other. Additional disclosures about each of these segments are shown in note 32.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Standards issued but not effective

Following are the relevant IFRS that have been issued , to be applied to the Group's financial statements but are not yet mandatory for these consolidated financial statements:

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance.

IAS 32 Financial Instruments: Classification and Measurement

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments Part 1 and 2: Classification and measurement

IFRS 9 was issued by IASB in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets and financial liability. As per IFRS 9, financial assets are required to be classified into two measurement categories: a) measured subsequently at fair value; and b) measured subsequently at amortised cost. An instrument is subsequently measured at amortised cost only if it is a sukuk. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through the statement of income. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through the statement of comprehensive income rather than the statement of income. There is to be no recycling of fair value gains and losses to statement of income.

The classification criteria for financial liabilities contained in IAS 39 move to IFRS9 unchanged and the IAS 39 classification categories of amortised cost and fair value through profit or loss are retained. For a financial liability designated as at fair value through profit or loss using the fair value option, the change in the liability's fair value attributable to changes in the liability's credit risk is recognised directly in other comprehensive income, unless it creates or increases an accounting mismatch. The amount that is recognised in other comprehensive income is not recycled when the liability is settled or extinguished. The meaning of credit risk is clarified to distinguish credit risk from asset-specific performance risk. The cost exemption in IAS 39 for derivative liabilities to be settled by delivery of unquoted equity instruments is eliminated.

Adoption of IFRS 9 is mandatory from 1 January 2013, but earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

3. CASH AND BALANCES WITH BANKS

	2010	2009
Cash on hand	**15**	27
Balances with banks	**43,928**	85,891
Cash in transit	**-**	50,000
	43,943	135,918

4. DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2010	2009
Murabaha receivables	**311,696**	303,124
Less: deferred profits	**(3,232)**	(2,081)
Less: provision (note 21 (h))	**(6,614)**	-
	301,850	301,043
Due from financial institutions	**84,985**	188,465
Due from non-financial institutions	**223,479**	112,578
Provision (note 21 (h))	**(6,614)**	-
	301,850	301,043

Due from financial and non-financial institutions represents Murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2010 was equivalent to an average rate of 4.3% per annum (2009: 2.7% per annum).

5. INVESTMENT SECURITIES

	2010	2009
Carried at fair value through statement of income (note 5.1)	**96,128**	198,109
Available for sale investments at fair value:		
Quoted (note 5.2)	**10,196**	27,734
Unquoted (note 5.2)	**16,089**	22,156
	122,413	247,999

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

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

	31 December 2010					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	**-**	**-**	**-**	**-**	**337**	**337**
Industrial	**-**	**9,234**	**-**	**-**	**80**	**9,314**
Real estate and construction	**-**	**28,585**	**-**	**-**	**5,192**	**33,777**
Technology	**-**	**-**	**19,237**	**-**	**-**	**19,237**
Managed funds	**27,394**	**-**	**-**	**-**	**6,069**	**33,463**
Total	**27,394**	**37,819**	**19,237**	**-**	**11,678**	**96,128**

	31 December 2009					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Agri-business	-	-	-	3,275	-	3,275
Financial services	-	10,007	-	-	280	10,287
Industrial	-	20,009	-	-	-	20,009
Oil and gas	-	12,000	-	-	-	12,000
Media	-	9,013	-	-	-	9,013
Real estate and construction	-	52,493	-	-	6,181	58,674
Technology	-	-	56,812	-	-	56,812
Managed funds	24,369	-	-	-	3,670	28,039
Total	24,369	103,522	56,812	3,275	10,131	198,109

5.2 Available for sale investments comprise:

	31 December 2010			
	Other Middle East	Asia Pacific	Europe	Total
Quoted				
Real estate and construction	**10,196**	**-**	**-**	**10,196**
Unquoted				
Financial services	**1,095**	**5,990**	**-**	**7,085**
Real estate and construction	**6,400**	**-**	**-**	**6,400**
Oil and energy	**-**	**-**	**1,212**	**1,212**
Technology	**-**	**1,392**	**-**	**1,392**
	7,495	**7,382**	**1,212**	**16,089**
Total	**17,691**	**7,382**	**1,212**	**26,285**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

5.2 Available for sale investments comprise: (continued)

	31 December 2009			
	Other Middle East	Asia Pacific	Europe	Total
Quoted				
Financial Services	11,783	-	-	11,783
Real estate and construction	15,951	-	-	15,951
	27,734	-	-	27,734
Unquoted				
Financial services	7,261	96	-	7,357
Government	2,000	-	-	2,000
Real estate and construction	6,400	-	-	6,400
Oil and energy	1,157	-	3,669	4,826
Technology	-	1,573	-	1,573
	16,818	1,669	3,669	22,156
Total	44,552	1,669	3,669	49,890

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	2010	2009
Associates:		
Dawood Islamic Bank Limited	**19,006**	21,804
t'azur B.S.C. (c)	**10,029**	10,800
BFC Group Holdings Ltd.	**96,810**	89,458
	125,845	122,062
Less: impairment on associates	**(21,100)**	-
Total of associates	**104,745**	122,062
Joint venture:		
Victron Inc.	**-**	29,286
Total of associates and joint ventures	**104,745**	151,348

The Bank has a 37.74% (2009: 37.74%) interest in Dawood Islamic Bank Limited, an unlisted Islamic commercial bank in Pakistan.

The Bank has a 25.86% (2009: 25.86%) interest in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain.

The Bank has a 43.36% (2009: 45.28%) interest in BFC Group Holdings Ltd. ("BFC"), (previously known as "Condor Holdings Limited") a company based in the United Arab Emirates. BFC was incorporated to acquire Bahrain Financing Company B.S.C. (c) in Bahrain, Bahrain Exchange Company W.L.L. in Kuwait and EZ Remit in the United Kingdom.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

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

	2010	2009
Assets	**200,792**	349,176
Liabilities	**(82,409)**	(203,652)
Net assets	**118,383**	145,524
Share of the associates revenue and profit/(loss):		
Revenue	**85,546**	1,952
Profit/(loss) for the year	**6,788**	(3,662)

7. INVESTMENT 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 2010 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms.

8. OTHER ASSETS

	2010	2009
Deal related advances	**770**	9,490
Dividend receivable	**2,037**	11,993
Fees and recoverable expenses outstanding from clients	**5,397**	72,514
Prepayments and advances	**2,194**	4,047
Receivable from sale of Investments	**-**	13,765
Other	**3,909**	4,901
	14,307	116,710
Provisions (note 21 (g))	**(5,675)**	-
	8,632	116,710

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

9. ASSETS HELD FOR SALE

On 31 December 2009, the Group entered into a joint venture with a non-related party by disposing of 30% equity interest of UII-Victron Inc. ("UII-Victron") – a company that holds 80% equity interest in Victron Inc. ("Victron"). Victron was accordingly classified as investment in a joint venture under IAS 31.

On 24 February 2010, the Group also entered into a joint venture with a non-related party by disposing of 34.48% equity interest of SW Cayman Carry L.P. – a company that holds 75% equity interest in Sun Well Services Inc.

On 29 November 2010 and 9 December 2010, the Bank acquired an additional 34.48% stake in SW Cayman Carry L.P, and 30% stake in UII-Victron Inc, respectively. The prices were mutually agreed between the joint venture parties. The acquisitions did not have any impact on the profit from assets held for sale for the year ended 31 December 2010 as the acquisition occurred close to 31 December 2010.

The Bank is committed to selling the assets and these are being actively marketed at a reasonable price. Additionally an active program to locate buyers has also been initiated. Accordingly the Bank has classified these assets as held for sale as per IFRS 5.

		2010	
	Total assets	**Total liabilities**	**Non-controlling interests**
Victron Inc.	**70,499**	**33,675**	**9,074**
Sun Well Services Inc.	**50,424**	**18,942**	**6,199**
	120,923	**52,617**	**15,273**

		2009	
	Total assets	Total liabilities	Non-controlling interests
Sun Well Services Inc.	40,622	13,556	6,622
	40,622	13,556	6,622

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

10. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets	Total
Cost:			
At 1 January 2010	**2,018**	**-**	**2,018**
Exchange adjustment	**(54)**	**-**	**(54)**
Impairment	**(1,964)**	**-**	**(1,964)**
At 31 December 2010	**-**	**-**	**-**
Net book value:			
At 1 January 2010	**2,018**	**-**	**2,018**
At 31 December 2010	**-**	**-**	**-**
Cost:			
At 1 January 2009	44,586	8,530	53,116
Additions due to acquisition of subsidiary	69,569	-	69,569
Disposals due to deconsolidation of subsidiaries	(112,167)	(8,530)	(120,697)
Exchange adjustment	30	-	30
At 31 December 2009	2,018	-	2,018
Amortisation:			
At 1 January 2009	-	(663)	(663)
Amortisation charge for the year	-	(663)	(663)
Disposal due to deconsolidation	-	1,326	1,326
At 31 December 2009	-	-	-
Net book value:			
At 1 January 2009	44,586	7,867	52,453
At 31 December 2009	2,018	-	2,018

11. DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2010	2009
Due to financial institutions	**298,275**	300,766
Due to non-financial institutions	**95,705**	220,657
	393,980	521,423

Included in due to financial institutions is a 3-year syndicated financing facility of US$125 million which matured on 27 January 2011 and was fully repaid. The profit is payable biannually at a rate of 6 months LIBOR + 170 basis points.

The profit on the remaining due to financial institutions was equivalent to an average of 3.93% per annum (2009: 2.25% per annum).

The profit on due to non-financial institutions was equivalent to an average of 2.85% per annum (2009: 3.88% per annum).

Notes to the Consolidated Financial Statements

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12. SUBORDINATED MURABAHA

During 2009, the Bank obtained a US$50 million facility from a related party which is convertible at the discretion of the related party into ordinary shares of the Bank, by December 2015, at a mutually agreed price and subject to legal and regulatory requirements. The average effective profit rate on the subordinated Murabaha is 6% (2009: 6%).

13. OTHER LIABILITIES

	2010	2009
Accruals and other provisions	**4,852**	1,204
Restructuring provision (note 21 (g))	**5,036**	-
Deal-related payables	**8,331**	10,672
Staff-related payables	**4,562**	4,256
Trade and other payables	**4,915**	8,856
	27,696	24,988

14. SHARE CAPITAL

	2010	2009
Authorised:		
750,000,000 ordinary shares of US$1 each	**750,000**	750,000
Issued and fully paid:		
185,819,019 (2009: 185,819,019) ordinary shares of US$1 each, issued against cash	**185,819**	185,819
27,819,966 (2009: 27,819,966) ordinary shares of US$1 each, issued in kind	**27,820**	27,820
1,938,994 (2009: 1,938,994) ordinary shares of US$1 each, granted to employees	**1,939**	1,939
	215,578	215,578

	No. of shares (thousands)	Nominal Value
At 1 January 2009	183,740	183,740
Issued during the year:		
in cash	27,514	27,514
in kind	4,324	4,324
At 31 December 2009	215,578	215,578
At 1 January 2010	**215,578**	215,578
Issued during the year	**-**	-
At 31 December 2010	**215,578**	215,578

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(Amounts in United States Dollars thousands)

15. SHARE PREMIUM

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

16. STATUTORY RESERVE

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. No transfer was made during the year as the Bank incurred a loss.

17. INVESTMENT BANKING FEES

	2010	2009
Advisory and placement fees	**3,801**	66,547
Arrangement and underwriting fees	**4,072**	7,532
Structuring and performance fees	**272**	67
	8,145	74,146

18. OTHER INVESTMENT BANKING INCOME

	2010	2009
Dividend income	**1,149**	12,910
Fair value loss on investment properties	**(11,458)**	(9,374)
Gain on sale of investment securities, net	**4,874**	5,440
Management fees	**3,277**	3,387
Other income	**5,056**	1,903
	2,898	14,266

19. NET EXPENSE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2010	2009
Income on due from financial and non-financial institutions	**14,690**	7,680
Expense on due to financial and non-financial institutions	**(20,185)**	(17,007)
	(5,495)	(9,327)

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20. OPERATING EXPENSES

	2010	2009
Advertising	**(607)**	(763)
Business development	**(4,297)**	(4,888)
Depreciation and amortisation	**(2,480)**	(2,106)
General and administrative	**(4,804)**	(5,081)
Legal and professional	**(10,192)**	(7,234)
Premises	**(3,216)**	(3,840)
Staff costs	**(41,173)**	(47,927)
Other	**(2,530)**	(3,374)
	(69,299)	(75,213)

21. FAIR VALUE MOVEMENTS, IMPAIRMENTS AND PROVISIONS

	Note	2010	2009
North America private equity portfolio	21 (a)	**(55,855)**	-
Fair value losses on reassessment	21 (b)	**(29,902)**	-
Other fair value losses	21 (c)	**(32,840)**	(8,966)
Fair value movements on investment securities		**(118,597)**	(8,966)
Available for sale investment	21 (d)	**(11,822)**	(2,900)
Investment in associates	21 (e)	**(21,100)**	-
Goodwill	21 (f)	**(1,964)**	-
Impairments		**(34,886)**	(2,900)
Others	21 (g)	**(12,436)**	(5,000)
Due from non-financial institutions	21 (h)	**(6,614)**	-
Provisions		**(19,050)**	(5,000)
Total impairments and provisions		**(53,936)**	(7,900)

21 (a) In 2010, the Bank decided to shift focus from North America to core regional markets and as a result the Bank is currently negotiating the disposal terms with potential buyers. Consequently, these assets have been valued at indicative third party offer prices as opposed to the past valuations where the timeline for disposal was longer in the future.

21 (b) The Bank's management has revised the basis for determining fair value for its real estate based investment. This investment was earlier valued applying valuation models on future cash flows basis as previously the Group's policy was to value its investments on the basis of quoted price only if there was an active market. During the current year, the fair valuation has been determined based solely on the quoted market price.

21 (c) Following the adverse performance and future business outlook in 2010 for various private equity investments carried at fair value through profit and loss based in the GCC, Europe and Asia Pacific regions the Group's management has recognised fair value losses of US$32.84 million (31 December 2009: US$8.9 million).

21 (d) The impairment losses on available for sale investments is primarily based on the quoted market prices.

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21. FAIR VALUE MOVEMENTS, IMPAIRMENTS AND PROVISIONS (continued)

21 (e) The Bank's management has significantly revised its future strategy for certain of its investments and as a result reassessed the recoverable amount of its associates and compared with its carrying amount. Resultantly, impairment losses of US$21.1 million (31 December 2009: Nil) have been recognised.

21 (f) An impairment loss of US$1.96 million (31 December 2009: Nil) has been recognised pertaining to goodwill for Unicorn Capital Menkul Degerler A.S based in Europe, as the management believes that the carrying amount is greater than the value in use and the fair value less cost to sell and on account of significantly reduced operations of the subsidiary in Europe.

21 (g) Others include accruals for obligations that management believe require outflow of resources and restructuring provision on account of the Board approved restructuring program to address downsizing of the Bank's resources, organization and management structure.

21 (h) The Bank's management has recognised a provision in respect of unsecured balances amounting to US$6.6 million due from non-financial institutions since the balance is past due and the counter parties have not honoured the repayments. The Group has initiated the process of filing a legal case against the counter parties.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments

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

Fair value of quoted securities are derived from quoted market prices in active markets, if available. In case of unquoted securities, the fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The fair values of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities				
Investment securities carried at fair value through statement of income	**28,340**	**33,462**	**34,326**	**96,128**
Investment securities designated as available for sale				
Quoted	**10,196**	**-**	**-**	**10,196**
Unquoted	**-**	**13,602**	**2,487**	**16,089**
	38,536	**47,064**	**36,813**	**122,413**

31 December 2009	Level 1	Level 2	Level 3	Total
Investment securities				
Investment securities carried at fair value through statement of income	280	91,869	105,960	198,109
Investment securities designated as available for sale				
Quoted	27,734	-	-	27,734
Unquoted	-	13,226	8,930	22,156
	28,014	105,095	114,890	247,999

Movements in level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2010	**Total losses recorded in profit or loss**	**Total losses recorded in equity**	**Purchases**	**Sales/ transfers**	**At 31 December 2010**
Investments carried at fair value through statement of income	**105,960**	**(66,759)**	**-**	**5,000**	**(9,875)**	**34,326**
Investment securities designated as available for sale - Unquoted	**8,930**	**(3,375)**	**(181)**	**-**	**(2,887)**	**2,487**
Total level 3 financial assets	**114,890**	**(70,134)**	**(181)**	**5,000**	**(12,762)**	**36,813**

	At 1 January 2009	Total gains/ (losses) recorded in profit or loss	Total gains recorded in equity	Purchases	Sales/ transfers	At 31 December 2009
Investments carried at fair value through statement of income	207,099	2,334	-	14,742	(118,215)	105,960
Investment securities designated as available for sale - Unquoted	10,205	(2,900)	11	1,614	-	8,930
Total level 3 financial assets	217,304	(566)	11	16,356	(118,215)	114,890

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22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Gains or losses on level 3 financial instruments included in profit or loss comprise:

31 December 2010	Realised losses	Unrealised losses	Total
Total losses included in profit or loss for the year	**(1,373)**	**(68,761)**	**(70,134)**

31 December 2009	Realised losses	Unrealised gains	Total
Total (losses)/gains included in profit or loss for the year	(1,986)	1,420	(566)

Transfers between level 1, level 2 and level 3

No financial assets were transferred from level 1 to level 2 or level 1 and level 2 to level 3 during the year ended 31 December 2010. However, as described in note 21 (b) the Bank's management has reassessed the basis for determining fair value for a real estate based investment and as a result an investment carried at US$27.9 million was transferred from level 2 to level 1.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on fair value of level 3 financial instruments of using reasonably possible alternative assumptions by class of instrument:

For investment securities the Bank adjusted the discount rate ±1% and carrying values ±5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2010		
Investment securities		
Investment securities carried at fair value through statement of income	**34,326**	**1,690**
31 December 2009		
Investment securities		
Investment securities carried at fair value through statement of income	105,960	7,847

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2010		
Investment securities designated as available for sale - Unquoted	**2,487**	**124**
31 December 2009		
Investment securities designated as available for sale - Unquoted	8,930	447

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23. ASSETS UNDER MANAGEMENT

	2010	2009
Proprietary	**67,126**	101,175
Clients	**203,460**	287,406
	270,586	388,581

Proprietary assets are included in the consolidated statement of financial position 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 statement of financial position.

24. COMMITMENT, GUARANTEES AND OTHER CONTINGENCIES

	2010	2009
Investment-related	**1,137**	24,493
Lease commitments	**3,381**	5,195
Commitments	**4,518**	29,688
Guarantees	**3,357**	3,863
Total commitments and guarantees	**7,875**	33,551

Other Contingencies:

In August 2010, the Board of Directors unanimously resolved to terminate the former Chief Executive Officer and Managing Director ("CEO/MD") from his duties due to a number of alleged irregularities observed in the operations of the Bank during 2010 and 2009. The Board engaged an independent firm to investigate and report on the alleged irregularities and to estimate the financial impact thereof. This report has been submitted to the General Prosecutor in the Kingdom of Bahrain. The Bank has initiated legal action against the former CEO/MD. In view of the results of the original investigation contained in the report submitted to the General Prosecutor, and on advice of the Bank's legal counsel, the Bank is confident that damages will be awarded to the Bank. Further investigation relating to prior periods is currently in progress.

Employment claims against the Bank have been filed by former Bank employees. Based on the advice received by the Bank from its external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsel has also confirmed that the Bank has strong grounds to successfully defend itself against the claims. Accordingly, no provision for these claims has been made in the consolidated financial statements. No further disclosures regarding contingent liabilities arising from any of the employment claims are being made by the Bank as the Directors of the Bank believe that such disclosures may be prejudicial to the position of the Bank.

25. 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.

	2010	2009
Short term employee benefits	**7,110**	13,706
Post employment benefits	**595**	536
Share-based payments	**-**	1,220
	7,705	15,462

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25. 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 and where considered appropriate, by the Bank's Board of Directors.

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.

	2010			2009		
	Shareholders/ Directors	Senior management	Other entities	Shareholders/ Directors	Senior management	Other entities
Assets						
Due from financial and non-financial institutions	-	-	26,812	-	-	85,304
Investment securities	-	-	84,385	-	-	143,399
Investments in associates and joint venture	-	-	104,745	-	-	151,348
Other assets	-	277	3,861	-	110	81,053
Assets held for sale	-	-	120,923	-	-	40,622
Liabilities						
Due to financial and non-financial institutions	-	-	47,066	-	-	47,422
Subordinated Murabaha	-	-	51,249	-	-	50,000
Other liabilities	1,566	2,390	3,692	1,040	1,032	8,242
Liabilities held for sale	-	-	52,617	-	-	13,556
Shareholders' equity						
Equity transaction costs	-	-	-	10,953	6,780	-
Statement of income						
Investment banking fees	-	-	2,097	-	-	69,647
Other investment banking income	-	-	5,071	-	-	12,447
Net (expense)/income from financial and non-financial institutions	-	-	(3,039)	-	-	188
Impairments and provisions	-	-	(39,218)	-	-	(5,000)
Share of profit/(loss) of associates	-	-	6,788	-	-	(3,662)
Victron Inc. expenses	-	-	-	-	-	(359)
Fair value movements on investment securities	-	-	(66,445)	-	-	12,701
Fair value loss on investment-related receivables	-	-	(10,000)	-	-	(10,000)
Directors' and Shari'ah board remuneration and expenses	(712)	-	(421)	(656)	-	(409)

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

The Bank and another related party entity mutually agreed to cancel investment banking fee mandates due to the Bank amounting to USD 30 million (31 December 2009: Nil), as the Management are of the view that the services under these mandates were not provided by the Bank during 2010. This cancellation was ratified by the Bank's Board of Directors.

In 2010, the Bank released a related party from its undertaking to reimburse the Bank for potential losses to be incurred on the sale of one of its quoted investments.

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26. 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 operations 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.

- 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. In 2010, Risk Management infrastructure was enhanced by the establishment of risk management function for the handling of all risk policies, processes and infrastructures; the analysis of credit, investment and counterparty risk as well as the monitoring and controlling of exposures on a global basis.

- 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 respective limits and the Group's activities 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 Group Asset and Liability Committee (ALCO) and the Group Risk Executive Committee (REXCO) of the Group on a regular basis.

Group 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. In 2010 the Board approved an enhanced Group Risk Management Framework that addresses risk governance at the Group level. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy.

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.

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.

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.

REXCO 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.

Internal Audit and Independent Review
All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines 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 Committee.

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26. RISK MANAGEMENT (continued)

Group Asset and Liability Committee (ALCO)

The Group 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 statement of financial position 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.

Risk Management

The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. Risk Management reports directly to the Board of Directors and conducts risk assessments of strategic developments, and business area plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services.. Risk Management is 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 Activities

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.

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.

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post acquisition risk management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction. Periodic reviews of investments are undertaken and presented to the Investment and Post Investment Management Committee for review.

27. CREDIT RISK

Credit Risk Policy Framework

In 2010, the Bank implemented a new Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

In order to strengthen the Bank's credit risk management processes through a rigorous analysis of the credit worthiness of both current and potential obligors, the Bank introduced an Internal Credit Rating Model covering corporate entities, counterparties and real estate exposures.

Credit Risk Management

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. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activities and other client groups in close cooperation with Risk Management and proposes limits for review and approval by REXCO. Further, Risk Management is independently analyzing the applications and is rating the respective counterparties. Based on this an independent recommendation is forwarded to the REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

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27. CREDIT RISK (continued)

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

	Gross maximum exposure 2010	Gross maximum exposure 2009
Balances with banks	**43,928**	135,891
Due from financial and non-financial institutions	**301,850**	301,043
Investment securities	**13,485**	25,661
Other assets	**3,224**	99,912
Total	**362,487**	562,507
Guarantees	**3,357**	3,863
Total credit risk exposure	**365,844**	566,370

Risk Exposure Concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the 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.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2010 was US$ 60.9 million (2009: US$84.9 million), relating to "due from financial and non-financial institutions".

Geographical Exposure Distribution

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

	Banks & financial institutions 2010	**Others 2010**	**Total 2010**
Bahrain	**29,981**	**15,046**	**45,027**
Other Middle East	**26,012**	**204,435**	**230,447**
North America	**28,319**	**3,842**	**32,161**
Asia Pacific	**43,377**	**4,670**	**48,047**
Europe	**10,042**	**120**	**10,162**
Total	**137,731**	**228,113**	**365,844**

	Banks & financial institutions 2009	Others 2009	Total 2009
Bahrain	160,746	17,929	178,675
Other Middle East	89,684	111,501	201,185
North America	113,774	3,043	116,817
Asia Pacific	60,361	4,491	64,852
Europe	4,698	143	4,841
Total	429,263	137,107	566,370

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27. CREDIT RISK (continued)

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

	Assets	Off-statement of financial position	Total 2010	Total 2009
Industry Sector				
Banking and finance	**137,374**	**357**	**137,731**	428,203
Industrial	**1,406**	**-**	**1,406**	5,445
Real estate and construction	**120,831**	**-**	**120,831**	91,468
Technology	**842**	**3,000**	**3,842**	3,000
In-house funds	**283**	**-**	**283**	1,060
Trade	**86,988**	**-**	**86,988**	6,015
Government	**-**	**-**	**-**	2,000
Individual	**14,763**	**-**	**14,763**	29,179
Total	**362,487**	**3,357**	**365,844**	566,370

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 did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2010. Following is an analysis of credit quality by class of financial assets:

	2010				
	Neither past due nor impaired	**Past due but not impaired**	**Individually Impaired**	**Impairment/ provisions**	**Total**
Balances with banks	**43,928**	**-**	**-**	**-**	**43,928**
Due from financial and non-financial institutions	**301,592**	**258**	**6,614**	**(6,614)**	**301,850**
Investment securities	**12,390**	**-**	**3,650**	**(2,555)**	**13,485**
Other assets	**3,155**	**69**	**5,675**	**(5,675)**	**3,224**
Guarantees	**3,357**	**-**	**-**	**-**	**3,357**
Total	**364,422**	**327**	**15,939**	**(14,844)**	**365,844**

	2009				
	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Impairment/ provisions	Total
Balances with banks	135,891	-	-	-	135,891
Due from financial and non-financial institutions	301,043	-	-	-	301,043
Investment securities	18,400	-	14,421	(7,160)	25,661
Other assets	80,707	19,205	5,000	(5,000)	99,912
Guarantees	3,863	-	-	-	3,863
Total	539,904	19,205	19,421	(12,160)	566,370

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27. CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

Aging analysis of past due but not impaired by class of financial assets:

	2010			
	Less than 120 days	**Less than 365 days**	**More than 365 days**	**Total**
Other assets	**265**	**62**	**-**	**327**

	2009			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	2,036	12,237	4,932	19,205

28. LIQUIDITY RISK AND FUNDING MANAGEMENT

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

- The Group manages liquidity via its Group Asset and Liability Committee ("ALCO") process.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means 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 statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Analysis of liabilities

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

	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**
At 31 December 2010				
Due to financial and non-financial Institutions	**353,338**	**40,642**	**-**	**393,980**
Subordinated Murabaha	**-**	**1,249**	**50,000**	**51,249**
Other liabilities	**8,697**	**6,006**	**3,232**	**17,935**
Total financial liabilities	**362,035**	**47,897**	**53,232**	**463,164**
Total undiscounted financial liabilities	**364,280**	**50,610**	**65,699**	**480,589**

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28. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of liabilities (continued)

	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2009				
Due to financial and non-financial Institutions	214,493	181,930	125,000	521,423
Subordinated Murabaha	-	-	50,000	50,000
Other liabilities	10,581	4,000	7,407	21,988
Total financial liabilities	225,074	185,930	182,407	593,411
Total undiscounted financial liabilities	226,245	194,240	202,713	623,198

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

	On demand	**3 to 12 months**	**Over 1 year**	**Total**
2010				
Commitments	**1,137**	**1,086**	**2,295**	**4,518**
Guarantees	**3,357**	**-**	**-**	**3,357**
Total	**4,494**	**1,086**	**2,295**	**7,875**
2009				
Commitments	13,551	12,027	4,110	29,688
Guarantees	3,863	-	-	3,863
Total	17,414	12,027	4,110	33,551

29. MARKET RISK MANAGEMENT

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.

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 and non-financial institutions, Investments in Sukuk and due to financial and non-financial institutions.

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29. MARKET RISK MANAGEMENT (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.

	2010			2009		
	Balance	**Change in profit rate (+/-)**	**Effect on net profit (+/-)**	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Due from financial and non-financial institutions	**301,850**	**200**	**3,884**	301,043	200	4,319
Investment in Sukuk	**13,485**	**200**	**270**	15,661	200	313
Liabilities						
Due to financial and non-financial institutions	**393,980**	**200**	**(4,586)**	521,423	200	(8,484)
Total			**(432)**			(3,852)

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 equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

	2010			2009		
Currency	**Exposure (US$ equivalent)**	**Effect on net profit (+/-)**	**Effect on equity (+/-)**	Exposure (US$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	**(12,134)**	**(2,427)**	**-**	462	92	-
Turkish Lira	**8,913**	**-**	**1,783**	10,290	-	2,058
Malaysian Ringgit	**2,981**	**-**	**596**	2,974	-	595
Euro	**48**	**10**	**-**	2,350	470	-
Jordanian Dinar	**214**	**43**	**-**	-	-	-

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 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 Bank.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2010) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$ 14.419 million and US$ 3.943 million, respectively (2009: US$29.717 million and US$5.134 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.

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29. MARKET RISK MANAGEMENT (continued)

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.

30. 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 Group uses the Basic Indicator Approach under Basel II for calculating the operational risk capital charge and the operational risk capital charge for 2010 was as follows:

Capital charge for operational risk	2010	2009
Gross Income	17,775	199,136
Average for preceding three years	131,955	162,596
Alpha	15%	15%
Capital charge for operational risk	**19,793**	24,389

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31. 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 2010						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Total
ASSETS							
Cash and balances with banks	43,943	-	-	-	43,943	-	43,943
Due from financial and non financial institutions	67,528	98,812	87,519	30,939	284,798	17,052	301,850
Investment securities	6,404	5,783	9,234	47,159	68,580	53,833	122,413
Investments in associates	-	-	-	-	-	104,745	104,745
Investment properties	-	-	-	-	-	17,706	17,706
Other assets	629	6,910	-	-	7,539	1,093	8,632
Premises and equipment	-	-	-	-	-	7,147	7,147
Assets held for sale	-	120,923	-	-	120,923	-	120,923
Total assets	**118,504**	**232,428**	**96,753**	**78,098**	**525,783**	**201,576**	**727,359**
LIABILITIES							
Due to financial and non-financial institutions	231,947	121,391	40,642	-	393,980	-	393,980
Subordinated Murabaha	-	1,249	-	-	1,249	50,000	51,249
Other liabilities	1,461	7,236	-	11,042	19,739	7,957	27,696
Liabilities held for sale	-	52,617	-	-	52,617	-	52,617
Total liabilities	**233,408**	**182,493**	**40,642**	**11,042**	**467,585**	**57,957**	**525,542**
Net liquidity gap	**(114,904)**	**49,935**	**56,111**	**67,056**	**58,198**	**143,619**	**201,817**
Net cumulative gap	**(114,904)**	**(64,969)**	**(8,858)**	**58,198**	**58,198**	**201,817**	

	31 December 2009						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Total
ASSETS							
Cash and balances with banks	135,918	-	-	-	135,918	-	135,918
Due from financial institutions	149,188	101,979	-	-	251,167	-	251,167
Due from non-banks	-	46,770	-	-	46,770	3,106	49,876
Investment securities	-	-	-	82,494	82,494	165,505	247,999
Investments in associates	-	-	-	-	-	151,348	151,348
Investment properties	-	-	-	-	-	29,164	29,164
Other assets	3,498	93,689	18,512	-	115,699	1,011	116,710
Premises and equipment	-	-	-	-	-	8,797	8,797
Assets held for sale	-	-	-	40,622	40,622	-	40,622
Goodwill and intangible assets	-	-	-	-	-	2,018	2,018
Total assets	288,604	242,438	18,512	123,116	672,670	360,949	1,033,619
LIABILITIES							
Due to financial and non-financial institutions	156,954	57,538	140,185	41,746	396,423	125,000	521,423
Subordinated Murabaha	-	-	-	-	-	50,000	50,000
Other liabilities	3,340	7,241	-	7,000	17,581	7,407	24,988
Liabilities held for sale	-	-	-	13,556	13,556	-	13,556
Total liabilities	160,294	64,779	140,185	62,302	427,560	182,407	609,967
Net liquidity gap	128,310	177,659	(121,673)	60,814	245,110	178,542	423,652
Net cumulative gap	128,310	305,969	184,296	245,110	245,110	423,652	

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32. SEGMENT INFORMATION

Operating segments are reported in accordance with the internal reporting provided to the Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on their nature of operations and services and has six reportable operating segments which are as follows:

Capital Markets and Treasury	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. 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.
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 investments on behalf of the Bank's Strategic Acquisition Fund.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

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32. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2010							
	Capital Markets and Treasury	Private Equity	Corporate Finance	Asset Management	SM&A	Other	Elimination	Total
Investment banking income/(loss)	7,862	7,131	272	415	372	(5,009)	-	11,043
Inter-segment income	1,042	634	77	-	-	624	(2,377)	-
Net expense from financial and non-financial institutions	(1,067)	(2,633)	(417)	(524)	(842)	(12)	-	(5,495)
Share of profit of associates and joint ventures	-	4,122	-	-	2,666	-	-	6,788
Total income/(loss)	7,837	9,254	(68)	(109)	2,196	(4,397)	(2,377)	12,336
Total operating expenses	(4,832)	(1,941)	(329)	(2,394)	(4,629)	(55,174)	-	(69,299)
Impairments and provisions	(6,614)	(7,081)	-	(1,964)	(29,408)	(8,869)	-	(53,936)
Fair value movements on investment securities and assets held for sale	(10,000)	(90,857)	(9,857)	(806)	(7,077)	-	-	(118,597)
Net loss	(13,609)	(90,625)	(10,254)	(5,273)	(38,918)	(68,440)	(2,377)	(229,496)
Investment in associates	-	-	-	-	104,745	-	-	104,745
Capital expenditure	-	-	-	-	-	299	-	299
Segment assets	313,141	178,772	9,234	5,855	123,460	96,897	-	727,359
Segment liabilities	127,465	240,709	29,719	37,456	60,233	29,960	-	525,542

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32. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2009							
	Capital Markets and Treasury	Private Equity	Corporate Finance	Asset Management	SM&A	Other	Elimination	Total
Investment banking income/(loss)	68,035	8,721	434	5,145	13,374	(7,297)	-	88,412
Net income from non-banking activities	-	8,233	-	-	12,823	-	-	21,056
Inter-segment income	-	1,757	-	472	-	444	(2,673)	-
Net income/(expense) from financial and non-financial institutions	3,276	(6,851)	(700)	(554)	(4,623)	125	-	(9,327)
Share of loss of associates	-	-	-	-	(3,662)	-	-	(3,662)
Total income/(loss)	71,311	11,860	(266)	5,063	17,912	(6,728)	(2,673)	96,479
Income tax expense	-	(3,099)	-	5	(323)	6	-	(3,411)
Other operating expenses	(1,851)	(6,174)	(1,468)	(5,961)	(5,164)	(54,595)	-	(75,213)
Total operating expenses	(1,851)	(9,273)	(1,468)	(5,956)	(5,487)	(54,589)	-	(78,624)
Impairments	(2,900)	-	-	-	-	(5,000)	-	(7,900)
Fair value movements on investment securities	(10,163)	3,783	(4,500)	939	2,983	(2,008)	-	(8,966)
Profit from assets held for sale	-	1,246	-	-	-	-	-	1,246
Net Profit/(loss)	56,397	7,616	(6,234)	46	15,408	(68,325)	(2,673)	2,235
Investments in associates and joint venture	-	29,285	-	-	122,063	-	-	151,348
Capital expenditure	-	5	-	14	-	8,552	-	8,571
Segment assets	478,572	219,333	19,154	39,679	147,825	129,056	-	1,033,619
Segment liabilities	171,248	202,042	19,259	15,242	127,189	74,987	-	609,967

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32. SEGMENT INFORMATION (continued)

Geographic 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 total income and non-current assets expenditure by geographical segments.

31 December 2010	**Bahrain**	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Total (loss)/income	**(12,775)**	**16,774**	**5,633**	**(538)**	**3,242**	**12,336**
Net loss	**(74,243)**	**(87,261)**	**(52,485)**	**(9,789)**	**(5,718)**	**(229,496)**
Non-current assets	**23,406**	**657**	**19**	**709**	**62**	**24,853**

31 December 2009	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total (loss)/income	(24,617)	106,212	7,416	1,400	6,068	96,479
Net income/(loss)	1,444	(12,281)	13,196	(1,121)	997	2,235
Non-current assets	36,310	809	38	716	2,106	39,979

33. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments as of the consolidated statement of financial position date, other than those stated at amortised cost, approximates to their carrying values.

34. 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.

35. SOCIAL RESPONSIBILITIES

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

36. 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. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2010 was nil (2009: US$0.05 per share).

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37. 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 adequate 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:

	2010	2009
Regulatory capital base:		
Tier 1 capital	**105,294**	295,363
Tier 2 capital	**17,364**	-
Total regulatory capital	**122,658**	295,363
Risk-weighted assets	**903,114**	1,281,160
Tier 1 capital adequacy ratio	**11.66%**	23.05%
Total capital adequacy ratio	**13.58%**	23.05%

Tier 1 capital comprises: share capital; share premium; statutory reserve; foreign currency translation reserve; retained earnings, including current year profit; non-controlling 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 and subordinated Murabaha.