2006
ANNUAL REPORT

Unicorn
Investment Bank

Contents

H.H. Shaikh Khalifa bin Salman Al Khalifa
Prime Minister

H.M. King Hamad bin Isa Al Khalifa
King of Bahrain

H.H. Shaikh Salman bin Hamad Al Khalifa
Crown Prince and Commander-in-Chief of the Bahrain Defence Force

Unicorn Investment Bank (Unicorn) was established in 2004 with the mission to expand the frontiers of Shari'ah-compliant investment banking through a focus on innovation, professionalism and integrity - the shared values that drive the Bank's endeavour to become a leading global provider of Shari'ah-compliant investment banking products and services.

The Bank's integrated business model is built around five core business lines: Private Equity, Corporate Finance, Capital Markets and Treasury, Asset Management and Strategic Mergers and Acquisitions (including Takaful). The Bank leverages its resources and expertise across each of these business lines to provide its clients with investment solutions tailored to meet their specific requirements.

Unicorn's commitment to being a long-term partner to its clients is integral to the Bank's vision. This is demonstrated in this Annual Report, which highlights some of the ways in which Unicorn was able to serve its clients during 2006.


A Shared Vision

Board of Directors

Seated from left to right

Yousef A. Al-Shelash
Chairman and Founding Investor

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

Bader Sulaiman Al-Jarallah
Founding Investor

Abdullatif Abdullah Al-Shalash
Founding Investor

Hethloul Saleh Al-Hethloul
Founding Investor

Standing from left to right

Taher Darwish Makkiyah
Chief Operating Officer

Bader Abdulaziz Kanoo
Founding Investor

Chairman's Message

2006 - Unicorn's second full year of operation - has, by all measures, been a very successful year for the Bank. In addition to announcing record results, Unicorn is pleased to report a number of developments that have significantly enhanced the Bank's ability to achieve its vision of setting new standards of operational and product excellence in Shari'ah-compliant investment banking.

During the course of the year, Unicorn closed a number of landmark transactions, introduced innovative product offerings across its full range of core business lines, further strengthened its management team and widened its geographical presence. I am confident that these developments have positioned the Bank well for future growth and have enhanced its ability to offer clients a sophisticated and integrated range of Shari'ah-compliant investment banking products and services meeting the highest international banking standards.

Unicorn successfully increased its capital by US$115 million in July, and shareholders' equity more than doubled during 2006 to reach US$254.1 million at 31 December 2006. The enhanced capital base will support further growth in the Bank's business divisions and international operations. The capital raising exercise also enabled Unicorn to broaden its shareholder base in the GCC region. In this respect, I take this opportunity to extend my sincere congratulations to the two new members of the Board of Directors: Mr. Ayman Boodai, Chairman and Managing Director of Securities House, Kuwait and Mr. Waleed Al Sharhan, Vice Chairman of Al Safwa Group Holding Company, Kuwait.

At the organisational level, I would like to take this opportunity to highlight three important internal initiatives that were developed in 2006 to safeguard the future growth and security of the Bank. Firstly, emanating from our strong conviction in the significance of the stakeholders' influence on the success of the Bank, the Board of Directors and the General Assembly approved a long-term management incentive scheme (the Partnership Development Programme). This programme is an essential part of the Bank's compensation and retention strategy, providing incentives to eligible employees over a long-term period. It aims to forge a stronger partnership between shareholders and employees, whereby the latter will own 20% of the Bank within five years. The Board of Directors strongly believes that common values and aspirations between the Bank's three stakeholders - shareholders, employees and clients - constitute the platform of success for Unicorn.

Enhanced Capital Base	Employee Equity Participation
Sound Corporate Governance	Effective Risk Management

Secondly, I am pleased to announce the new Corporate Governance Charter which was adopted by the Board of Directors in 2006. This ensures that all Directors of the Bank follow the highest standards of ethical conduct: to do what they say; report results with accuracy and transparency; and maintain full compliance with the laws, rules and regulations that govern the Bank's business. I would like to emphasise that sound governance is one of the Bank's key doctrines. Good corporate governance is not an end in itself, but it facilitates the Bank's capacity to define and achieve its purposes. Unicorn regards its guiding principles to be: Fairness, Transparency, Accountability and Responsibility. The new charter will ensure that these principles are not merely words but are a reality in all day-to-day operations. Accordingly, three functional committees have been established at the Board level: the Board Executive Committee, the Audit Committee and the Nomination & Remuneration Committee. Furthermore, the Bank has adopted comprehensive Anti-Money Laundering Policies and Procedures in accordance with the Central Bank of Bahrain requirements.

Thirdly, it is imperative that the Bank does not overlook the importance of sound corporate disciplines, risk management and due diligence. It is our collective duty to assume these responsibilities by ensuring that Unicorn operates at the very highest international standards. To this end, Unicorn recently established a dedicated Risk Management unit to assess and safeguard all of the Bank's operational, market and credit risks. The Bank has also begun to implement a new core banking system and is bringing greater discipline and vigour to its asset and liability management process.

In closing, I would like to extend my sincere appreciation to all those who have been instrumental to the Bank's success in 2006: the Central Bank of Bahrain for its support and guidance; the Board of Directors and the Shari'ah Supervisory Board for their invaluable counsel; and the Bank's shareholders and clients for their confidence in Unicorn. Last, but certainly not least, the Board of Directors is grateful to Unicorn's valued employees for sharing the vision of the Bank and for working so hard to make it a reality.

Yousef A. Al-Shelash
Chairman

CEO's Message

Unicorn's accomplishments and record financial performance in 2006 are rooted in an entrepreneurial and pioneering spirit, a commitment to product innovation, sustained investment in research and development and growth through acquisition. It is this spirit, and these operating principles, that have guided the Bank's activities since our inception and that will allow us to realise our vision of building a leading global Shari'ah-compliant investment bank, InshaAllah.

I am pleased to report that Unicorn achieved earnings of US$66.9 million in 2006, an increase of 27% from US$52.6 million in 2005. Net profit increased by 27.5%, from US$23.6 million in 2005 to US$30.1 million in 2006. This represents Unicorn's best performance by far since the Bank's inception in May 2004.

During the course of the year, the Bank made significant progress in broadening its activities and successfully undertook a wide variety of transactions in each of its five business lines. The Capital Markets team completed a number of landmark transactions, including two innovative issues. Working in partnership with WestLB, Unicorn closed a US$150 million Musharaka Trust Sukuk for Kuwait's Investment Dar - the first such Sukuk structured with a put option for the investors and a call option for the issuer. Together with Standard Bank and with credit enhancement by the International Finance Corporation, Unicorn also closed a US$23 million securitization issuance on behalf of Kingdom Installment Company of Saudi Arabia.

The Bank's Private Equity team launched a US$150 million fund targeting private equity investments globally. The Private Equity team also closed a number of successful transactions in the GCC region, Jordan and the United States. These included the acquisition of Orimix Concrete Products LLC in Fujairah, UAE; the partnership with the Salfiti family to build an exclusive shopping mall in Amman, Jordan; and Unicorn's acquisition of equity stakes in Ellington Leather and Precision Time in the United States.

The Unicorn Corporate Finance team has been very active since the Bank's inception and is a leader among other business lines in terms of contribution to the Bank's revenue streams. In 2006, Unicorn was awarded several advisory mandates, including structuring and equity raising for clients in Kuwait and Saudi Arabia.

In Asset Management, Unicorn is in the process of successfully exiting its first real estate fund, KSA Real Estate Fund I, and will distribute higher than anticipated returns. Unicorn also launched Gulf Springs, the first pan-GCC real estate fund, with a strategy of partnering with leading local developers and investing in projects across the GCC region.

In Takaful, the Bank has concluded extensive market research, analysis and negotiations as a precursor to establishing a regional Takaful company in 2007. This company will comprise a partnership between major financial institutions and insurance/Takaful companies across the GCC region to offer Non-Life and Family Takaful services on a regional basis.

Record Performance	Transaction Diversification	Tailored Solutions for Clients	Commitment to Growth

The Bank's clients, and the unique, customised services offered to them, are central to Unicorn's business strategy. The Bank's ability to meet its clients' needs and expectations on both sides of the balance sheet differentiates Unicorn from its competitors. On the one hand, the Bank provides investment opportunities for its clients, and on the other hand, the Bank provides an intermediation role in helping its clients to obtain funding through the equity and debt capital markets. This dual role is an integral part of Unicorn's commitment to being a long-term partner and trusted advisor.

In Strategic Mergers and Acquisitions, Unicorn's footprint was expanded through the acquisition of a 22.2% equity stake in Pakistan's First Dawood Islamic Bank, a newly established commercial bank, and the acquisition of a 75% stake in Inter Yatirim Menkul Degerler A.S., a brokerage and asset management company in Turkey. Unicorn also secured a new license at the Dubai International Financial Centre (DIFC). These developments are an important realisation of the Bank's strategy to build its global infrastructure and distribution channels.

As an entrepreneur and Unicorn's Founder, it is immensely gratifying and a great source of pride to me to see the progress that the Bank has made over the past year. As Unicorn continues to grow, it comes ever closer to fulfilling its potential and to giving life to the vision that inspired its establishment. It is similarly gratifying to see the swift progress in the growth, development and sophistication of the Islamic financial services industry as a whole. As one of the highest growth segments in the global financial services industry, Islamic finance is attracting an unprecedented level of interest both within the Islamic world and internationally - a mission that I have long advocated and to which I have dedicated myself for a great many years. The increasing number of regional entrants and global banks embracing Shari'ah-compliant banking clearly attests to growing global demand and the opportunities that so clearly exist. There is no doubt in my mind that going forward, the Islamic Banking industry will continue to achieve new frontiers in terms of product innovation and sophistication and market share.

Unicorn is determined to be at the forefront of this dynamic change in the industry. Indeed, it is the Bank's responsibility towards its shareholders and clients to take full advantage of the opportunities offered and to be in a leadership position of delivering competitive products and innovative solutions. The Bank is also mindful of the need to match the very highest standards set by the global banks: their commitment to innovation; their vigilance in managing risk; their stringent enforcement of sound corporate governance; and their investment in people, research and technology.

As Unicorn marks the close of its third financial year, I look forward to another year of rapid growth, InshaAllah. At Unicorn, we are passionate about Islamic banking, as a belief and a mission, and not simply as another way of doing business. I firmly believe that Unicorn has the entrepreneurial spirit coupled with the will and discipline to be a market leader, with Allah's grace.

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

Financial Review

Summary of Financial Performance

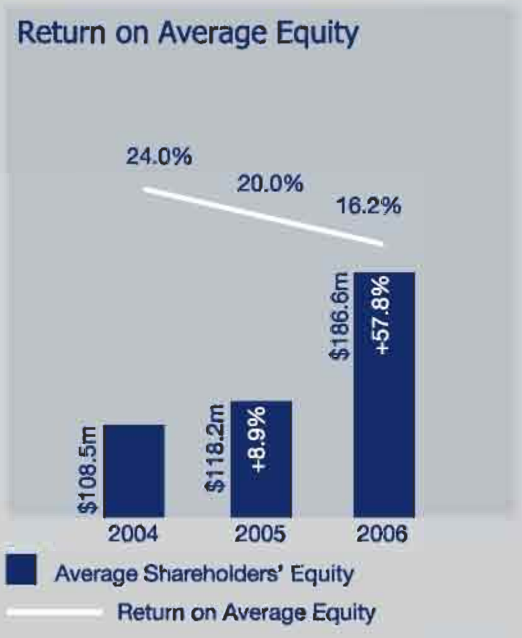
(US$ millions)	**2006**	2005
Advisory & placement fees	**16.36**	16.52
Investment gains	**24.02**	33.02
Income from financial institutions	**6.36**	1.47
Fair value gains	**12.91**	-
Management fees	**1.95**	0.45
Dividend income	**2.17**	0.98
Other income	**3.17**	0.21
Total operating income	**66.94**	52.65
Staff costs	**(24.57)**	(17.23)
Other operating expenses	**(11.64)**	(11.19)
Total operating expenses	**(36.21)**	(28.42)
Board remuneration	**(0.59)**	(0.59)
Net profit	**30.14**	23.64

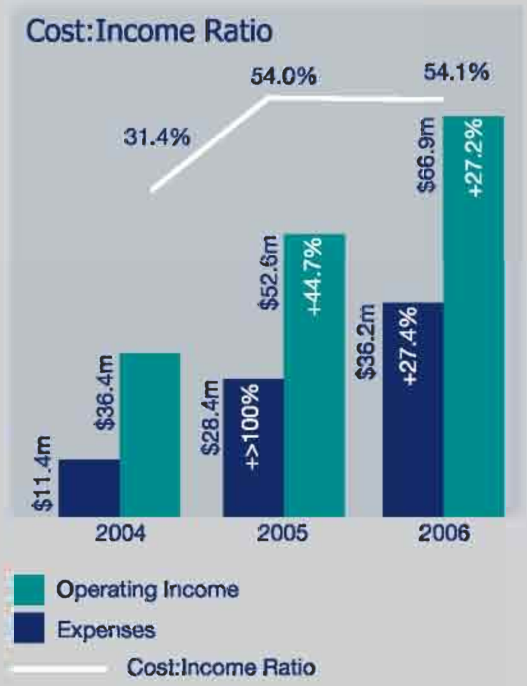
Unicorn Investment Bank produced record results in 2006, marking three years of strong uninterrupted growth since the Bank's inception in 2004. The Bank's deal flow and associated revenue streams began to accelerate in 2006 as Unicorn broadened its business activities and further enhanced its name and reputation in the market. Net profit and earnings per share reached all time highs and the Bank met all of its key 2006 business plan targets.

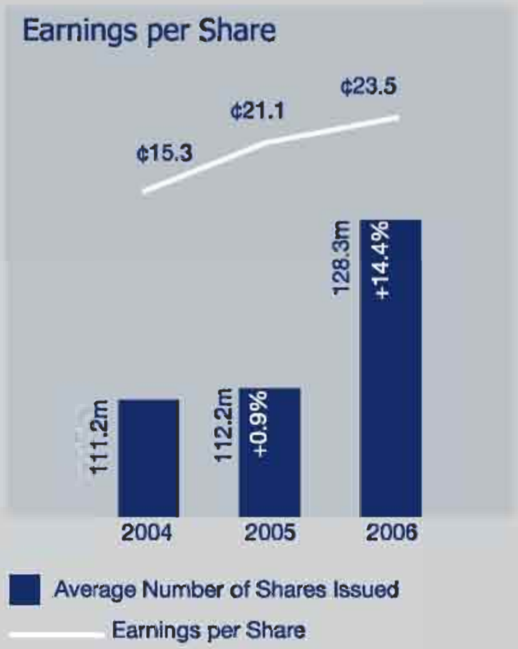
The net profit of US$30.1 million was US$6.5 million or 27.5% higher than 2005. The Private Equity and Capital Markets groups had a particularly good year in 2006.

Operating income grew by US$14.3 million (27.2%), from US$52.6 million to US$66.9 million, driven by strong growth in all business areas. Private equity income increased substantially on the back of successful deals in the Middle East and the United States; capital markets activity was boosted by several innovative Sukuk offerings; corporate finance activity remained robust and several new business mandates were obtained; fund management income benefited from the innovative KSA Real Estate Fund I launched in late 2005 and the Global Private Equity Fund I launched in late 2006; income from financial institutions increased as a result of the deployment of the capital raised during Unicorn's successful pre-IPO private placement; and other income benefited from a substantial increase in dividend income and the receipt of income from non banks. The 2006 results also benefited from the sale of shares that were received in lieu of fee income from one of Unicorn's major clients.

Key Performance Indicators







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

Operating expenses increased by US$7.8 million (27.4%), to US$36.2 million. Staff costs rose by US$7.3 million (42.6%) due to headcount growth and higher performance-related incentive payments. Year-end headcount increased by 32 (45%), rising from 71 to 103. The bulk of the headcount growth occurred in the business line and distribution teams, but Unicorn also strengthened its support teams (principally financial control, legal and risk management) to provide the necessary business support and control infrastructure to meet the substantial growth in the size and the diversity of the Unicorn business. Non-staff costs rose by a relatively modest 4%, despite the substantial growth in business activity. This reflects the strict cost management exercised by Unicorn. The cost:income ratio remained broadly unchanged, at 54.1%, and remains comfortably within the Bank's 50-60% target range.

Balance Sheet Analysis

Selected balance sheet data (US$ millions)	2006	2005
Due from financial institutions	89.80	51.73
Due from non banks	27.88	-
Investment securities	123.46	31.40
Total assets	293.34	149.39
Shareholders' equity	254.07	119.36

Total assets almost doubled during 2006, rising from US$149.4 million at 31 December 2005 to US$293.3 million at 31 December 2006. Placements with financial institutions grew by US$38.1 million, from US$51.7 million to US$89.8 million, reflecting the deployment of the Bank's increased capital. Due from non banks (US$27.9 million) represents a single transaction in the GCC health care sector. Investment securities grew by US$92.1 million, to US$123.5 million, mainly due to private equity investments in the Middle East and strategic investments in other financial institutions.

Shareholders' equity more than doubled during 2006 (to US$254.1 million) following the Bank's successful round of capital raising in July 2006. Earnings per share increased by 2.4 US cents (11.4%), from 21.1 US cents to 23.5 US cents, despite the substantial growth in the average number of shares in issue. The Return on Equity was diluted by the capital raising exercise (average equity increased by 57.8% during 2006), but still reached a very admirable 16.2% in 2006.

Dividend Distribution and Appropriation of Income

The Board of Directors has proposed that a cash dividend of US$0.10 per share (totalling approximately US$15.4 million) be paid in full to all shareholders registered in the Bank's records as of 31 December 2006. This proposal will be submitted for formal approval by the Bank's shareholders at the Annual General Meeting.

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for 2006 (approximately US$3.0 million) will be transferred to the statutory reserve.

In accordance with the AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) accounting standards, the unrealised gain on investments carried at fair value through the statement of income (approximately US$12.9 million) will be transferred to the fair value reserve in shareholders' equity.

Capital Management and Capital Adequacy

Unicorn Investment Bank B.S.C. (c) is a closed shareholding company incorporated in Bahrain and registered as a bank with the Central Bank of Bahrain (CBB). The Bank is headquartered in Bahrain with overseas subsidiaries in the United States, Malaysia, Turkey and the United Arab Emirates. Unicorn also has an associate interest in a bank in Pakistan.

Unicorn is required to comply with the CBB regulatory capital adequacy guidelines. The CBB guidelines are based on the standards established by the Basel Committee on Banking Supervision and the capital adequacy ratio guidelines issued by AAOIFI. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance-sheet exposure.

Unicorn's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of the funding and investment needs of each business line, the placement and sell-down plans of the distribution team and the future sources and uses of Unicorn's funds.

Composition of Capital

(US$ millions)	2006	2005
Tier 1 capital		
Paid-up share capital	154.20	112.88
Reserves	76.41	4.13
Retained earnings	1.15	2.35
Total qualifying Tier 1 capital	231.76	119.36
Tier 2 capital		
Fair value reserve (45%)	10.04	-
Total qualifying Tier 2 capital	10.04	-
Total eligible regulatory capital	241.80	119.36

Regulatory capital increased by US$122.4 million (103%) in 2006, from US$119.4 million to US$241.8 million. Qualifying Tier 1 capital increased by US$112.4 million (94%) to US$231.8 million, reflecting the increase in paid-up share capital and reserves arising from the Bank's capital raising exercise in July 2006. Retained earnings declined slightly (to US$1.1 million) since under the AAOIFI accounting standards, the unrealised investment gains in the 2006 income statement (US$12.9 million) are transferred from 'retained earnings' to the 'fair value reserve'.

Qualifying Tier 2 capital increased by US$10 million, reflecting the portion (namely, 45%) of the 2006 increase in the fair value of investment securities that is eligible for capital adequacy purposes under the CBB guidelines.

Capital Adequacy Ratio

	2006	2005
Total capital adequacy ratio	60%	120%

The 31 December 2006 capital adequacy ratio of 60% leaves the Bank strongly capitalised to support the continued expansion of its business activities in 2007. The capital adequacy ratio is well above the CBB minimum ratio of 12.0%.

The decline in the capital adequacy ratio over 2005, from 120% to 60%, reflects the strong business and asset growth that occurred in 2006, partly offset by the strong growth in shareholders' equity and consequently regulatory capital.

Overview of 2006

2006 was a year of enormous progress for Unicorn and marked the Bank's transition from an industry newcomer to an established investment bank offering a broad range of Shari'ah-compliant investment products and advisory services across five integrated business lines.

Each of the Bank's business lines - Private Equity, Corporate Finance, Capital Markets and Treasury, Asset Management and Strategic Mergers and Acquisitions (including Takaful) - became fully resourced at all levels during the course of the year, and each became an active participant in the market. Unicorn also moved several steps forward in its geographic expansion and growth-through-acquisition strategy, establishing a growing international footprint that now covers the GCC region, Turkey, Malaysia, Pakistan and the United States.

In 2006, the Bank further expanded its international presence through the acquisition of a 22.2% equity stake in Pakistan's First Dawood Islamic Bank, a newly established Shari'ah-compliant commercial bank headquartered in Karachi. Unicorn also acquired a 75% stake, including 100% of the Class A (Management) shares, in the Turkish brokerage and asset management company Inter Yatirim Menkul Degerler A.S. These acquisitions provide strategic footholds for Unicorn in growing markets and will enable the Bank to widen its distribution channels.

In October, the Bank was awarded a banking license by the Dubai Financial Services Authority (DFSA), the financial services regulator in Dubai, and established a new office, UIB Capital Ltd., at the Dubai International Financial Centre (DIFC). The purpose of the Dubai office is twofold: to support the efforts of the Bank's Investment Development and Distribution team; and to serve as a deal originator. In this way, the office will complement and enhance Unicorn's existing regional presence.

During the course of the year, Unicorn also launched a successful round of capital raising, which resulted in a substantial increase in shareholders' equity, up to US$254.1 million for the year ended 31 December 2006. The enhanced capital base will be used to fund the Bank's organic growth strategy and support further international acquisitions, so bringing Unicorn closer to achieving its goal of offering an integrated range of innovative and competitive Shari'ah-compliant investment products and services on a global basis.

2006 also saw a significant increase in the Bank's deal flow, marking Unicorn's transition from a new, 'start-up' enterprise to a more established institution with a proven and growing track record. In Capital Markets and Treasury, notable transactions included the issuance of two landmark corporate Sukuks on behalf of clients in the Kingdom of Saudi Arabia and Kuwait. The Unicorn Private Equity team launched and completed the first close of a US$150 million global private equity fund and entered into strategic private equity investments in the United States, Jordan and the United Arab Emirates (UAE). In Asset Management, Unicorn launched a regional real estate fund to capitalize on opportunities in the thriving regional real estate market, working with leading real estate developers. The Corporate Finance team continued to be a strong revenue generator and was awarded several new corporate advisory mandates from companies located in Kuwait and the Kingdom of Saudi Arabia. Finally, in Takaful, the Bank continued to conduct extensive market research, analysis and negotiations as a precursor to establishing a regional Takaful company comprising a partnership between major financial institutions and insurance/Takaful companies across the GCC region.

First Dawood Islamic Bank
(Pakistan)

22.2% Equity Stake

Unicorn Investment Bank B.S.C. (c)
Strategic M&A Transaction

Inter Yatirim Menkul Degerler A.S.
(Turkey)

75% Equity Stake

Unicorn Investment Bank B.S.C. (c)
Strategic M&A Transaction

KSA MBS I International Sukuk
(with Standard Bank Plc & the International Finance Corporation)

US$23 million
Securitization of Residential Real Estate Assets for Kingdom Installment Company

Unicorn Investment Bank B.S.C. (c)
Arranger, Shari'ah Advisor and Joint Bookrunner

TID Global Sukuk I Limited
(with WestLB)

US$150 million
Sukuk al-Musharaka

Unicorn Investment Bank B.S.C. (c)
Structuring Advisor, Joint Lead Arranger and Shari'ah Advisor

Ellington Leather
(USA)

90% Equity Stake
Private Equity Investment

Unicorn Investment Bank B.S.C. (c)
Private Equity Investor

Gulf Springs

US$53.5 million
Real Estate Fund

Unicorn Investment Bank B.S.C. (c)
Arranger, Investment Manager, Placement Agent and Shari'ah Advisor

Precision Time
(USA)

28.3% Equity Stake
Private Equity Investment

Unicorn Investment Bank B.S.C. (c)
Private Equity Investor

Orimix Concrete Products LLC
(UAE)

55% Equity Stake
Private Equity Investment

Unicorn Investment Bank B.S.C. (c)
Global PE Fund Transaction

Al Tajamouat for Touristic Projects Plc
(Jordan)

42% Equity Stake
Private Equity Investment

Unicorn Investment Bank B.S.C. (c)
Private Equity Investor

Unicorn Global Private Equity Fund I

US$52.5 million
Private Equity Fund

Unicorn Investment Bank B.S.C. (c)
Arranger, Investment Manager, Placement Agent and Shari'ah Advisor

The active participation of each of the Bank's business lines in the market during the course of 2006 was an important realisation of Unicorn's mission to provide the market with an integrated range of innovative and competitive Shari'ah-compliant investment banking products and financial services. It was also a manifestation of the Bank's strategy to engage in client business on both sides of the balance sheet, providing investment opportunities for clients' money as well as sourcing capital and funding in support of their business needs.

Another important development in 2006 was the further strengthening of the Unicorn management team and an increase in headcount to the level that the Bank feels is close to the optimum required to operate effectively and efficiently at this stage in its development. In July, the Bank welcomed David Pace who, as Unicorn's Chief Financial Officer, brings to Unicorn over 30 years of experience in banking and finance, including 17 years with HSBC in the City of London. The Bank also welcomed Jaafar Badwan who was appointed Managing Director of Capital Markets and Treasury in July and who brings to Unicorn over 27 years of experience in treasury and investment banking. September and October saw the addition of Philip Stockburn as Head of Risk Management and Ikbal Daredia as Head of Institutional Banking respectively. Philip has over 28 years of experience in finance and risk management. Ikbal brings to the Bank over 20 years of experience in Islamic banking, including the origination and execution of Shari'ah-compliant cross-border transactions for corporate and sovereign entities.

Unicorn also welcomed a new group of experienced and highly qualified professionals with solid expertise in the areas of Investment Development and Distribution, Legal Affairs, Financial Control and Corporate Communications. These key hires underscore the Bank's continued commitment to attracting the very highest calibre individuals to the institution.

To this end, Unicorn also developed a long-term management incentive scheme (the Partnership Development Programme), whereby 20% of the present and future issued and paid-up share capital of the Bank will be progressively made available to the Bank's employees through a combination of share grants, share options and share purchase plans. The Programme, which will be implemented in 2007, is part of the Bank's compensation and retention strategy, providing incentives to eligible employees over a long-term period. It aims to forge a stronger partnership between shareholders and employees, in keeping with the strong conviction that it is the common values and aspirations between Unicorn's three major stakeholders - shareholders, employees and clients - that constitute the platform of success for the Bank.

Finally, the adoption by the Board of Directors of a new Corporate Governance Charter in 2006 highlights Unicorn's continued commitment to upholding the highest standards of corporate governance. The Corporate Governance Charter is based on the principles of fairness, transparency, accountability and responsibility and ensures that the Bank upholds the highest standards of ethical conduct throughout its operations; that it communicates with clarity, accuracy and transparency; and that it maintains full compliance with Shari'ah and all applicable laws, rules and regulations.

Business Lines

Private Equity

During 2006, Unicorn's Private Equity (PE) team originated and completed strategic private equity investments in both listed and privately owned companies in the United States, Kuwait, the United Arab Emirates and Jordan. The PE team also launched Unicorn Global Private Equity Fund I - the first Shari'ah-compliant global PE fund.

The Global Private Equity Fund I is a five-year closed-end fund that targets well-managed mid-cap companies across consumer products, healthcare, business services and light manufacturing. The Fund seeks to invest in companies with near-term growth potential and annual revenues in excess of US$10 million. Investments will be placed both in and outside the GCC region, with a targeted breakdown of 50% in the GCC, 25% in the Levant area and 25% in the United States and Southeast Asia. The Fund offers investors the opportunity to take advantage of cyclical upturns, while enjoying diversified risk, on a global basis.

The Fund made its first investment in October with the acquisition of a 55% stake in Fujairah-based readymix concrete supplier Orimix Readymix Concrete Products LLC (Orimix). Orimix has been operating in the region since 1989 and has played a vital role in many of the landmark projects undertaken in the Emirate of Fujairah. The investment provides an ideal platform to participate in the growth of the construction sector in the UAE, and Unicorn intends to partner with Orimix's management to further expand the company's reach in the GCC markets.

The PE team also completed an investment in Amman, Jordan, by acquiring 42% of the shares of Al Tajamouat for Touristic Projects Plc (Al Tajamouat). The funds will be used for the development of an exclusive shopping mall in the upscale Abdoun district, west of Amman. Unicorn hopes to establish a strategic presence in Jordan and play a role in contributing to the economic growth of the country.

In the United States, Unicorn's Chicago office, UIB Capital Inc., led the Bank's successful exit from its first private equity transaction, an investment in The Gardens, an assisted living real estate property located in Orange County, California. Unicorn entered into The Gardens investment in November 2004 and exited in December 2006, achieving the targeted Internal Rate of Return (IRR) of 21% per annum. The Chicago office also completed two new private equity investments in 2006: Ellington Leather, an Oregon-based lifestyle bag company; and Precision Time, a leading provider of while-you-wait watch repair services, fashion watches and watch accessories with a presence in 20 states across the United States.

Finally, in Turkey, the Strategic Mergers and Acquisitions and PE teams jointly led the sourcing and acquisition of a 75% stake in the Turkish brokerage and asset management house Inter Yatirim Menkul Degerler A.S. (Inter Yatirim). Inter Yatirim is fully licensed by Turkey's Capital Markets Board to undertake a broad range of activities including brokerage, corporate advisory services, asset management and private equity. Unicorn's acquisition of Inter Yatirim therefore provides the Bank with an important platform to expand the Bank's distribution channels and penetrate the dynamic Turkish market.

Even malls need to shop for buyers

"Unicorn's investment in Al Tajamouat for Touristic Projects Plc, which is helping to fund our development of an exclusive shopping mall in Amman, provides an important boost to our mission of contributing to Jordan's economic growth. It is also clear evidence of the Bank's commitment to Jordan and its confidence in the Kingdom's economy and potential."

Halim Salfiti
Chairman of the Board, Al Tajamouat for Touristic Projects Plc

Corporate Finance

The Unicorn Corporate Finance team offers clients advice on mergers and acquisitions, restructuring, capital and debt raising, placement and financing. In 2006, the team broadened its target market in order to advise a greater number of clients across a wider variety of business sectors.

The strategy was successful and the team was engaged as an advisor by five clients across five different sectors: media, real estate, retail, medical services and oil services. The Bank also focused on taking its advisory services upstream, moving from the predominantly placement work undertaken in 2005 to the restructuring and capital raising advisory work that characterised the 2006 projects. This has enabled Unicorn to build a reputation in the region as a high-end corporate strategy advisor and to further diversify the Bank's sources of income and profit.

Notable mandates in 2006 included Teshkeel Media Group, Gulf Petrochemicals Group, Project Ozco and MS Retail. Teshkeel Media Group (TMG) in Kuwait appointed Unicorn in September 2006 to advise on their high growth expansion strategy and lead their second round of capital raising. This resulted in re-valuing TMG at US$67 million and raising US$18 million to fund the publishing of a range of new comics for the Arabic speaking world. TMG are the exclusive partners for Marvel Entertainment, Archie Comics and DC Comics in the Middle East and have also launched their own award-winning series, 'The 99', incorporating the world's first group of superheroes based on Islamic culture. TMG intends to create value through franchising the property rights to the series' characters to satellite channels, movie producers and toy makers.

Unicorn is also currently advising the Gulf Petrochemicals Group in Kuwait. This is a newly established, fully integrated oil services group providing oil transportation, oil storage and oil procurement. Unicorn is responsible for the equity placement and strategic advisory work, including strategic counsel on the business strategy and the recruitment of key executives and a professional management team.

Unicorn is also the advisor on Project Ozco, a US$180 million real estate project establishing four five-star hotels in key locations in Saudi Arabia: two in Mekkah, one in Riyadh and one in Jeddah. Unicorn will act as the placement agent for the company to raise US$115 million via a mixture of equity and debt in 2007.

Unicorn is also the lead advisor to the Kuwaiti company MS Retail that is seeking to develop a chain of children's retail stores across the GCC. Along with Rolland Berger, one of Europe's leading strategy consultants, the Unicorn Corporate Finance team has concluded a strategy formulation and business model validation assignment on behalf of the company. The team has also succeeded in obtaining a debt package for MS Retail from one of Kuwait's leading banks and is advising on the selection of the senior management team. The company has further mandated Unicorn to lead the capital raise of US$100 million, and the Bank expects to launch the private placement in the first half of 2007.

Even superheroes need someone to believe in them

"Unicorn's belief in our vision and our award-winning concept is helping us to give life to 'The 99' superheroes. By supporting our capital raising requirements, the Bank is a partner in our mission to provide the world with new superheroes."

Naif Al-Mutawa
CEO, Teshkeel Media Group

Capital Markets and Treasury

The Unicorn Capital Markets and Treasury team continues to strengthen its foothold in the regional and international Islamic financial markets. In 2006, the team closed two landmark Sukuk issues, highlighting the Bank's ability to structure, lead, and place innovative debt structuring and securitization transactions to the highest global market practice standards.

Unicorn is fortunate to be at the confluence of very strong economic growth in the GCC region and growing demand for Islamic capital market products on the part of both issuers and investors. The combined experience and expertise of the Unicorn Capital Markets and Treasury team make the Bank well placed to take advantage of these developments. At the same time, Unicorn is selective in the transactions that it pursues in order to ensure success while also making a positive impact on the overall development of the Islamic capital markets.

In July, the team completed a securitization transaction on behalf of Saudi Arabia's Kingdom Installment Company (KIC). Unicorn acted as lead manager, Shari'ah advisor and joint bookrunner in partnership with Standard Bank. This was the first true-sale securitization in the GCC and was backed by US$23 million Ijara and Istisna contracts, providing a vital, off-balance-sheet alternative source of funding to KIC as well as a Shari'ah-compliant, fixed-income investment product (similar to a mortgage-backed security) to GCC and international capital markets investors. The issue was the first of a series expected from KIC to enable the company to meet the huge demand for housing finance in the Kingdom of Saudi Arabia.

In September, Unicorn successfully closed an innovative US$150 million Musharaka Trust Sukuk issued on behalf of Investment Dar (TID) in Kuwait. Unicorn and WestLB were the joint lead managers for the transaction, with Unicorn also serving as the sole structuring agent and Shari'ah advisor. The TID Sukuk marked the first Musharaka Sukuk structured with a put option for investors and a call option for the issuer. The put option allows each investor to exit the transaction at year three, while the call option allows the issuer the same flexibility at the same date. The majority of investors came from Europe and Southeast Asia, with a small portion from the GCC region, so fulfilling the request of the client to broaden their funding sources. Unicorn also acted as Listing Sponsor for the issuer to list the Sukuk on the Dubai International Financial Exchange (DIFX), the growing regional securities exchange.

In treasury activities, the team initiated a major strategic shift in its role. This shift will be completed in 2007 and will allow the Bank's treasury team to play a key role in servicing corporate clients and producing investment products, in addition to managing the Bank's own liquidity and funding needs.

Forming partnerships to expand the frontiers of Islamic finance

"The innovative structure, impressive list of participants and clear success of TID Global Sukuk I attest to the ability of Unicorn to deliver on Investment Dar's capital markets needs. The provision of Islamic financing at global market standards such as by Unicorn facilitates our ability to achieve our corporate mission, to compete globally and ultimately to provide shareholders with strong returns."

Adnan Abdul Qader Al-Musallam
Chairman and Managing Director, Investment Dar Company

Asset Management

The significant increase in private wealth in the Middle East coupled with the demand for Shari'ah-compliant investment opportunities has created a growing requirement for well-managed Shari'ah-compliant funds. Unicorn's Asset Management team is committed to providing an innovative and diversified range of products to meet this demand and to being a pioneer in Shari'ah-compliant fund development.

The Bank's objective is to provide rewarding investment opportunities in the income and equity sectors while managing risk and exposure so as to cushion investors against potential market volatility.

In May, Unicorn launched the Gulf Springs Real Estate Fund (Gulf Springs), an innovative real estate fund drawing upon the experience and expertise of well-established real estate companies in the Gulf region, including Dar Al-Arkan Real Estate Development Company (Saudi Arabia) and Aqar Real Estate Development and Investment Company (Kuwait), in partnership with RSP Jones Lang LaSalle.

The strategy of the Fund is to embrace a mix of real estate projects and sectors across the GCC region in order to diversify income generation and ensure a complementary asset allocation across all investments. Eighty percent of asset allocation will be made within the GCC region to include low to middle income residential developments in Saudi Arabia; office and residential developments in Bahrain; and retail space, malls and office developments in Kuwait. Twenty percent of the Fund may be allocated outside the GCC, within the MENA region.

Gulf Springs will be an actively managed, three-year, closed-end fund, with funds allocated to capture market opportunities driven by strong demographics and business demand rather than speculation. For example, the Fund's investments in residential projects in Saudi Arabia will seek to capitalise on the opportunities created by rapidly shifting demographic trends and the consequent dramatic demand for new homes. Investments in dynamic Saudi residential projects are still closed to non-Saudi nationals, but the innovative structure of Gulf Springs - pioneered by Unicorn for its KSA Real Estate Fund I in 2005 - enables non-Saudis to invest. The anticipated Internal Rate of Return (IRR) of the Fund is 18% per annum.

In March, the Bank's groundbreaking KSA Real Estate Fund I, launched in July 2005 at US$52.5 million, received payment from the sale of a portion of its investments and distributed 41% of the capital along with the profits to the investors. The Fund's IRR exceeded the original forecast of 11.2%. The Fund distributed the remainder of the capital and profits in March 2007. KSA Real Estate Fund I was the first ever Shari'ah-complaint fund in the GCC to offer non-Saudi nationals the opportunity to invest in the high-growth Saudi Arabian residential real estate market.

Building for the future requires strong foundations

"Gulf Springs was launched to address a clear supply and demand imbalance in the regional real estate market and to provide our clients with an exceptional vehicle to invest their money. Our team is driven by our belief that the key to being a successful asset manager is the ability to see the big picture - to recognise the trends, identify the gaps and capitalise on the opportunities."

Jacques Bernard
Managing Director - Asset Management, Unicorn

Strategic Mergers and Acquisitions

The Bank's Strategic Mergers and Acquisitions strategy of acquiring equity stakes in synergistic regional and international institutions is fundamental to Unicorn's ambitions to establish a global presence. This inorganic growth strategy aims to provide Unicorn with domestic platforms in growing markets and to strengthen the Bank's product delivery and distribution channels.

International expansion activity in 2006 commenced in June with the acquisition of a 22.2% equity stake in Pakistan's First Dawood Islamic Bank (FDIB), a newly established Shari'ah-compliant commercial bank that was awarded one of only five new commercial banking licenses by the State Bank of Pakistan. Headquartered in Karachi, FDIB plans to open a network of 20 branches across Pakistan within its first five years of operation. The stake in FDIB provides Unicorn with access to the Pakistan market with its 160 million inhabitants, 97 percent of whom are Muslim. Islamic deposits represented less than 1% of total deposits in Pakistan in 2004, but this figure is projected to reach 10% of total deposits, or approximately US$13 billion, by 2014.

In January 2007, Unicorn completed the acquisition of a 75% equity stake, including 100% of the Class A (Management) shares, in Turkish brokerage and asset management company Inter Yatirim Menkul Degerler (Inter Yatirim). The Turkish banking market has undergone extensive government-led restructuring recently in an attempt to improve transparency and strengthen investor confidence. As a result, the sector is experiencing strong internal growth and substantial interest from international financial institutions. Headquartered in Istanbul, with a branch office in Ankara, Inter Yatirim is fully licensed by Turkey's Capital Markets Board to undertake a broad range of activities, including corporate finance, treasury services, brokerage, asset management and private equity. Unicorn's acquisition of Inter Yatirim will provide the Bank with 'on the ground' access to Turkey's rapidly growing financial services sector. At the same time, Unicorn is well placed to provide Inter Yatirim with the resources and expertise required to carve out a clear market niche for the company, offering Shari'ah-compliant investment banking products and services.

Unicorn is also developing a Special Purpose Acquisitions Fund, which is a closed-end, Shari'ah-compliant fund designed to allow prospective investors the opportunity to participate in a professionally managed global portfolio of investments in financial institutions. The investment objective is to achieve mid to long-term capital appreciation through the acquisition of stakes in existing financial institutions. The Fund will seek to generate value through the use of prudent leverage, consolidation, financial restructuring, operational enhancements and the granting of management incentives.

Expanding our boundaries to build a global presence

"Our acquisition of Inter Yatirim affords Unicorn valuable access to the rapidly growing and developing Turkish market. Turkey has been on our 'A list' since our establishment. We believe in the importance of being on the ground with relationships. To demonstrate commitment to a market, it's important to be there."

David Pace
Chief Financial Officer, Unicorn

Takaful

Unicorn's vision for Takaful is to combine the incubation of innovative Takaful service providers with the building of specialised asset management and advisory services for insurance and Takaful operators across the GCC region.

The Takaful industry is still quite young and has enormous growth potential. The first Takaful company commenced operations in 1979 and there are now over 100 operators with total Takaful premium income of approximately US$2.1 billion. The GCC region currently accounts for almost half of the premiums and is experiencing growth of approximately 25% per annum. However, this compares with annual premium income of US$2.9 trillion in the conventional insurance market. Moody's Investors Service estimates that Takaful companies will write US$7.5 billion of gross premiums by 2015.

The rapid expansion of primary Takaful coverage is leading to increased demand for Re-Takaful. The first Takaful syndicate was established at Lloyd's of London in 2005 and more are expected to follow. Re-Takaful is key to the development of the market, as many of the Takaful companies are young and require large amounts of re-insurance to meet their capital requirements. As the market matures, a degree of consolidation will occur across the region, with those companies with the strongest alliances prevailing.

Accordingly, Unicorn is in the process of establishing a regional Takaful company (RTC). The RTC will comprise a partnership between major financial institutions and insurance/Takaful companies across the GCC region. The new venture proposes to offer both Family Takaful plans (savings, investment and risk protection) and Non-Life Takaful plans for general and property risks. Unicorn has undertaken the necessary market research, analysis and negotiations with potential partners in the RTC and is currently recruiting the CEO and senior management team. The RTC will raise substantial capital in stages and deploy the capital in a unique business model combining organic Takaful sales growth with inorganic growth through friendly mergers and acquisitions of insurance books. The goal is to become a dominant player in the Non-Life and Family Takaful business.

Unicorn is also carving out a niche in the area of providing support to Takaful operators. In December 2006, the Bank established a joint venture software company to provide purpose-built software and operational outsourcing to the Takaful industry. The company, Takaful Software Services (TSS), will develop innovative software to optimise and upgrade the efficiency of the operating systems for the Takaful industry. TSS will also offer Takaful companies outsourcing services for their back-office operations, including claims management and customer services, as well as Takaful IT consultancy services to improve operational efficiency.

Investment Development and Distribution

Unicorn's Investment Development and Distribution (IDD) team is central to the Bank's vision of delivering exceptional value to its clients. The team caters to high net worth individuals, family businesses, financial institutions, corporations, governments and quasi-governmental organisations, offering a comprehensive and integrated service platform focused on meeting the particular requirements of each client.

The IDD team is not only responsible for distributing Unicorn's products and services, but is also involved in originating deals and assisting with the deal structuring process. The team works closely with each of the Bank's clients to understand their specific requirements and to leverage the entirety of Unicorn's capabilities and expertise across each of the Bank's five business lines to meet the specific needs of the client. Unicorn's aim is to be a long-term partner to its clients, providing the reliability and counsel of a trusted advisor.

The Unicorn business model also allows the Bank to establish strategic alliances with other financial institutions to distribute the Bank's products through their own retail distribution channels, thereby complementing Unicorn's own in-house distribution capabilities.

Through the Unicorn offices in Bahrain, Dubai, Chicago and Kuala Lumpur, and the newly established presence in Pakistan and Turkey, the IDD team continues to build relationships covering the GCC region, Europe, North America, South Asia and the Asia Pacific region.

Unicorn Network

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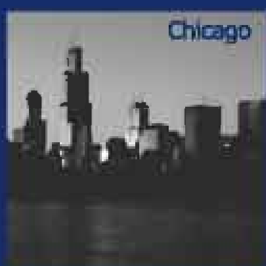

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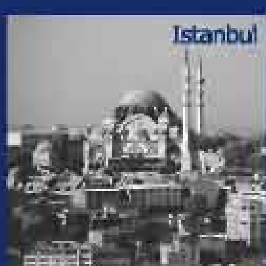

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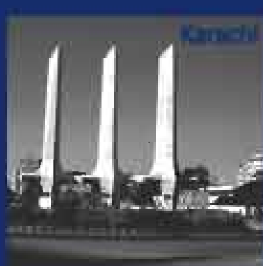

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Corporate Governance and Compliance

The Board of Directors of Unicorn is responsible for overseeing the Bank's management and business affairs and for making all major policy decisions. The Board's authority and practices for the governance of the Bank are outlined in the new Corporate Governance Charter that was adopted by the Board of Directors in 2006. This Charter, together with the Bank's Articles and Memorandum of Association and the charters of the various Board committees, provide the authority and practices for the corporate governance of the Bank.

Unicorn aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency; and maintaining full compliance with the laws and the rules and regulations that govern the Bank's business.

Corporate governance establishes how the shareholders, the Board of Directors and the management team interact in determining the direction and performance of the Bank. Good governance holds management accountable to the Board and the Board accountable to the owners and other stakeholders.

The Bank regards the guiding principles of good corporate governance to be fairness, transparency, accountability and responsibility. Adherence to these principles includes ensuring fair treatment of minority shareholders, investors and other stakeholders; adequate and timely disclosure of information concerning financial, organisational, governance and related transactions; ensuring the accountability of senior management for achieving plans and implementing measures that safeguard the assets and financial viability of the Bank; and maintaining clear lines of responsibility in terms of delegation of authority, which in turn ensures accountability for results.

Board of Directors and Management

The primary responsibilities of the Unicorn Board of Directors are to: provide leadership to the Bank; establish its objectives; and approve the strategies that direct the ongoing activities of the Bank to achieve these objectives.

The Board is charged with providing effective governance over the Bank's affairs for the benefit of its shareholders, and is required to balance the interests of its diverse constituencies around the world, including its clients, employees, suppliers and local communities. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be the best interests of the Bank. The Board's principal channel of communication to management is through the Managing Director and Chief Executive Officer (CEO), who has prime responsibility to the Board for implementing its decisions.

Board Committees

The standing committees of the Board are the Audit Committee, the Nomination and Remuneration Committee and the Board Executive Committee. The Board, upon recommendation of the Nomination & Remuneration Committee, appoints committee members after consultation with the individual directors. Committee chairs and members are rotated at the recommendation of the Nomination and Remuneration Committee.

Each committee has its own written charter, which complies with the applicable corporate governance rules, and other applicable laws, rules and regulations. The charters set forth the mission and responsibilities of each committee as well as the qualifications for committee membership, the procedures for committee member appointment and removal, the committee structure and operations and the reporting to the Board.

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities relating to:

- the integrity of the Bank's financial statements, the financial reporting process and the 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 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.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for the following functions:

- identifying individuals qualified to become Board members and recommending to the Board the director nominees for the next Annual General Meeting;
- leading the Board in its annual review of the Board's performance and recommending to the Board director candidates for each committee for appointment by the Board;
- taking a leadership role in shaping corporate governance policies and practices, including recommending to the Board the Corporate Governance Charter applicable to the Bank and monitoring management's compliance with the Charter and policies;

- evaluating the skills and expertise of the directors and recommending appropriate training and devising, with the CEO, the succession plan for the Board and the senior management team;
- considering recommendations by the CEO on the remuneration of senior management, and the Chairman's recommendations on the CEO's remuneration, and presenting these to the Board for ratification; and
- recommending to the Board the form and amount of director compensation, for approval at the Annual General Meeting of the Bank, and approving the remuneration policy and special compensation plans including annual bonus schemes, share option plans and staff savings schemes across the Bank.

Board Executive Committee

The Board Executive Committee is a standing committee of the Board of Directors. The primary purpose of the committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based upon authorities specifically delegated by the Board. The responsibilities and authorities of the Board Executive Committee are reviewed annually by the Nomination and Remuneration Committee. The Board Executive Committee has the power and authority to approve investments and expenditure up to a pre-approved limit specified by the Board.

The Shari'ah Supervisory Board

The role of the Shari'ah Supervisory Board is to ensure that all investment policies, structures, products and financial services and activities that the Bank is involved in are in conformity with Islamic Shari'ah. The written approval of the Shari'ah Supervisory Board must be obtained on all matters pertaining to the Bank's business and social events and activities to ensure that they are free of any Islamic prohibitions.

Members of the Shari'ah Supervisory Board are appointed by the General Assembly, upon the recommendation of the Board of Directors, to serve for a five year renewable term.

The Board of Directors and the CEO must obtain written approvals of the Shari'ah Supervisory Board with regard to the rules and regulations of the Bank's business transactions as well as all matters concerning the Bank's business activities to ensure that they are free of any Islamic prohibitions. The Board of Directors also maintain a Shari'ah Assurance Department, the purpose of which is to implement the decisions of the Shari'ah Supervisory Board and to provide a link between the Shari'ah Supervisory Board and the Bank.

Decisions made by the Shari'ah Supervisory Board are binding and the Shari'ah Supervisory Board submits an annual report to the General Assembly which summarises the cases referred to it and the opinions given. This report is presented at the Annual General Meeting.

Bank Management Committees

The Bank has established management committees for the purpose of streamlining the decision-making and execution process of various functions. These management committees include the Executive Committee, the Investment Committee, the Post-Investment Committee, the Asset and Liability Committee, the Human Resources Committee, the IT Steering Committee and the Risk Management Committee.

Executive Committee

The Executive Committee is comprised of the CEO, the Chief Operating Officer, the Chief Financial Officer and the Head of Human Resources. Its responsibilities include but are not limited to:

- development of the Bank's overall strategic vision and articulation and execution of all strategies;
- fulfillment of the Bank's corporate governance and compliance requirements; and
- review and appraisal of the recommendations of all of the management committees listed below.

Investment Committee

The purpose of the Investment Committee 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.

Post-Investment Management Committee

The Post-Investment Management Committee assumes responsibility for all investments with the objective of ensuring the fulfillment of all closing requirements of the transaction. The Committee is also responsible for post-investment management and overseeing ongoing performance to ensure a successful exit.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) is responsible for managing the asset and liability structure and the funding strategy of Unicorn. This is based on a detailed assessment and evaluation of the Bank's business needs, domestic and international financial market conditions, interest rate and foreign exchange forecasts and the Bank's internal risk guidelines. ALCO meets monthly to monitor and review all aspects of the Bank's liquidity profile and key financial exposures; asset and liability structure and balance sheet risk management; risk concentrations; and capital management (including the Bank's funding needs).

Human Resources Committee

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

Information Technology (IT) Steering Committee

The IT Steering Committee is responsible for ensuring that the Bank's IT platforms meet the requirements and operating objectives of each of the Bank's five business lines. In 2006, the Bank selected the Temenos T24 core banking system to provide an integrated suite of banking applications to meet the Bank's various business requirements. The IT Steering Committee is overseeing the implementation of this major project.

Risk Management Committee

The Risk Management Committee oversees the risk management activities of the Bank, particularly all matters associated with operational risk and the change management process. The committee is overseeing the development of a bank-wide risk management policy framework to establish independent processes to identify, measure, report and control the Bank's risks. This ensures that the Bank's risks and business processes come under continual review and surveillance to mitigate and eliminate unacceptable levels of controllable risk.

Shari'ah Supervisory Board Report

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

Asslamo A'laikum Wa Rahmatu Allah Wa Barakatuh

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

We have reviewed the principles and the contracts relating to the transactions conducted by Unicorn Investment Bank B.S.C. (c) ("the Bank") during the year ended 31 December 2006. We have conducted our review with a view to form an opinion as to whether the Bank has complied with rules and principles of Islamic Shari'ah and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the Bank 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 Bank, and to report to you.

We conducted our review that included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Bank.

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

In our opinion:

a) The contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2006 are in compliance with the rules and principles of Islamic Shari'ah.
b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles.
c) During the year, the Bank has realised no earnings from sources prohibited by Shari'ah.
d) The calculation of Zakat is in compliance with the rules and principles of Islamic Shari'ah.

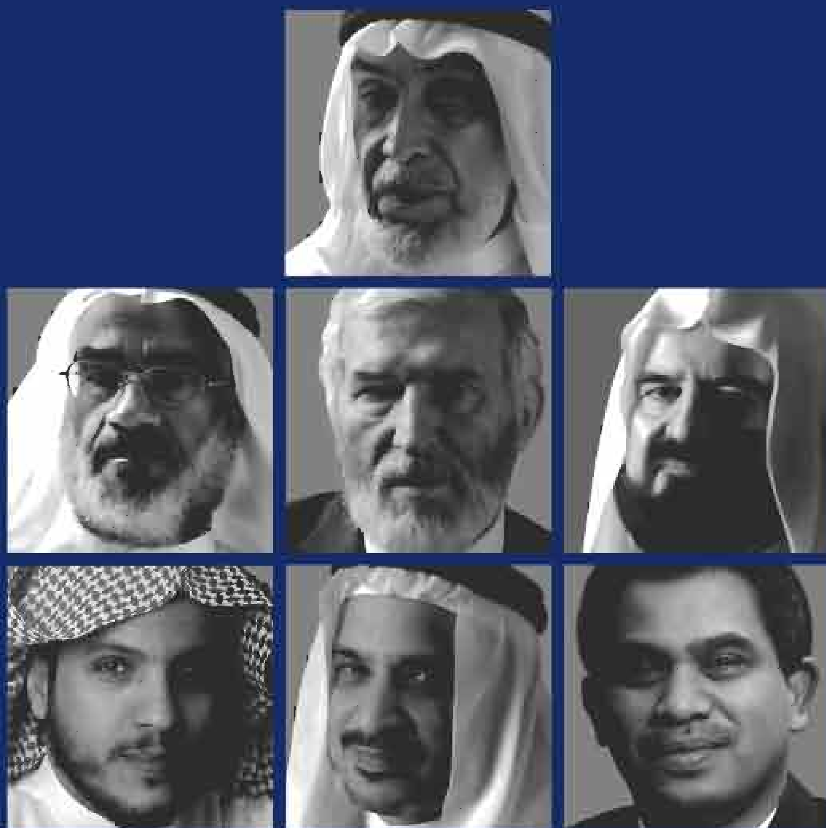
We supplicate to Allah the Almighty to grant us success and a straight path.

Wassalamo A'laikum Wa Rahmatu Allah Wa Barakatuh.

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

8 Safar 1428 H
26 February 2007 G

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

Sh. Abdul-Aziz Mohammad Al-Gasim

Sh. Nizam Mohammad Saleh Yaqouby

Dr. Mohammad Daud Bakar

Financial Statements

for the year ended 31 December 2006

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

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

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and of its financial performance, its cash flows and sources and uses of charity funds for the period then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Group.

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

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions of Law, nor of the Memorandum and Articles of Association of the Bank have occurred during the year ended 31 December 2006 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.

Ernst + Young

Ernst & Young

12 February 2007
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

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

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

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

Yousef Abdullah Al-Shelash
Chairman

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

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

Consolidated Statement of Income

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

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

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2006

(Amounts in United States Dollars thousands)

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

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

Consolidated Statement of Cash Flows

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

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

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

Statement of Sources and Uses of Charity Funds

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

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

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

Notes to the Consolidated Financial Statements

At 31 December 2006

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Unicorn Investment Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No 12/1978, and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and on 5 May 2004 was granted an Islamic investment banking licence by the Central Bank of Bahrain (formerly the Bahrain Monetary Agency). In accordance with the new banking regulations of the Central Bank of Bahrain, the Bank has applied for a Wholesale Banking licence. The Bank's registered office is at the 2nd and 3rd floors of Building No. 2495, Road No. 2832, Seef District 428, Kingdom of Bahrain.

The Bank and its wholly owned subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- debt structuring, restructuring and placement including project finance, securitisation and sukuks;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management that meets specific investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers;
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory; and
- developing and managing liquidity products.

The Group's Shari'ah Supervisory Board consists of seven Islamic scholars who review the Group's compliance with general Shari'ah principles and guidelines. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with these principles.

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

Notes to the Consolidated Financial Statements
At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Financial instruments

Financial instruments comprise financial assets and financial liabilities.

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

Due from financial institutions

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

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Due from non banks

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

Investment securities

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

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

Investments carried at fair value through statement of income

Investments are classified as "carried at fair value through statement of income" if they are either held for trading or designated on the date of acquisition as carried at fair value through statement of income. Investments are classified as held for trading if they are acquired for the purpose of selling in the short term or they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit taking. In addition, the Group's venture capital (VC) investments that fall under IAS 28 are classified under IAS 39 as "investments carried at fair value through statement of income" by utilising the VC exemption in IAS 28.

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

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

Available for sale investments

Investments are classified as "available for sale" if they are not classified as carried at fair value through statement of income.

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

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

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

Assets held for sale

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

Fair value

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

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

- For investments that are traded in organised financial markets, fair value is determined by reference to the market price prevailing on the consolidated balance sheet date.
- For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to similar investments where market observable prices exist, adjusted for any material differences in the characteristics of these investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- Investments in funds, unit trusts, or similar investment entities are carried at the latest asset valuation provided by the fund administrator.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost or at a previously revalued amount, less provision for any impairment.

Impairment of financial assets

An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment is determined as follows:

(a) for assets carried at fair value, impairment is the difference between cost and fair value;
(b) for assets carried at cost, impairment is the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset.

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

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Premises and equipment

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

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

Income recognition

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

Advisory and placement fees

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

Income from financial institutions

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

Income from non banks

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

Dividend income

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

Management fees

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

Other income

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

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated balance sheet date.

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

Zakah

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

The Shari'ah Supervisory Board approves these calculations.

Taxation

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

Derecognition

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

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

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

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

Notes to the Consolidated Financial Statements

At 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

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

Offsetting

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

Judgments

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

Classification of investments

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

Impairment of investments

The Group treats "available for sale" equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Notes to the Consolidated Financial Statements

At 31 December 2006

(Amounts in United States Dollars thousands)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the conslidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent significant arm's length transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows at current profit rates applicable for items with similar terms and risk;
- net asset value; or
- other valuation models.

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

Cash and cash equivalents

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

3 DUE FROM FINANCIAL INSTITUTIONS

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

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

4 INVESTMENT SECURITIES

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

Notes to the Consolidated Financial Statements

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

4 INVESTMENT SECURITIES (continued)

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

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

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

These investments include an amount of US$30.752 million (2005: US$26.196 million) for the Group's beneficial interest in the ordinary shares of an unquoted real estate development company ("the client"). This interest was acquired in consideration of the provision of financial advisory services to the client and is held through a mudaraba financing arrangement with a real estate investment company that was revalued and redesignated from cost to fair value during the current year.

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

5 INVESTMENTS IN ASSOCIATES

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

6 ASSETS HELD FOR SALE

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

7 OTHER ASSETS

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

Notes to the Consolidated Financial Statements

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

8 LIABILITIES

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

9 SHARE CAPITAL

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

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

10 SHARE PREMIUM

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

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

Notes to the Consolidated Financial Statements

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

11 STATUTORY RESERVE

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

12 PROPOSED DIVIDEND

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

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

13 ADVISORY AND PLACEMENT FEES

Advisory and placement fees have been earned by the Bank under the terms of mandates whereby it has assisted clients in balance sheet restructuring, capital raising through private placement and by providing other financial advisory services. Included in the fees is an amount of US$13.767 million (2005: US$14.672 million), that was settled in kind by granting a beneficial interest in the ordinary shares of an unquoted real estate development company (see note 4.3). The consideration was based on a share value agreed with the client.

14 OTHER OPERATING EXPENSES

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

Notes to the Consolidated Financial Statements

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

15 EARNINGS PER SHARE

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

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

16 EQUITY TRANSACTION COSTS

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

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

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

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

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

Notes to the Consolidated Financial Statements

At 31 December 2006

(Amounts in United States Dollars thousands)

17 ASSETS UNDER MANAGEMENT

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

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

18 COMMITMENTS

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

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

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

19 RELATED PARTY TRANSACTIONS

Compensation of senior management personnel

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

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

Transactions, arrangements and agreements involving related parties

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

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At 31 December 2006

(Amounts in United States Dollars thousands)

19 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

20 CREDIT RISK AND CONCENTRATION OF ASSETS AND LIABILITIES

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages its credit risk by monitoring its exposure to various investments, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

Notes to the Consolidated Financial Statements

At 31 December 2006

(Amounts in United States Dollars thousands)

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

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

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

21 MARKET RISK

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

22 CURRENCY RISK

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

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

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

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

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(Amounts in United States Dollars thousands)

23 PROFIT RATE RISK

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

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

24 EQUITY PRICE RISK

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

25 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, the Group monitors its funding requirements on a regular basis and thus manages its assets by maintaining an appropriate balance of cash and cash equivalents.

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

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At 31 December 2006

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25 LIQUIDITY RISK (continued)

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

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

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26 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

27 SOCIAL RESPONSIBILITIES

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

28 ZAKAH

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