Annual Report 2009

Building the Unicorn Islamic Financial Services Group

Unicorn
Investment Bank

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

The Prime Minister of the Kingdom of Bahrain

H.M. King Hamad bin Isa Al Khalifa

The King of Bahrain

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

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

Contents

Financial Highlights

5-Year Consolidated Performance Summary

(Amounts in United States Dollars thousands)	2009	2008	2007	2006	2005
Profit before impairments and fair value write-downs & write-backs	**20,999**	77,578	50,435	30,139	23,637
Net profit	**2,235**	35,011	49,591	30,139	23,637
Total assets	**1,033,619**	978,770	488,419	293,342	149,389
Due from financial institutions & non-financial institutions	**301,043**	369,614	72,480	89,803	51,729
Investment securities	**247,999**	328,560	211,393	123,456	31,398
Total liabilities	**609,967**	524,859	140,096	23,851	18,739
Due to financial institutions & non-financial institutions	**521,423**	422,447	70,371	NIL	NIL
Shareholders' equity	**379,709**	329,640	314,433	254,071	119,362
Total equity	**423,652**	453,911	348,323	269,491	130,650
Return on average assets (percent)	**0.2%**	4.8%	12.7%	13.6%	17.7%
Return on average shareholders equity (percent)	**0.5%**	10.9%	17.4%	16.1%	21.0%
Cost:income ratio (percent)	**79.2%**	45.0%	59.4%	55.0%	55.1%
Leverage ratio (percent)	**150.5%**	90.9%	22.4%	n/a	n/a
Capital adequacy ratio (percent)	**23.1%**	30.3%	44.7%	70.8%	120.0%

Board of Directors

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

Shari'ah Supervisory Board

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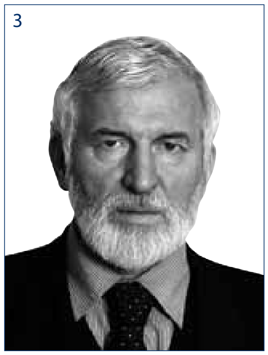

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1. **Dr. Khalid Mathkoor Al-Mathkoor**
   Chairman
2. **Dr. Aagil Jasim Al-Nashmy**
   Deputy Chairman
3. **Dr. Abdul Sattar Abdul Kareem Abu Ghuddah**
   Chairman,
   Executive Committee
4. **Sh. Abdul-Aziz Mohammed Al-Gasim**
5. **Dr. Ali Muhyealdin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

Chairman's Message

At the end of 2008, as the global economic crisis continued to intensify, the Board of Directors and executive management of Unicorn Investment Bank (Unicorn) determined the Bank's principal financial goal for 2009: to break even in an extremely challenging operating environment. I am pleased to report that in what would prove to be one of the most difficult years in recent history for the global financial sector, the Bank successfully achieved this target.

In 2009, Unicorn delivered a net profit of US$2.2 million, with an operating profit before impairments and fair value adjustments of US$21.0 million, reflecting the Bank's conservative and prudent approach to the valuation of its investment portfolio in light of continuing adverse market conditions. Total income was US$101.2 million for 2009, down from US$141.1 million in 2008. The Board of Directors has recommended that no dividend be paid for 2009, reflecting the reality of the global financial crisis.

Unicorn's 2009 results are the culmination of a strong year for the Bank given the prevailing market conditions. During the year, the Bank took active measures to strengthen its capital adequacy position and liquidity. Unicorn's Asset and Liability Committee (ALCO) continued to play a proactive role in monitoring the Bank's cash flow requirements and managing its funding, with the objective of enhancing Unicorn's operating capabilities during the economic crisis and protecting the Bank's long-term interests. Measures taken to strengthen the Bank's capital and liquidity profile included the successful issuance of US$50 million of Tier 2 capital in the form of a 6-year fixed rate Murabaha facility. The Bank's capital adequacy ratio stands at 23.1% on a consolidated basis and 16.4% on a solo company basis, well in excess of the Central Bank of Bahrain minimum target ratio of 12.5%.

Throughout the year, Unicorn remained steadfast in its focus on disciplined growth, prudent risk management and sound corporate governance. Unicorn's limited real estate exposure and minimal holding of listed equities have continued to differentiate the Bank from many of its regional peers with higher risk profiles, while the challenging market conditions have provided Unicorn with the most rigorous of stress tests and have validated the Bank's long-term strategy, its diversified business model and its vision to build an Islamic financial services group with a presence in key markets internationally.

Unicorn conducted a comprehensive risk assessment exercise in 2009, and as a result, has successfully re-engineered its risk management processes, thereby strengthening the Bank's compliance with Basel II requirements. Measures taken included the further development of the Investment Process Office established in 2008 to reinforce the Bank's investment approval and post-acquisition review processes, and the strengthening of the Bank's risk function under the supervision of Unicorn's newly appointed Chief Risk Officer.

Despite our strong position, we know that in order to sustain the long-term growth of our business, we must be prepared to respond to changing market circumstances, even as we continue to pursue our long-term strategic objectives. The Board continues to work actively with Unicorn's senior management team to solidify the Bank's balance sheet position and to strengthen its ability to meet future challenges.

I would like to take this opportunity to highlight a key strategic milestone achieved by Unicorn in 2009: the Bank's establishment of a presence in the Kingdom of Saudi Arabia through its majority shareholding in Unicorn Capital Saudi Arabia (UCSA). Saudi Arabia

Diversified business model

> The challenging market conditions have validated Unicorn's long-term strategy, its diversified business model and its vision to build an Islamic financial services group with a presence in key markets internationally.
>
> **Yousef Abdullah Al-Shelash**
> Chairman

is a regional economic leader with excellent growth prospects, and the founding of UCSA, which received approval from Saudi Arabia's Capital Market Authority to commence operations in August 2009, is a critical development for Unicorn and an essential element in the Bank's vision to build a diversified international financial services group. Going forward, Unicorn will work closely with UCSA's principal shareholders to develop this valuable franchise and to bring the Bank's client-driven integrated business model to Saudi Arabia.

On behalf of the Board and Unicorn's executive management team, I would like to thank our shareholders for their confidence in Unicorn and their continuing strong support of the Bank. We are also enormously grateful to the Central Bank of Bahrain for its continued guidance; to the Unicorn Shari'ah Supervisory Board for its invaluable counsel; to Unicorn's clients for their trust that they have placed in the Bank; and last but not least, to Unicorn's exceptional team of employees who have worked diligently and tirelessly in a difficult year to deliver the Bank's results and advance its vision.

Yousef Abdullah Al-Shelash
Chairman

CEO's Message

Throughout 2009, an exceptionally challenging year for financial institutions globally, Unicorn demonstrated the discipline and the resilience that has distinguished the Bank since its inception in 2004. As many financial institutions in the GCC region continued to feel the adverse effects of the sharp fall in asset prices and liquidity mismatches, Unicorn's adherence to strong business fundamentals, our limited exposure to real estate and listed equities and our long-term strategy continued to set the Bank apart. With Allah's grace, Unicorn successfully closed several important transactions in 2009 and achieved a number of strategic milestones. This has allowed us to significantly advance our vision and leaves us well placed to take advantage of the strategic opportunities unlocked by the global economic crisis.

Unicorn was founded with the vision to build a leading Islamic financial services group (IFSG), providing a broad and comprehensive range of Shari'ah-compliant financial services to an international client base. Unicorn's IFSG vision is a response to the enormous pent-up demand that exists globally for Islamic financial services delivered through a single, integrated brand platform. The Unicorn IFSG is multi-segment, multi-product and multi-market; is distinguished by product breadth, best-in-class service, structuring innovation, Shari'ah expertise and a broad international presence; and is underpinned by strong business fundamentals, including prudent risk management, low gearing and sound corporate governance.

We have made considerable progress towards establishing the Unicorn IFSG to date. In just under six years of operation, we have built a strong franchise in Islamic investment banking and have established a solid presence in the retail financial services sector, including Takaful, foreign exchange and remittance services. Directly and through our subsidiaries and associates, Unicorn is now present in ten countries, and we continue to actively pursue the expansion of our geographic footprint in key Islamic finance markets globally.

In 2009, Unicorn successfully closed a number of important transactions, earning the Bank widespread industry recognition for innovation and structuring expertise. In Private Equity, the Bank strengthened its regional energy platform consisting of investments in the GCC oil & gas sector. This included the establishment of Regional Energy Services Holdings, a Bahrain company owned by the Unicorn Global Private Equity Fund I, to serve as a platform for acquisitions, joint ventures and potential collaborations in the oil & gas sector; and the successful acquisition of Bahrain Marine and Diving Services, a leading Bahrain oil & gas services company. Unicorn also led a consortium comprising of prominent institutions from Qatar in the acquisition of Qatar Engineering & Construction Company (QCon), the leading contractor in Qatar's oil & gas sector.

Unicorn's Asset Management division continued to build and strengthen its capabilities in real estate and listed securities and introduced portfolio management services, providing portfolio management of regional equities to high net worth individuals in the GCC region. In Capital Markets, Unicorn successfully closed a landmark US$450 million Sukuk for Dar Al-Arkan, marking the first international issue out of the GCC region since the Dubai World debt standstill announcement in November 2009 and the first 144a issue by a company in Saudi Arabia. Throughout the year, we also executed a number of advisory mandates and continued to assist our clients in navigating through the difficult market conditions.

Our international expansion strategy, which is core to our IFSG vision, was significantly enhanced in 2009. A critical milestone

Strong business fundamentals

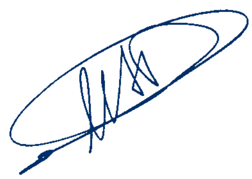
> The Unicorn IFSG is multi-segment, multi-product and multi-market; is distinguished by product breadth, best-in-class service, structuring innovation, Shari'ah expertise and a broad international presence; and is underpinned by strong business fundamentals.
>
> **Majid Al Sayed Bader Al-Refai**
> Managing Director and Chief Executive Officer

achieved by the Bank during the year was the establishment of Unicorn Capital Saudi Arabia, which will allow us to better support our clients in Saudi Arabia and capitalise on the many opportunities within the underserved Islamic banking sector in the Kingdom. Our subsidiaries in Malaysia and Turkey continued to make good progress during the year, and UIB Capital, Unicorn's US subsidiary, played an important role in monitoring and managing the Bank's US investments. We also increased our shareholding in Dawood Islamic Bank in Pakistan, demonstrating our commitment to this important developing market.

Condor Holdings Limited, the parent of Bahrain Financing Company, saw positive transaction growth in 2009 despite the economic downturn and implemented a series of key internal initiatives to facilitate future growth and international expansion. t'azur, the regional Takaful company founded by Unicorn in 2007, continued to strengthen its capabilities in General and Family Takaful, significantly expanded its client base and commenced operations in Qatar.

Unicorn's successes in 2009 are a result of our disciplined and focused approach and our long-term outlook. While many of our competitors are re-inventing themselves in light of the new market realities, Unicorn's business model, strategy and vision have remained consistent since the Bank's inception and have left us in a strong position to capitalise on the strategic opportunities that have arisen as a result of the global economic crisis. With valuations of financial institutions now at more reasonable levels, we will continue to monitor selective acquisition opportunities with a view to strengthening our capabilities, enhancing our presence in the retail financial markets and further advancing the Unicorn IFSG. In pursuing further growth, we will, of course, continue to maintain rigorous control of our operating expenses, risk and capital position.

We believe that Unicorn has a unique strategy, an innovative approach and, with Allah's grace, the ability to successfully deliver its vision, and we enter 2010 with enthusiasm for the opportunities and challenges ahead. We are tremendously grateful for the support and goodwill of all of our stakeholders as we continue to build a leading Islamic financial services group.



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

Financial Review

SUMMARY OF FINANCIAL PERFORMANCE

(US$ millions)	**2009**	2008	2007
Investment banking fees	**74.1**	24.8	93.8
Other investment banking income	**19.0**	111.6	25.9
Investment banking income	**93.1**	136.4	119.7
Net (expense)/income from FI's & non-FI's	**(9.3)**	(2.8)	3.0
Net income from non-banking activities	**21.1**	9.5	-
Share of (loss)/profit of associates	**(3.7)**	(2.0)	0.2
Total income	**101.2**	141.1	122.9
Investment banking operating expenses	**(80.2)**	(63.5)	(72.5)
Total expenses	**(80.2)**	(63.5)	(72.5)
Profit before impairments & fair value write-downs & write-backs	**21.0**	77.6	50.4
Impairments	**(2.9)**	(7.0)	-
Fair value write-downs on investment securities	**(22.5)**	(31.8)	(0.8)
Write-backs of fair value write-downs made in prior periods	**8.8**	-	-
Profit for the period from continuing operations before tax	**4.4**	38.8	49.6
Profit from assets held for sale	**1.2**	-	-
Profit before tax	**5.6**	38.8	49.6
Income tax expense	**(3.4)**	(3.8)	-
Net profit	**2.2**	35.0	49.6

Profit before impairment charges, investment fair value write-downs and write-backs decreased by US$56.6 million (73%) in 2009 from US$77.6 million in 2008 to US$21.0 million in 2009. Net profit after impairments and fair value adjustments was US$2.2 million in 2009, US$32.8 million or 94% lower than 2008. The Bank adopted a conservative and prudent approach in evaluating its investment portfolio in light of continuing adverse market conditions throughout 2009 and succeeded in breaking even in one of the most challenging years in recent history for the global financial sector. Basic earnings per share were 1.0 US cent, down from 18.7 US cents in 2008.

> Unicorn succeeded in breaking even in one of the most challenging years in recent history for the global financial sector.

The fair value write-downs on investment securities and impairments recorded by Unicorn in 2009 reflect current market uncertainties and are in line with the general decrease in valuations across the globe. Unicorn did not suffer any material credit or other losses in 2009, and the write-downs and impairments are prudent provisions against investments made prior to 2008 when market valuations were much higher. Provisions made at year-end comprise: fair value write-downs of US$22.5 million against the private equity portfolio; and impairment charges of US$2.9 million against the Sukuk holdings.

Against the backdrop of the challenging operating environment and a reduction in deal flow across the industry, investment banking income decreased by US$43.2 million (32%) in 2009, from US$136.4 million in 2008 to US$93.1 million. Operating expenses from banking activities increased by US$16.7 million (26%) to US$80.2 million over the same period. The year-on-year cost increase primarily reflects research expenditure (US$6.6 million), write-off of receivables (US$5.0 million) and Unicorn Capital Saudi Arabia (UCSA) office development costs (US$2.1 million).

Net expense from financial and non-financial institutions increased from US$2.8 million in 2008 to US$9.3 million in 2009, reflecting a substantial increase in Bank borrowings as Unicorn successfully lengthened its liquidity profile. The average profit rate earned on Murabaha receivables declined from an average rate of 3.4% per annum in 2008 to an approximate average rate of 2.7% per annum in 2009, in line with market rates.

Losses from associates increased from US$2.0 million in 2008 to US$3.7 million in 2009. This included a loss of US$2.3 million from t'azur, the Takaful company established by Unicorn in late 2007, as the company continued its operational development; and US$1.4 million from Dawood Islamic Bank Limited (DIBL), mainly arising from provisions for non-performing finance arrangements.

Investment Banking Fee Income

(US$ millions)	**2009**	2008	2007
Advisory and placement fees	**66.5**	12.2	14.3
Arrangement and underwriting fees	**7.5**	1.4	50.0
Performance fees	**-**	5.0	0.7
Structuring fees	**0.1**	6.2	28.8
Total investment banking fees	**74.1**	24.8	93.8

Despite the market uncertainties, investment banking fee income increased by US$49.4 million (199%) in 2009, from US$24.8 million to US$74.1 million. Advisory and placement fees saw a marked increase as the Bank advised a leading Saudi real estate development group in its restructuring, liquidity and strategic initiatives, including the successful issuance of a US$450 million Sukuk. The Sukuk marked the first international issue out of the GCC region in 2010.

Other Investment Banking Income

(US$ millions)	**2009**	2008	2007
Dividend income	**12.9**	1.1	2.8
Fair value gain on investment securities	**4.7**	44.4	-
Fair value write-down/gain on investment properties	**(9.4)**	4.2	-
Gain on sale of investments	**5.4**	53.7	13.2
Management fees	**3.4**	3.2	2.7
Other income	**1.9**	5.0	7.2
Other investment banking income	**19.0**	111.6	25.9

Other investment banking income reduced substantially in 2009, from US$111.6 million in 2008 to US$19.0 million. Gain on sale of investments in 2009 was mainly attributable to the proceeds from the sale of listed equities and excellent returns from the Bank's Turkish equity funds.

The fair value write-down on investment properties of US$9.4 million (US$4.2 million fair value gain in 2008) reflects the decrease in the value of a plot of land that the Bank acquired in 2007 and is in line with prevailing market conditions. The fair value as at 31 December 2009 was determined by independent valuers using comparable recent market transactions as the main source of valuation.

Unicorn's dividend income increased from US$1.2 million in 2008 to US$12.9 million in 2009. The increase arose mainly from the Bank's share of profits from its investment in Condor Holdings Limited (Condor), as well as dividends received from its investment in a listed entity in Saudi Arabia. The Bank also received dividends from its investment in Qatar Engineering & Construction Company WLL (QCon), the leading contractor in Qatar's oil & gas sector, which it acquired together with co-investors in October 2009.

Management fees were primarily earned from the Bank's Global Private Equity Fund I and Strategic Acquisition Fund. These fees have increased steadily over the years as the underlying funds under management have risen. 2009 fees of US$3.4 million are comparable with earlier years, duly reflecting inherent fluctuations in market value.

Other income in 2009 declined to US$1.9 million from US$5.0 million in 2008, chiefly reflecting service fees from the Bank's overseas subsidiaries and foreign exchange translation differences.

Operating Expenses

(US$ millions)	**2009**	2008	2007
Salaries and employment-related benefits	**46.5**	29.8	22.0
Performance-related bonuses	**-**	7.5	23.7
Share-based payments	**1.4**	1.7	4.0
Staff placement commissions	**-**	2.0	2.0
Severance payments	**-**	-	2.0
Staff costs	**47.9**	41.0	53.7
General and administrative expenses	**5.1**	6.6	5.6
Legal and professional fees	**7.2**	5.3	4.4
Business development costs	**4.9**	4.5	2.3
Premises and depreciation costs	**5.9**	3.4	2.2
Bad debt	**5.0**	-	-
Other non-staff costs	**4.2**	2.8	4.3
Non-staff costs	**32.3**	22.6	18.8
Total operating expenses	**80.2**	63.5	72.5
Cost:income ratio before impairments & fair value write-downs & write-backs (percent)	**79%**	45%	59%
Period end headcount:	**187**	194	137
Including Victron Inc.*	**-**	297	276

* Comparative figures include employees of Victron Inc., which was deconsolidated in 2009.

Financial Review continued

Measures to strengthen liquidity

"We have continued to take active measures to strengthen Unicorn's liquidity and capital position, while firmly focusing on asset and liability management, maintaining rigorous control of core operations and building risk management capabilities."

Philip Stockburn
Chief Financial Officer

Operating expenses were US$80.2 million in 2009, an increase of US$16.7 million (26%) from US$63.5 million in 2008. Staff costs increased by US$6.9 million (17%), from US$41.0 million to US$47.9 million. Salaries and employment-related benefits increased by US$18.1 million (61%), mainly due to headcount growth in late 2008 and early 2009, as the Bank added key hires in business critical areas and concurrently addressed downsizing, as a result of the restructuring of its organisation and operational processes.

Non-staff expenses increased by US$9.7 million (43%), from US$22.6 million to US$32.3 million. Unicorn Capital Limited (Dubai) was closed during 2009 and Unicorn's activities in Kuwait have been significantly scaled back. During 2009, Unicorn received authorisation from the Capital Market Authority (CMA) to commence its operations in Saudi Arabia. This will incur increased operational expenditure as the business model is established. This investment by Unicorn is essential in the development of this major market. Client receivables of US$5.0 million were provided for during 2009, which reflected a mutually agreed restructuring of a client mandate. During 2009, Unicorn also incurred US$6.6 million of research expenditure on deals which did not ultimately materialise.

Statement of Financial Position Analysis

(US$ millions)	**2009**	2008
Cash and balances with banks	**135.9**	23.6
Due from FI's & non-FI's	**301.0**	396.6
Total cash and cash equivalents	**436.9**	420.2
Investment securities	**248.0**	328.6
Investments in associates & joint ventures	**151.4**	24.4
Investment properties	**29.2**	38.5
Goodwill & intangible assets	**2.0**	52.5
Due to FI's & non-FI's	**521.4**	422.4
Subordinated Murabaha	**50.0**	-
Shareholders' equity	**379.7**	329.6
Advances for proposed increase in share capital	**-**	110.1
Minority interest	**43.9**	14.2
Return on average shareholders' equity (percent)	**0.5%**	10.9%
Return on average assets (percent)	**0.2%**	4.8%
Liquidity ratio (percent)	**106.7%**	129.1%
Leverage ratio (percent)	**150.5%**	90.9%

Unicorn's statement of financial position increased in 2009, with total assets increasing by US$54.8 million, from US$978.8 million as at 31 December 2008 to US$1,033.6 million as at 31 December 2009.

Total cash and cash equivalents marginally increased by US$16.7 million, from US$420.2 million to US$436.9 million. 2009 cash and cash equivalents with banks at US$135.9m included US$50 million cash in transit related to Unicorn's issuance of Tier 2 capital at the statement of financial position date. As at 31 December 2009, Unicorn had total bank and non-bank borrowings of approximately US$521 million, in the form of reverse Murabaha and Wakala deposits. These borrowings included

a US$125 million 3-year syndicated commodity Murabaha facility provided by regional and international banks repayable in February 2011. The remaining borrowings (US$396.0 million) comprised short-term (i.e. up to 12 months) reverse Murabaha and Wakala deposits provided by regional and international financial and non-financial institutions. The Bank continued to focus on strengthening liquidity as well as maintaining a strong capital adequacy position. This was shown by the successful issuance to existing shareholders of subordinated Murabaha totaling US$50.0 million as Tier 2, qualifying capital in the form of a 6-year fixed-rate facility. The Bank's leverage ratio (i.e. the proportion of borrowings to equity) remains modest, at 150.5%. This is low by investment banking standards. In mid-2009, Unicorn consolidated Condor Holdings Limited. By the close of 2009, through the loss of effective control of Condor Holdings Limited, this investment was deconsolidated and reclassified as an associate. The resultant reduction in the related goodwill improved the Bank's compliance with its borrowing covenants. In 2009, the Bank partially sold its investment in UII Victron Inc., resulting in a loss of effective control and deconsolidation in December 2009. The Bank entered into a joint venture agreement with a non-related party by disposing of 30% of its equity interest in UII Victron Inc. The subsequent reclassification as a joint venture reduced goodwill by US$50.0 million. There was a net decrease of US$80.6 million in investment securities during 2009, mainly reflecting the reclassification of Condor Holdings Limited. The Bank continued to support its private equity and strategic investments during 2009, with increased equity support (including debt to equity conversion) of US$48.2 million. Also, taking advantage of attractive short-term investment opportunities, Unicorn invested US$12.0 million in a GCC-based oil & gas services company in mid-2009. The US$9.4 million loss in investment properties in 2009 was the result of a decrease in the value of land held by the Bank in Manama, Bahrain, based on a year-end valuation undertaken by local accredited independent valuers resulting in a land value of US$29.2 million.

Shareholders' equity, as reported in the 31 December 2009 statement of financial position, increased by US$50.1 million in 2009, from US$329.6 million to US$379.7 million. The increase primarily reflects recognition of a net increase of US$102.4 million of additional shares, net of equity transaction costs, and a reduction totaling US$46.0 million reflecting fair value adjustments upon its reclassification as a business combination in 2009.

Overall the net loss attributable to Unicorn shareholders in 2009 was US$5.1 million. The Bank has decided to not pay a dividend for 2009.

CAPITAL MANAGEMENT AND ALLOCATION

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

Unicorn is required to comply with the regulatory capital adequacy guidelines promulgated by the CBB, based on the standards established by the Basel Committee on Banking Supervision (the Basel Committee) of the Bank for International Settlements (BIS). In accordance with CBB guidelines, Unicorn must maintain a minimum target capital adequacy ratio of 12.5% on a consolidated basis, and 8.5% on a solo basis.

Capital Structure

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

Financial Review continued

Composition of Capital

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

Capital Management

Unicorn's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of business growth expectations for each business group; future sources and uses of funds, including seed capital requirements and expected sell-down and placement targets; and the Bank's future dividend policy.

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

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

The Bank uses the Standardised Approach for allocating capital for credit risk and consequently uses the same approach for allocating capital for counterparty credit risk. Before establishing limits, all counterparties undergo a thorough credit risk assessment and due diligence review prior to approval by the Risk Committee. In 2010 the Bank will strengthen the counterparty credit risk assessment and due diligence review process by implementing a quantitative rating methodology that will provide a mechanism for grading counterparties and a basis for establishing counterparty limits. The internal credit rating methodology will strengthen the counterparty risk management process by providing a more objective, risk-based and deeper analysis of counterparty financial condition and performance.

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

The Bank's credit policy defines the approach to be used when determining provisions, and this depends on the number of days outstanding and credit risk rating. All exposures graded as non-performing have provisions provided for. Provisions are calculated after incorporating the value of realisable collateral net of any disposal costs.

Credit Risk-Weighted Assets

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

(US$ millions)	Risk-weighted equivalents 2009	2008	Basel II risk-weightings
Claims on sovereigns	**-**	-	n/a
Claims on international organisations	**-**	-	n/a
Claims on non-central government public sector entities	**-**	-	n/a
Claims on multilateral development banks	**-**	-	n/a
Claims on banks	**98.9**	167.6	20%-100%
Claims on investment firms	**-**	-	50%
Claims on corporates	**206.1**	78.5	100%
Regulatory retail portfolios	**-**	-	n/a
Residential property	**-**	-	n/a
Commercial real estate	**204.5**	194.1	200%
Past due exposures	**-**	-	n/a
Investments in equities in funds:			
Investments in listed equities	**11.8**	6.4	100%
Investments in unlisted equities	**239.5**	265.6	150%
Investments in unrated funds	**66.1**	62.8	150%
Other assets	**26.9**	16.0	100%
Underwriting assets	-	-	n/a
Total credit risk-weight assets	**853.8**	791.0	

Market Risk-Weighted Assets

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in profit rates, foreign exchange rates, equity prices and commodities. Under the CBB standardised approach, market risk exposures are calculated for the five categories shown in the following table.

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

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

Operational Risk-Weighted Exposure

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. Under the Basel II basic indicator approach for operational risk, gross income (weighted by an arbitrary 15%) is a broad indicator that serves as a proxy for the scale of the Bank's operations and hence the likely operational risk exposure within the business.

Financial Review continued

The details of Unicorn's operational risk capital charge, and the equivalent operational risk-weighted exposure, as at 31 December 2009 and 31 December 2008 are shown below:

(US$ millions)	2009	2008
Total gross operating income	**199.1**	134.6
3 year average gross income	**162.6**	91.4
Basic indicator factor	**15%**	15%
Capital charge for operational risk	**24.4**	13.7
CBB multiplier	**12.5**	12.5
Total operational risk-weighted exposure	**304.9**	171.4

Risk-Weighted Assets

Risk-weighted assets increased by US$248.8 million (24%) in 2009, from US$1,032.4 million as at 31 December 2008 to US$1,281.2 million as detailed below:

(US$ millions)	Basel II 2009	Basel II 2008
Credit risk-weighted assets	**853.8**	791.0
Market risk-weighted assets	**122.5**	70.0
Operational risk-weighted assets	**304.9**	171.4
Total risk-weighted assets	**1,281.2**	1,032.4

Capital Adequacy Ratio

(Percent)	Basel II 2009	Basel II 2008
Tier 1 capital adequacy ratio	**23.1**	30.8
Total capital adequacy ratio	**23.1**	30.8

The statement of financial position growth in 2009 resulted in a reduction in the Bank's capital adequacy position. The Basel II Tier I capital adequacy ratio declined from 30.8% at 31 December 2008 to 23.1% at 31 December 2009. The Basel II total capital adequacy ratio similarly declined, from 30.8% to 23.1% over the same period.

Despite these reductions, the 2009 year-end Basel II capital adequacy ratios remain well above the CBB minimum target ratio of 12.5%. The Bank is strongly capitalised to support the continued expansion of its business activities in 2010.

The minimum capital required by Unicorn to maintain compliance at 12.5% is shown in the table below. Unicorn is strongly capitalised, with total regulatory capital of US$295.3 million compared with the 2009 minimum requirement of US$160.1 million.

Minimum Capital Requirements

(US$ millions)	Basel II 2009	Basel II 2008
Credit risk	**106.7**	98.9
Market risk	**15.3**	8.7
Operational risk	**38.1**	21.4
Total capital requirements	**160.1**	129.0

RISK MANAGEMENT AND LIQUIDITY

Operational Risk

The Bank has met the 2009 regulatory requirements for Basel II, which has included the implementation of an operational risk framework. Under this framework the following have been carried out:

- In 2009, the Bank continued to strengthen its Takaful coverage, which significantly mitigated the Group's operational risk profile

Stronger Basel II compliance

> We have successfully re-engineered our risk management processes and continue to actively monitor and manage the Bank's risk profile in order to strengthen our compliance with Basel II and facilitate the Bank's ability to achieve its strategic objectives.
>
> **Lars Huelsmann**
> Chief Risk Officer

by employing comprehensive directors and officers, fund liability, fraud and professional indemnity insurance with the London underwriting market.

- In 2009, the Bank continued a programme to implement a comprehensive Basel II, Pillar 2 framework. The Bank has already completed its risk assessment in accordance with the requirements of the CBB and is in the process of rolling out a comprehensive set of policies and processes aimed at strengthening the Bank's risk management methodologies.

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

In 2009 Unicorn initiated improvements to the operational risk management framework through the following:

Operational Risk Policy

The Bank developed an Operational Risk Policy framework expected to be fully implemented and effective in the first half of 2010. The policy framework envisages a fully functional risk framework which documents operational risk identification, assessment, control, mitigation and reporting.

Risk and Control Self Assessments

In addition to the Operational Risk Policy framework, the Bank also initiated the development of a fully functional Risk and Control Self Assessment (RCSA) programme implemented across the Bank through appointed Risk Champions. The RCSA programme, when fully implemented, will incorporate a Risk and Key Risk Indicator (KRI) library, Incident Reporting and Capture, Loss Data Collection, and Operational Risk Heat Maps. The RCSA programme will also further strengthen the Bank's ability to track loss events, potential operational exposures and "near misses" and will provide a platform for operational risk and loss reporting to senior management and the Board.

Business Continuity Plans

In 2009 Unicorn made significant progress in its Business Continuity Plan (BCP), including full and complete documentation of the BCP and acquisition and set-up of an alternative recovery site. In the first half of 2010, the plan is expected to be fully implemented, including full BCP testing and implementation of continuous training and maintenance. The BCP Taskforce, under the leadership of the Crisis Management Team, is responsible for coordinating implementation of the BCP across the Bank.

Financial Review continued

Risk Identification and Monitoring

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

Business	Risk profile	Risk strategies
Private Equity	Investment risk	The Group conducts extensive due diligence activities and risk management is exercised directly through Board representation. Furthermore, Risk Management monitors all investments on a frequent basis.
Capital Markets & Treasury	Mainly non-proprietary risk; finance structured for customers. Inter-bank placements and deposits	For Capital Markets, the Group conducts extensive due diligence activities and risk management for proprietary investments. For Treasury, the Group conducts counterparty risk reviews via Institutional Banking and Risk Management; limits are agreed by the Risk Committee.
Asset Management & Real Estate	Mainly non-proprietary risk; funds managed on behalf of customers. Proprietary real estate transactions are also undertaken	The Group conducts extensive due diligence activities and risk management for proprietary investments.
Corporate Finance	Non-proprietary risk; business is advisory in nature	The Group conducts extensive due diligence activities.
Strategic Mergers & Acquisitions	Proprietary investment risk and fiduciary risk (via funds under management)	The Group conducts extensive due diligence activities. Risk Management conducts an independent assessment of the risks and gives recommendation to the Investment and Post-Investment Management Committee.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and related parties as well as for geographical and industry concentrations, and by monitoring exposures in relation to such limits. In 2010, Unicorn will roll out updated and tailor-made rating models (based on a scoring approach) for its core client groups in order to improve the Bank's assessment and analysis capabilities.

Gross and Average Credit Risk

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

(Amounts in US$ millions)	Funded exposure	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Balances with banks	135.9	-	135.9	64.4
Due from FI's & non-FI's	301.0	-	301.0	325.1
Investment securities	25.7	-	25.7	30.6
Other assets/(fees and recoverable expenses outstanding from clients, account receivables from Victron Inc., dividend receivables and receivables from sales of investments)	99.9	-	99.9	47.2
	562.5	**-**	**562.5**	**467.3**
Guarantees	3.9	-	3.9	5.0
Total credit risk exposure	**566.4**	**-**	**566.4**	**472.3**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis for the year ended 31 December 2009.

Liquidity Management

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

- The Bank manages liquidity via its Asset and Liability Committee (ALCO) process.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.
- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon.

The Group further strengthened its liquidity management activities during 2009 in order to ensure that the Group maintains a stable funding base and strong liquidity during the prevailing period of global market crisis. Cash flow planning was enhanced, regular stress testing was implemented and liquidity strategy updates were regularly advised to the Board. The Group also significantly strengthened its liquidity position with the issue of a US$50 million 6-year subordinated Murabaha facility.

Transactions, Arrangements and Agreements Involving Related Parties

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

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

Restricted Investment Accounts

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

Operational Review

2009 saw continued reaction to the new economic realities that were born in 2008 and the contraction in financial markets globally. In the GCC region, financial institutions continued to feel the effects of sharp falls in asset prices, tight liquidity and weakened balance sheets, while bank and corporate defaults and the Dubai World debt announcement in November resulted in a marked decline in investor confidence in the region.

Uncertain global economic conditions have significantly reduced the risk appetite of both institutional and private investors. The increased capital adequacy and liquidity requirements being enforced by financial services regulators both regionally and internationally have further exacerbated the situation. Both equity and debt financing have been affected, and the lower volume of transactions in 2009 reflects the cautious approach which the market has adopted as a reaction to both the economic climate and increasing levels of non-performing loans. At the same time, traditional investment banking business models have been put under strain by the reduced deal flow and the risks associated with highly leveraged deals in the real estate and private equity sectors, which have suffered in most markets.

Against the backdrop of this challenging operating environment, Unicorn continued to differentiate itself through its multi-client segment, multi-business line, multi-market approach; its focus on disciplined growth; its prudent approach to risk management; and its solid liquidity and funding position. With only limited exposure to the real estate and listed securities markets, the Bank has fared better than many of its competitors and expects to emerge from the financial crisis in good condition to pursue its growth strategy.

During the year, Unicorn continued to take active measures to strengthen its liquidity and balance sheet position, while maintaining rigorous control of its core operations, risk management policies and procedures and capital position. Measures taken to strengthen the Bank's capital adequacy position and liquidity included the successful issuance of US$50 million of Tier 2 qualifying capital in the form of a 6-year fixed rate Murabaha facility. The Treasury division also continued to play a key role in managing Unicorn's liquidity and securing adequate funding to support the Bank's business requirements.

Unicorn also made significant progress towards advancing its vision of establishing an integrated financial services group, providing a full spectrum of Shari'ah-compliant financial services to an international client base. Important milestones during the year included the successful conclusion of several transactions, the significant strengthening of the Bank's subsidiaries and associates, and the enhancement of the Bank's geographic presence in key international markets.

Strategic Mergers & Acquisitions: Advancing the IFSG vision and strategy

Unicorn's vision since the Bank's inception in 2004 has been to build an integrated Islamic financial services group (IFSG), distinguished by service quality; product breadth; structuring innovation; Shari'ah expertise; and a broad international presence. This vision aims to address the significant pent-up demand that exists globally for Islamic financial services delivered through a single integrated brand platform.

In pursuing its IFSG vision, Unicorn took the pragmatic first step of building and strengthening its investment banking franchise, with a focus on providing a comprehensive Shari'ah-compliant product and service offering across six business lines: Asset Management & Real Estate, Capital Markets, Corporate Finance, Private Equity, Strategic Mergers & Acquisitons (Strategic M&A) and Treasury. The Bank has established a strong track record in Islamic investment banking and has received widespread industry recognition for its innovation, structuring expertise, vision and delivery.

In addition to its achievements in the area of investment banking, Unicorn has also taken several steps towards establishing the IFSG, through both organic growth and acquisition. This includes the establishment of t'azur, a regional Takaful (Islamic insurance) company; the acquisition of Condor Holdings Limited (Condor), a leading foreign exchange and remittance house operating in the GCC region, the United Kingdom and India; the launch of the Strategic Acquisition Fund, an opportunistic acquisition fund established to acquire strategic stakes in commercial banks globally; the acquisition of a major shareholding in Dawood Islamic Bank, an Islamic retail bank in Pakistan; and the expansion of the Bank's international footprint in important Islamic finance markets, including Saudi Arabia, Malaysia and Turkey.

The difficult market conditions which began to manifest in 2008 and which were felt throughout 2009 have provided Unicorn with the ideal opportunity to significantly accelerate the Bank's IFSG strategy, particularly through acquisition. Previously inflated share prices of financial institutions have now fallen to more realistic levels, and controlling stakes have become available as shareholders react to the tightening liquidity situation. With many participants in the sector retreating to concentrate on their core businesses and markets, divestment of non-strategic assets is taking place, providing Unicorn with selective acquisition opportunities. On the regulatory side, the pressure on banks by regulators to increase capital has also resulted in some banks seeking new shareholders, while market conditions have hindered a number of attempts to raise additional equity through IPOs, private placements and rights issues.

Throughout 2009, Unicorn's Strategic M&A division actively monitored the regional retail financial services sector and has identified a number of potential acquisition targets. The division maintains an active shortlist of targets, mainly in the GCC, and employs a disciplined and focused approach to evaluating them, including strict business and financial criteria. Subject to market conditions, the division plans to make a further acquisition to enhance the Bank's presence in the retail financial markets in 2010. The Strategic M&A division has also been working closely with Unicorn's Corporate Finance team to advise Condor and t'azur on potential acquisition and joint venture opportunities, with a view to growing the Bank's strategic presence in key international markets.

Unicorn also strengthened its foothold in the retail commercial banking sector in 2009 when it increased its shareholding in Pakistan's Dawood Islamic Bank to 37.7% from 22.2%. Established in 2006 and headquartered in Karachi, Dawood Islamic Bank provides Shari'ah-compliant banking products and services to serve the Pakistani market and its approximately 180 million inhabitants, 97% of whom are Muslim.

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

Strategic Acquisition

Strategic M&A

January 2009

Regional Energy Services Holdings WLL

Energy Services Holding Company

Unicorn Global Private Equity Fund I

January 2009

Bahrain Maintenance and Diving Services Company WLL

70% Equity Stake

Regional Energy Services Holdings

January 2009

Unicorn Capital Saudi Arabia

Corporate Strategy & Development

Strategic M&A

August 2009

Qatar Engineering & Construction Company WLL

Private Equity Investment

Co-Originator, Arranger and Structurer

September 2009

Dar Al-Arkan International Sukuk II

US$450 million International Sukuk

Joint Lead Manager, Joint Bookrunner and Shari'ah Advisor

February 2010

Unicorn's Strategic M&A division has also completed the research and development for a new Islamic product initiative which it hopes to bring to the market in 2010. This new initiative builds on Unicorn's track record of innovation and structuring expertise, while supporting the IFSG strategy of providing a comprehensive product range to serve the unique requirements of the Islamic market.

Private Equity: Building the energy services platform

Unicorn successfully closed a number of private equity transactions in 2009, despite the challenging environment for private equity, both regionally and internationally. Unicorn's private equity strategy is to make selective investments in privately-held companies with strong growth prospects requiring growth capital, with a current focus on the oil & gas services, healthcare, building materials and agribusiness sectors in the GCC region.

Operational Review continued

In 2009, the Private Equity division successfully concluded a number of transactions in the energy services sector, thereby advancing the division's strategy to build an energy services platform with regional expertise in the oil & gas sector. The energy services platform reflects Unicorn's confidence in the ability of the energy sector to continue to lead regional economic growth and allows the Private Equity division to leverage the synergies between its energy services-related portfolio companies.

In January 2009, the division established Regional Energy Services Holdings WLL (RESH), a Bahrain-based company owned by the Unicorn Global Private Equity Fund I and established to serve as a platform for acquisitions, joint ventures and potential collaborations in the regional oil & gas sector. The division subsequently transferred its 70% stake in Gulf Strategic Partners WLL, a Bahrain-based company operating throughout the GCC and India and specialising in pre-operational chemical cleaning services for petrochemical, power, oil & gas and process facilities, into RESH. During the year, the Global Private Equity Fund I directly acquired an additional 28% stake in Gulf Strategic Partners.

RESH also successfully acquired a 70% equity stake in Bahrain Maintenance and Diving Services (BMDS), a leading Bahrain oil & gas services company specialising in commercial diving, rigging, marine construction and fabrication, during the year. Established in 1976, BMDS has grown to become one of the most experienced companies operating in its field with a long track record of servicing leading companies operating in the oil & gas sector in Bahrain, including Bahrain's state-owned oil company, Bahrain Petroleum Company (BAPCO) and Gulf Petrochemical Industries Co. (GPIC).

In the third quarter, Unicorn sold a 10% stake in RESH to Eastern Industrial & Oilfield Services Holding B.S.C. (c) (EIOS), a Bahraini holding company specialising in the oil & gas services sector. The sale generated a Return on Investment (ROI) of 124% to unit holders of the Unicorn Global Private Equity Fund I.

In October 2009, Unicorn led a consortium comprising of leading institutions from Qatar in the acquisition of 100% of Qatar Engineering & Construction Company WLL (QCon), the leading contractor in Qatar's oil & gas sector, from Qatar Shipping. Unicorn was the Co-Originator, Arranger and Structurer of the transaction and acquired a 10% stake in the company. The other members of the consortium were Qatar America Asia Consortium, Qatar First Investment Bank and The First Investor. Established in 1975, QCon is a leading EPC, maintenance and fabrication contractor to Qatar Petroleum and its subsidiaries and in 2009 reported revenues of over US$314 million.

In addition to its focus on building the energy services platform, the Private Equity division's strategy throughout 2009 was to preserve its existing portfolio investments and assist its portfolio companies through the difficult economic conditions that characterised much of 2009. The division increased the Bank's investment in Taj Mall in Jordan, and despite the financial crisis, managed to secure US$56 million in syndicated financing, which will help to see the mall through to completion by the end of 2010. In the US, the division took measures to strengthen its existing portfolio. It refinanced Sun Well Service, Inc., a US oil & gas services company acquired by Unicorn in 2008; cut expenses and capital requirements across the portfolio; and added or changed senior management positions where better senior leadership was required. The division continues to work closely with each of its portfolio companies and hopes to make some exits towards the end of 2010 should market conditions improve.

The Private Equity division's strategy for 2010 is to continue to support its existing portfolio, and to source and structure new deals within its target sectors in the GCC. The division will continue

Capitalising on strategic opportunities

> Unicorn's business model, strategy and vision have remained consistent since the Bank's inception and have put us in a strong position to capitalise on the strategic opportunities that have arisen as a result of the global economic crisis.
>
> **Ikbal Daredia**
> Managing Director, Head of Capital Markets, Institutional Banking and Treasury and Chief Executive Officer of Unicorn Malaysia

to build its energy services platform and has identified investors who share the Bank's interest in this sector. The division is currently in negotiations with a number of potential target investments in Bahrain and Saudi Arabia.

Capital Markets: Leading through innovation and expertise

2009 was a challenging year for the international Sukuk market, which continued to suffer from low volumes as a result of the difficult market conditions and tighter liquidity, and the associated negative impact on the global debt markets. In the face of more expensive financing, borrowings continued to be delayed, and the default of two Sukuk during the year and the Dubai World debt standstill announcement in November created further uncertainty in an already jittery market.

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

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

The Capital Markets division expects market conditions to improve in 2010 and is well-placed to take advantage of the recovery when it comes. The division has several mandates in the pipeline and continues to evaluate new client requests. In addition to Sukuk, the division offers a full suite of capital markets products and services, including asset-backed securitisations, syndicated facilities and credit rating advisory services.

The Capital Markets division also maintains a proprietary fixed income book through which it is developing the capability for secondary market trading, with the intention of enabling Unicorn to engage in market making activities. This will not only broaden and diversify the Bank's sources of income, but will also meet the growing demand on the part of GCC regulators and international investors to trade Sukuk and other Shari'ah-compliant capital markets products, thereby improving liquidity in the Islamic financial markets.

Asset Management & Real Estate: Capitalising on regional market opportunities

In 2009, Unicorn's Asset Management & Real Estate division continued to build and strengthen its capabilities within its two principal areas of focus: Real Estate and Listed Securities. Within Real Estate, the division's primary focus was on building its income-generating real estate platform. The division is currently developing and structuring a real estate fund which will invest in income-generating real estate in Saudi Arabia.

In the area of Listed Securities, the Asset Management & Real Estate division introduced its wealth management services offering,

Operational Review continued

Disciplined and focused approach

> Retail financial services are the cornerstone of Unicorn's growth strategy. We maintain an active shortlist of acquisition targets and employ a disciplined and focused approach to evaluating them, including strict business and financial criteria.
>
> **Ray Seamer**
> Managing Director, Head of Strategic M&A

including portfolio management of listed and unlisted securities, with a specific focus on regional equities. Portfolio management services are provided on both a discretionary and a non-discretionary basis, with the division acting as financial advisors and managers to high net worth clients in the GCC region. The division's objective is to provide clients with personalised and comprehensive financial advice tailored to the specific requirements and financial objectives of each client. The division is supported by an on-the-ground team with extensive expertise in the regional equity markets and in-depth research and analytical capabilities, as well as a state-of-the-art back office operations system which provides the necessary execution, monitoring and reporting functions.

Additionally, subject to market conditions, the Listed Securities team intends to launch two funds in 2010: a Saudi equity fund investing in the Saudi stock market (Tadawul); and a fixed income fund offering investors access to Shari'ah-compliant fixed income offerings globally through an open-ended platform. These funds will complement Unicorn's existing Turkey-focused equity funds currently under management by Unicorn Capital Turkey.

The Asset Management & Real Estate division's immediate geographic focus remains the GCC region and, selectively, Turkey.

Condor: Internal initiatives to support expansion

In January 2009, Unicorn successfully concluded the acquisition of Condor Holdings Limited (Condor), one of the leading foreign exchange and remittance houses in the GCC. The acquisition included Bahrain Financing Company (BFC), Bahrain Exchange Company in Kuwait and EzRemit in the United Kingdom. The Strategic Acquisition Fund, a financial services acquisition fund promoted by Unicorn and established in cooperation with a number of strategic founding investors from across the GCC, also acquired a significant stake in the company.

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

In 2009, Condor continued to see positive transaction growth across key products in spite of the economic downturn and the general negative impact on the exchange and remittance sectors. The company also implemented a new group management structure and completed a detailed re-organisation of its operating divisions in Bahrain, Kuwait and the United Kingdom (including EzRemit, the group's remittance arm).

Other internal initiatives introduced included the implementation of a new corporate governance framework, including new operating committees at the group and business levels, to ensure that the group is structured to meet the requirements of the day-to-day business and to support future growth expansion initiatives; the launch of a new front and back office IT system to streamline and automate all front and back office procedures; the re-design and launch of a new operating IT platform for EzRemit; and the completion of a group-wide rebranding initiative which will be rolled out across all businesses and markets in the second quarter of 2010.

Condor also worked closely with Unicorn's Strategic M&A division to explore opportunities for further geographic expansion within the GCC region. This includes both acquisition and potential joint venture opportunities.

t'azur: Taking Takaful to the next level

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

2009 was a year of significant progress for t'azur, on both a strategic and an operational level. The company's regional expansion plans were boosted in September 2009 when t'azur became the first company to be awarded a license by the Qatar Financial Centre Regulatory Authority (QFCRA) to operate a General Takaful business at the Qatar Financial Centre (QFC). t'azur will offer its full range of General Takaful products in Qatar, including property, engineering, marine, medical and motor insurance. With this, t'azur is now active in three countries – Bahrain, Kuwait and Qatar, and is actively pursuing further expansion into other GCC and MENA countries.

On an operational level, t'azur continued to strengthen its capabilities within its two key areas of focus: General Takaful and Family Takaful. In General Takaful, the company launched over 20 products; strengthened the division's technical team; built up the account management and advisory team; developed solid relationships with all the major insurance brokers in Bahrain; put in place solid re-Takaful agreements; and developed its medical unit and competitive medical offer. In Family Takaful, the company went live with its suite of family Takaful/savings products in the second half of the year; ramped up and trained a team of financial advisors; and launched the first Islamic accident and health plans in Bahrain.

The company also continued to develop its innovative product offering, and during the month of Ramadan 2009 launched the t'azur Sadaqah plan, the first charitable insurance product of its kind, which helps customers to make regular donations to a charity of their choice. t'azur received industry recognition for this groundbreaking new product and was named Best Islamic Insurance Company for Corporate Social Responsibility (CSR) as part of the Maqasid Al-Sharia CSR Awards, a CSR awards programme backed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Growing Unicorn's international capabilities

Saudi Arabia - Unicorn's international expansion strategy, which is core to the Bank's IFSG vision, was significantly advanced in August 2009 when Unicorn Capital Saudi Arabia (UCSA) received authorisation by Saudi Arabia's Capital Market Authority (CMA) to commence operations in Saudi Arabia. Unicorn is a majority shareholder in UCSA, and accordingly, UCSA will bring to the Saudi market the full support and depth of an established Shari'ah-compliant financial services group with a comprehensive products and services offering and a geographic presence in Malaysia, Turkey and the United States, in addition to its headquarter presence in Bahrain.

Unicorn has long viewed Saudi Arabia as a core element of its IFSG strategy. Saudi Arabia is the largest and deepest market in the GCC region, and Unicorn's presence in the Kingdom will allow the Bank to better support its local clients and to capitalise on the many opportunities within the underserved Islamic finance sector in the Kingdom. UCSA's integrated business lines include Asset Management, Corporate Finance, Capital Markets and Private Equity, and the company expects to receive authorisation to commence its brokerage operations in the second quarter of 2010.

Operational Review continued

In 2010, UCSA will continue to invest in developing its resources and infrastructure and, subject to market conditions, intends to launch several new products and transactions. UCSA's Asset Management division is currently developing and structuring a number of funds, including a listed equities fund, a global Sukuk fund and a real estate fund, and expects to commence discretionary portfolio management services for Saudi equities in 2010. The Capital Markets division is working on a major Sukuk mandate and continues to evaluate new client requests, while Corporate Finance is in the process of closing several restructuring and M&A mandates which the company will seek to execute in 2010.

Malaysia - In Malaysia, Unicorn International Islamic Bank Malaysia Berhad (Unicorn Malaysia) closed a number of transactions during the year and continued to strengthen its operating capabilities. Unicorn Malaysia was the first foreign Islamic bank to be licensed to conduct a full range of non-Malaysian Ringgit banking activities under the Malaysia International Islamic Financial Centre (MIFC) initiative. The Bank's primary focus is on four core business lines: Investment Banking, Corporate Banking, Treasury and Strategic Planning & Direct Investments to complement Unicorn's existing operations in Bahrain.

During the year, Unicorn Malaysia was successful in raising total deposits of MYR800 million (approximately US$240.6 million), and total assets of the Bank increased eight-fold to approximately MYR915 million (approximately US$275.3 million).

Unicorn Malaysia also significantly upgraded its operating capabilities during the year with two key appointments: Ikbal Daredia, Managing Director - Head of Capital Markets, Institutional Banking and Treasury at Unicorn Bahrain, was appointed the Chief Executive Officer of Unicorn Malaysia; and Thameem Ghouse, a Senior Director in Unicorn's Strategic M&A division, was appointed Deputy Chief Executive Officer. Both Mr. Daredia and Mr. Ghouse bring a wealth of expertise in investment banking as well as specific experience in Malaysia to Unicorn Malaysia and will lead the further development and growth of Unicorn in this key market going forward.

Treasury and Corporate Banking were the key drivers of Unicorn Malaysia's business in 2009. During the year, the Corporate Banking division closed its maiden deal, an MYR101 million (approximately US$29 million) club deal with Bank Kerjasama Rakyat Malaysia Berhad to provide Islamic financing to Puncakdana Sdn Bhd for the purposes of developing CITTA, an open concept retail precinct located at the upscale Saujana/Ara Damansara neighborhood in Kuala Lumpur. As part of its cross-border initiative, Unicorn Malaysia also financed four major transactions in Saudi Arabia and Bahrain amounting to approximately US$24 million.

In Treasury, Unicorn Malaysia was the first institution to obtain approval from Bank Negara Malaysia for its Wakala Deposit and Restricted Wakala Deposit products and successfully introduced these to the market. Unicorn Malaysia also signed Malaysia's standardised Commodity Murabaha Master Agreement and Master Wakala Agreement along with 22 other banks in Malaysia. These agreements are intended to promote uniformity and operating efficiencies within the Islamic banking sector.

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

Commitment to our clients

> The Unicorn IFSG is defined by our commitment to our clients. By leveraging our expertise, competitive strengths, full-service offering and international capabilities, we assist our clients in achieving their financial and business objectives.
>
> **Najib Fayyad**
> Managing Director, Head of Asset Management & Real Estate and Chairman, Unicorn Capital Turkey

market for Unicorn and an important component of the Bank's IFSG strategy.

Despite adverse global market conditions in 2009, Turkey remained relatively insulated and was one of the best performing markets of the year globally, primarily as a result of the country's strong and well-capitalised banking sector with no toxic assets, its low inflation environment and its relatively strong macroeconomic fundamentals.

In 2009, Unicorn Capital Turkey successfully completed the restructuring process initiated in 2008 and achieved a reduction in operating expenses of 30%, with a reduction in total expenses of 20%. The company also established the Private Equity and Real Estate business lines and continued to upgrade its capabilities in the area of Asset Management. Total revenues grew by 35%, and the company became profitable during the year.

The company also achieved outstanding returns in its two managed equity funds, managed by its asset management subsidiary Unicorn Portföy. The Istanbul Fund, a Shari'ah-compliant managed equities fund, achieved a net return of 90% in US dollar terms and almost doubled its benchmark, while the Dow Jones Islamic Turkey Index Fund which tracks the index achieved a 46% net return in US dollars during the same period. The US$10 million investment made into the funds by Unicorn achieved a net return of 40% in US dollars over an 8-month period.

During the year, Unicorn Capital Turkey continued to provide management services to Unicorn's Turquoise Coast Investment Company, a real estate investment company established to provide investors with an opportunity to benefit from the thriving vacation homes market on Turkey's Aegean Coast. Turquoise Coast Investment Company has secured two parcels of land on the Bodrum Peninsula and is currently in the development phase of the project. Unicorn Capital Turkey also provided advisory services for a joint venture partnership between Saudi Arabia's Dar Al-Arkan and a local Turkish company.

In 2010, Turkey is expected to achieve the highest rate of growth among emerging market countries globally, and the recent Turkey sovereign rating upgrades by Fitch Ratings, Moody's and Standard & Poor's is expected to further bolster the Turkish economy and increase the attractiveness of Turkey as an investment destination. Unicorn Capital Turkey intends to leverage these developments to attract further investment from the GCC region to Turkey.

United States – In 2009, UIB Capital, Unicorn's private equity arm in the US, continued to manage the Bank's US private equity portfolio, with a view to assisting its portfolio companies in navigating through the business downturn. During the year, UIB Capital successfully refinanced Sun Well Service, Inc., a US oil & gas services company acquired by Unicorn in 2008. UIB Capital also took measures to cut expenses and capital requirements across the portfolio and made management changes where necessary in order to upgrade the senior leadership of its portfolio companies and enhance their ability to adapt to the current business environment and economic landscape. This included key new hires on a senior management level at Victron, Inc., an electronics manufacturing services firm acquired in 2007; and the appointment of a new Chief Executive Officer at Ellington Leather, an Oregon-based lifestyle bag company.

In 2010, UIB Capital will continue to focus on maintaining and increasing the value of the Bank's US investment portfolio, while monitoring for potential exits. Additionally, subject to market conditions, UIB Capital will seek to add to the US portfolio by sourcing and executing new investments in selected sectors including

Operational Review continued

> Unicorn's presence in Turkey reflects the Bank's commitment to this important economy and is an essential element of its strategy to establish a presence in key markets internationally.
>
> **Sebnem Kalyoncuoglu**
> CEO & General Manager, Unicorn Capital Turkey

healthcare and oil & gas, with a focus on investments that will allow UIB Capital to leverage Unicorn's international presence and which complement the Bank's private equity investments in the GCC region. UIB Capital is also committed to extending the capital reach of the Bank by raising funds for acquisitions through relationships with potential US investors.

Industry recognition

In 2009, Unicorn received further industry recognition for its outstanding achievements and vision in the area of Islamic finance. In March 2009, the Bank's sale of UAE cement company Orimix Concrete Products LLC (Orimix) in 2008 was named the 'Islamic Finance Deal of the Year' by pre-eminent international finance magazine Euromoney, which cited the outstanding return to investors achieved by the Unicorn Global Private Equity Fund I upon its exit from the transaction in February 2008 following a holding period of under two years.

In June 2009, Majid Al Sayed Bader Al-Refai, Unicorn's Founder, Managing Director and Chief Executive Officer, was named 'Banker of the Year' as part of the 2009 Banker Middle East Industry Awards which are based on peer recommendations and are designed to recognise and reward excellence throughout the Islamic finance community. In presenting the award, CPI Financial, the organisers of the awards ceremony, cited Mr. Al-Refai's role as a recognised industry pioneer, leader and innovator.

In October 2009, Unicorn was named the 'Best Investment Bank in Bahrain' by international business magazine Global Finance. The editors of Global Finance, with input from industry experts, used a series of criteria to arrive at their selections, including market share, number and size of deals, service and advice, structuring capabilities, distribution network, efforts to address market conditions and innovation.

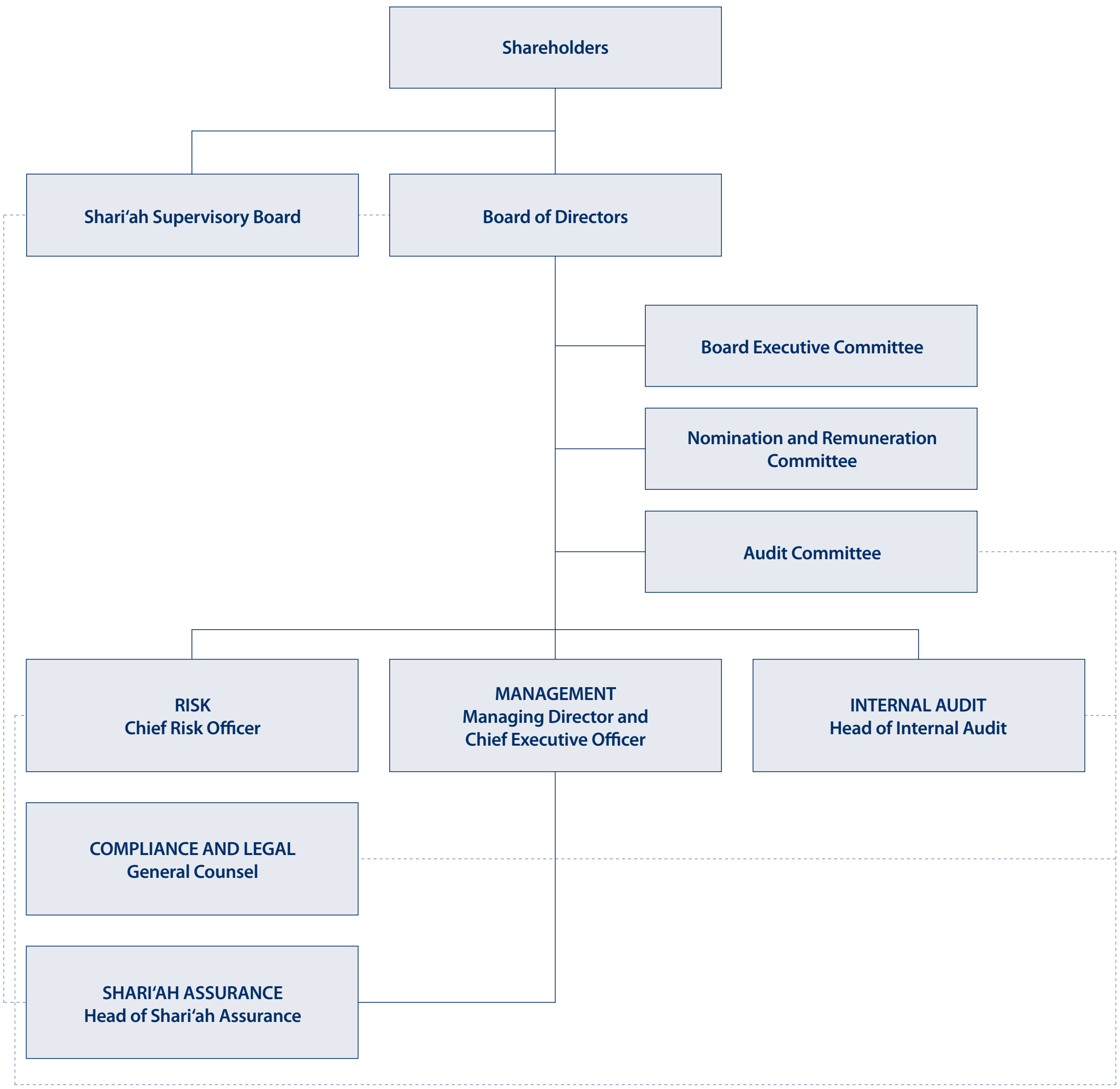
In December 2009, Unicorn was named 'Best Investment House' as part of the 2009 Islamic Business and Finance Awards organised by CPI Financial which cited the Bank's solid performance in a challenging operating environment and the fact that it has continued to distinguish itself through its conservative and prudent approach, its focused strategy and its commitment to a diversified business model.

Corporate Governance and Compliance

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

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

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



Corporate Governance and Compliance continued

The Board of Directors

The prime responsibility of the Board of Directors (the Board) is to provide effective governance over the Bank's affairs in exercising its fiduciary duty towards its shareholders, customers, employees and other stakeholders. In 2009, Unicorn reviewed its Corporate Governance Charter to ensure that the Board follows the highest standards of ethical conduct, reports results with accuracy, transparency and integrity, maintaining full compliance with all the laws, rules and regulations that govern the Bank's business.

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

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

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

Board Committees

Board Executive Committee

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

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

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

Audit Committee

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

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

Internal Audit

Internal Audit reports directly to the Board Audit Committee to provide independent and objective assurance over the adequacy, sustainability and effectiveness of the Bank's governance, internal controls and risk management processes. All key operational, business and management processes are audited according to risk-based methodologies. Internal Audit examines the strategies of the Bank and the adequacy and effectiveness of the relevant policies, procedures and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings, recommendations and opinions, via a structured process, to the Board Audit Committee.

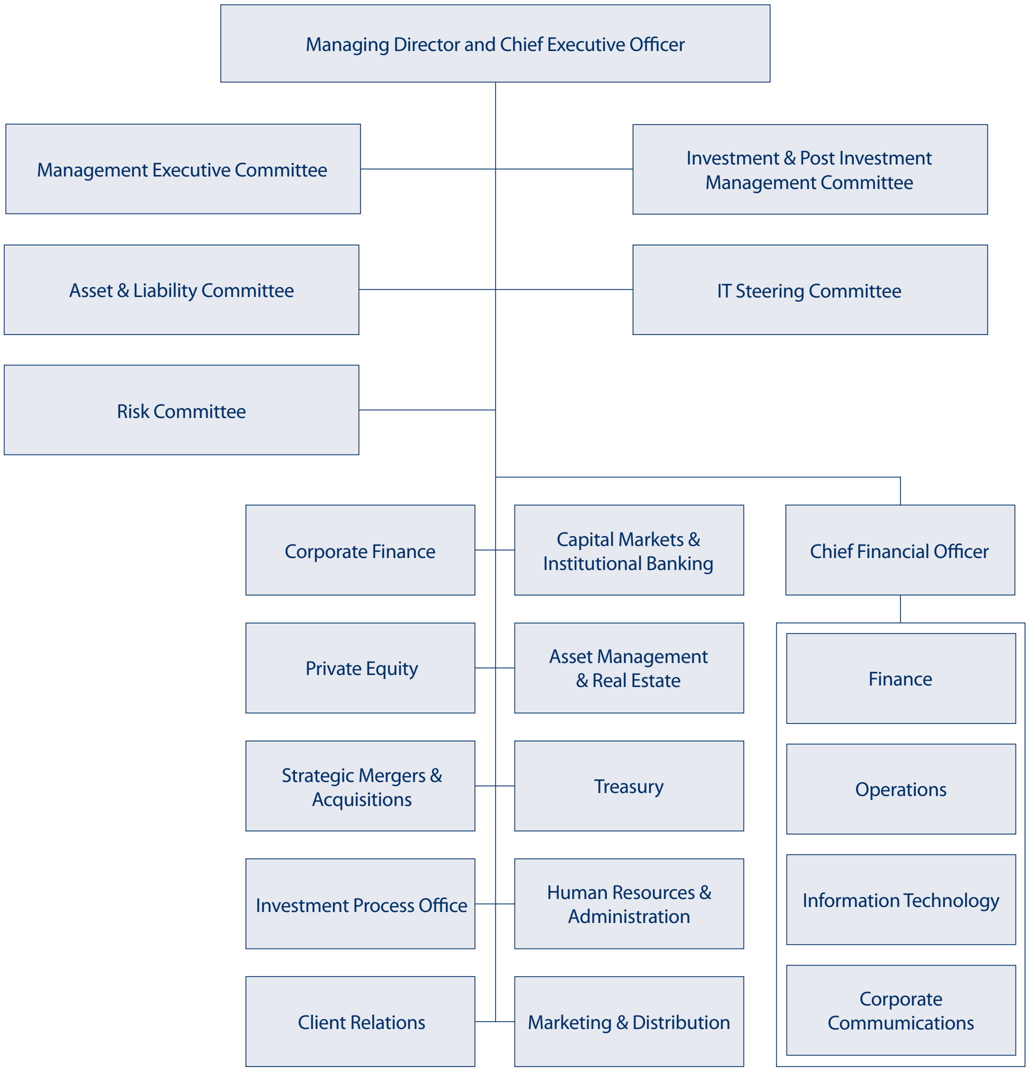
Compliance Process

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

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

Management Committees

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



Management Executive Committee (MEC)

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

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

Investment and Post-Investment Management Committee (IPIMC)

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

The IPIMC also assumes responsibility for the monitoring of all existing investments with the objective of ensuring the fulfilment of all closing requirements of the transaction. The Committee is also

Corporate Governance and Compliance continued

responsible for post-investment management and overseeing the ongoing performance of the portfolio to ensure a successful exit.

Asset and Liability Committee (ALCO)

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

Risk Committee

The Risk Committee has the overall responsibility for ensuring that the Bank develops appropriate risk policies and strategies for the relevant business activities, including ensuring that the Bank complies with Basel II. The Risk Committee oversees the risk management, compliance and operational activities of the Bank and reviews and approves risk management principles, frameworks, policies, limit processes and procedures. It is responsible for assessing all fundamental risk issues within the general development strategy of the Bank.

Information Technology (IT) Steering Committee

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

Board of Directors

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

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

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

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

AYMAN ISMAIL ABUDAWOOD
Independent Non-Executive Director

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

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

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

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

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

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

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

WALEED AHMAD AL-SHARHAN
Independent Non-Executive Director

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

AYMAN ABDULLAH BOODAI
Non-Executive Director

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

Corporate Governance and Compliance continued

BADER ABDULAZIZ KANOO
Independent Non-Executive Director and founder shareholder

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

Senior Management

MAJID AL SAYED BADER AL-REFAI
Managing Director and Chief Executive Officer
Chairman, Unicorn International Islamic Bank Malaysia Berhad
Vice-Chairman, Unicorn Capital Saudi Arabia

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

PHILIP STOCKBURN
Chief Financial Officer

Mr. Philip Stockburn has almost 30 years of experience in finance and risk management in the UK and the Middle East. Prior to joining Unicorn in September 2006, Mr. Stockburn worked for Riyad Bank in Saudi Arabia as the Vice President of Financial Risk Management. He initiated and developed risk management disciplines for the Bank's Treasury, Investments, Mutual Funds, Brokerage and Asset & Liability Management businesses and designed and drafted the principal financial risk governance policies of the Bank. Prior to this, he worked in Kuwait, as the Financial Controller of the Commercial Bank of Kuwait, where he worked closely with the CEO to improve the financial strength and credit ratings of the bank. He spearheaded the initial developments of risk management techniques and policies and established the bank's first risk management policy. Prior to moving to the Middle East, Mr. Stockburn worked with several banks in London, including Hill Samuel & Co, ANZ and the Co-operative Bank (where he was the Financial Controller, Treasury and Asset & Liability Management). Mr. Stockburn holds a BA honours degree in Business Studies from Greenwich University, London and is an associate member of the Chartered Institute of Management Accountants.

AHMED ALLAM
Head of Shari'ah Assurance

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

Conformity with Shari'ah principles

Shari'ah compliance is an integral pillar of Unicorn's operations. We place the utmost importance on ensuring that the Bank's investment policies, structures, products and financial services are in conformity with Shari'ah principles.

Ahmed Allam
Head of Shari'ah Assurance

PAUL WALTNER
General Counsel

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

LARS HUELSMANN
Chief Risk Officer

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

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

Mr. Ikbal Daredia has 20 years of experience in Islamic banking. Prior to joining Unicorn in October 2006, he was the Deputy Chief Executive Officer of Noriba, UBS's global Islamic platform for Shari'ah compliant products and services. Prior to Noriba, Mr. Daredia worked for four years with ABN AMRO in Bahrain as the Global Head of Islamic Financial Services. Mr. Daredia has originated and executed several Islamic structured cross-border transactions for sovereign entities and corporates in Turkey, the GCC, the Philippines, India, Pakistan and the United Kingdom. He was responsible for the distribution of the US$600 million and US$1 billion Sukuk issues for Dar Al-Arkan in 2007. He was the Noriba project leader for the first ever US$750 million Exchangeable Sukuk for Khazanah, Malaysia. He was also the project leader for the US$350 million first internationally rated corporate Sukuk for Sarawak Corporate Sukuk Inc. (Malaysia), which was jointly led by UBS Investment Bank and Noriba in 2004. Prior to this, in 2001, he worked on the Sukuk issue for Kumpulan Guthrie, Malaysia. Mr. Daredia is an Associate of the Chartered Institute of Bankers, England.

Corporate Governance and Compliance continued

SEBNEM KALYONCUOGLU
Chief Executive Officer and General Manager, Unicorn Capital Menkul Değerler A.Ş. (Turkey)

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

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

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

> "Unicorn's Corporate Governance Charter ensures that the Bank follows the highest standards of ethical conduct, reports results with accuracy, transparency and integrity, and maintains full compliance with the laws, rules and regulations governing the Bank's business."

NAJIB FAYYAD
Head of Asset Management & Real Estate
Chairman, Unicorn Capital Menkul Değerler A.Ş. (Turkey)

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

RAY SEAMER
Head of Strategic Mergers & Acquisitions

Mr. Ray Seamer joined Unicorn Investment Bank in 2008. He has over 40 years of investment and private banking expertise, along with extensive experience in product development. From 2004 to 2007, Mr. Seamer held the position of Chief Executive Officer at Sabanci Bank plc, a UK-incorporated bank owned by the Sabanci Group, one of the leading business conglomerates in Turkey and majority shareholder in Akbank. In the nearly 30 years that preceded this appointment, Mr. Seamer worked for Lloyds Bank where he held a number of senior executive, country, regional management and director roles across the Middle East, Europe and the Americas. He ended his tenure with Lloyds Bank as the Regional Director for the Americas, International Private Banking, with responsibility for all private banking branches/subsidiaries and managing a total deposit base of approximately US$3 billion with a further US$500 million in discretionary investment accounts and US$200-300 million in funds. Until recently Mr. Seamer served on the World Division committee of the Association of Foreign Banks in London and was formerly a director of the Association of Banks and Trust Companies in the Bahamas.

PATRICK VAN SURELL
Head of Corporate Finance

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

NICOLAS MARTIN
Managing Director, Strategic Mergers & Acquisitions

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

NICHOLAS JUDD
Head of Investment Development & Distribution

Mr. Nicholas Judd joined Unicorn Investment Bank in 2009 as Head of Investment Development and Distribution. Mr. Judd has extensive experience working in the Middle East region and prior to joining Unicorn was Head of Real Estate Funds at Gulf Finance House (Bahrain) where he managed a portfolio amounting to approximately US$1 billion of assets. New products built included Asia, Eastern Europe and UK recovery funds. Before moving to the Middle East, Mr. Judd was an equity partner at Cap Real, the real estate division of Capital Trust Group (CTG), a GCC-backed private equity and real estate firm based in London. His responsibility was across the investment cycle - to create new products and raise funds then source, acquire, finance, work out and exit investments. Mr. Judd began his career in 1988 as a graduate trainee with Knight Frank based in London. Having achieved membership of the Royal Institution of Chartered Surveyors (RICS) in 1990, he then moved to Strutt & Parker where he worked in General Practice across a range of disciplines. Mr. Judd graduated from Oxford Brookes with a BSc in Estate Management (1988) and achieved his MBA (Open Business School) in 1999.

AMIR AHMED
Head of Internal Audit

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

ANTOINE TOHME
Head of Information Technology

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

Corporate Governance and Compliance continued

Effective corporate governance

"Unicorn's commitment to effective corporate governance, transparency, integrity and sound corporate disciplines enhances the Bank's ability to achieve sustainable growth and establish enduring value over the long-term."

Paul Waltner
General Counsel

Compensation of the Board of Directors and Executive Management

The total compensation of the Board of Directors for the year ending 31 December 2009 was US$0.650 million. Of the Board of Directors, only the non-executive members receive compensation. This compensation is recommended to the Board of Directors by the Nomination and Remuneration Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting. Under the Articles of Association, the total remuneration that the Board of Directors may receive shall not exceed 10 percent of the net profit in any one financial year after allowing for statutory reserves.

For the year ended 31 December 2009, the aggregate compensation (including benefits) for the senior management team was US$15.462 million.

The Partnership Development Programme (PDP)

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

The objectives of the Programme include:

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

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

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

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

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

Employees Stock Option Plan (ESOP)

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

An option vests and shall become capable of exercise as to 20 percent of the Ordinary Shares subject to it on each of the date of grant and the first four anniversaries thereafter. If not exercised, an option will lapse on the seventh anniversary of the date of grant. All unvested options will lapse on the resignation of a participant or on termination of employment contract for cause (Termination for Cause). Termination for Cause arises when an employee's employment contract is terminated for any of the following:

- misappropriation, embezzlement or fraud with respect to any money or property of Unicorn, its affiliates, related entities, customers or prospects;
- knowingly providing material misinformation to or concealing material information from appropriate authorities of Unicorn; gross negligence in the performance of duties and responsibility; giving any false document or making any false statement in respect of qualifications, ability, competence or medical fitness or withholding any material information in this regard;

- any breach of the participa.nt's employment contract; or
- any other reason stated in Unicorn's internal regulations and policies as advised to the participant from time to time.

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

Employees Share Purchase Plan (ESPP)

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

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

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

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

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

Performance Related Cash Bonus and Employees Share Grant (PRCBESG)

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

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

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

No PDP awards under the ESOP, ESPP or PRCBESG were made during 2009.

Shari'ah Supervisory Board and Shari'ah Assurance

Shari'ah compliance is the cornerstone of Unicorn's operations. A seven-scholar Shari'ah Supervisory Board has been established to provide Islamic advice and guidance to ensure that all Unicorn activities comply with Shari'ah law. The members of the Shari'ah Supervisory Board are prominent Islamic scholars who are well versed in international financial markets and have a proven track record in the

Corporate Governance and Compliance continued

implementation of Shari'ah rules and principles in Islamic banks, as well as in product development and Islamic finance structuring techniques.

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

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

The Shari'ah Assurance division actively monitors all transactions and forms an integral part of the investment process from the outset. It is also a member of the IPIMC and has recently become a member of the Risk Committee. The Shari'ah Assurance division validates all business propositions against both Shari'ah principles and AAOIFI standards.

In 2009, the Bank reported minimal non-Shari'ah compliant income to the Shari'ah Supervisory Board which advised the Bank to donate this income to registered charities and submit the list of beneficiaries once payment has been made.

Shari'ah Supervisory Board

DR. KHALID MATHKOOR AL-MATHKOOR
Chairman

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

DR. AAGIL JASIM AL-NASHMY
Deputy Chairman

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

DR. ABDUL SATTAR ABU GHUDDAH

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

DR. ALI MUHYEALDIN AL-QURADAGHI

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

SH. ABDUL-AZIZ MOHAMMED AL-GASIM

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

SH. NIZAM MOHAMMAD SALEH YAQOUBY

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

DR. MOHAMMAD DAUD BAKAR

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

Consolidated Financial Statements

For the year ended 31 December 2009

Contents

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Unicorn Investment Bank B.S.C. (c) (the "Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, changes in equity, cash flows and restricted investment accounts 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 control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In addition, the Board of Directors is responsible for the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions 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 consolidated financial position of the Group as of 31 December 2009 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the Memorandum and Articles of Association of the Bank have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking licence.

Ernst + Young

30 March 2010
Manama, Kingdom of Bahrain

Shari'ah Supervisory Board Report
to the shareholders of Unicorn Investment Bank B.S.C. (c)

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

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

We have reviewed through the Shari'ah department and under our supervision the principles and the contacts relating to the transactions conducted by Unicorn Investment Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2009. We have conducted our review with a view to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

The Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Islamic Shari'ah. It is our responsibility to form an independent opinion, based on our review of the operations of the Group, and to report to you.

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

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2009 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) The Shari'ah Board advised the Bank's management that all earnings that have been realised from sources or by means prohibited by rules and principles of Islamic Shari'ah principles shall be disposed off and given to charity under the supervision of the Shari'ah Board.

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

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

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

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

30 March 2010 G

Consolidated Statement of Financial Position
At 31 December 2009

(Amounts in United States Dollars thousands)

	Notes	31 December 2009	31 December 2008
ASSETS			
Cash and balances with banks	3	**135,918**	23,560
Due from financial and non-financial institutions	4	**301,043**	396,614
Investment securities	5	**247,999**	328,560
Investments in associates and joint venture	6	**151,348**	24,427
Investment properties	7	**29,164**	38,538
Inventories		**-**	10,695
Other assets	9	**116,710**	57,958
Premises and equipment		**8,797**	6,778
Assets held for sale	10	**40,622**	39,187
Goodwill and intangible assets	11	**2,018**	52,453
TOTAL ASSETS		**1,033,619**	978,770
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial and non-financial institutions	12	**521,423**	422,447
Subordinated Murabaha	13	**50,000**	-
Other liabilities	14	**24,988**	88,856
Liabilities relating to assets held for sale		**13,556**	13,556
TOTAL LIABILITIES		**609,967**	524,859
EQUITY			
Share capital	15	**215,578**	183,740
Share premium	16	**141,708**	71,216
Statutory reserve	17	**15,580**	15,580
Fair value reserve		**10,280**	61,765
Foreign currency translation reserve		**(6,761)**	(5,606)
Retained earnings		**3,324**	2,945
Total equity attributable to the shareholders of the parent		**379,709**	329,640
Advances for proposed increase in share capital		**-**	110,059
Non-controlling interests		**37,321**	7,901
Non-controlling interests held for sale		**6,622**	6,311
TOTAL EQUITY		**423,652**	453,911
TOTAL LIABILITIES AND EQUITY		**1,033,619**	978,770

The consolidated financial statements were authorised for issue by the Board of Directors on 30 March 2010 and signed on their behalf by:

Yousef Abdullah Al-Shelash
Chairman

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

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

Consolidated Statement of Income

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	Notes	31 December 2009	31 December 2008
Continuing operations			
Investment banking fees	19	**74,146**	24,778
Other investment banking income	20	**18,999**	111,604
Investment banking income		**93,145**	136,382
Net expense from financial and non-financial institutions	21	**(9,327)**	(2,836)
Net income from non-banking activities	22	**21,056**	9,534
Share of loss of associates		**(3,662)**	(2,010)
Total income		**101,212**	141,070
Operating expenses	23	**(80,213)**	(63,492)
Profit before impairments and fair value write-downs & write-backs		**20,999**	77,578
Impairments	24	**(2,900)**	(6,950)
Write-downs on investment securities	24	**(22,511)**	(31,822)
Write-backs of fair value write-downs made in prior year	24	**8,812**	-
Profit for the year from continuing operations and before tax		**4,400**	38,806
Profit from assets held for sale		**1,246**	-
PROFIT BEFORE TAX		**5,646**	38,806
Income tax expense		**(3,411)**	(3,795)
NET PROFIT		**2,235**	35,011
Attributable to:			
Shareholders of the parent		**(5,079)**	34,272
Non-controlling interests		**7,003**	739
Non-controlling interests held for sale		**311**	-
		2,235	35,011

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	31 December 2009	31 December 2008
Net Profit	**2,235**	35,011
Other comprehensive loss:		
Exchange differences on translating foreign operations	**(1,149)**	(6,405)
Changes in investment securities fair value	**(190)**	(6,365)
Share of associates	**175**	6
Other comprehensive loss for the year	**(1,164)**	(12,764)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,071**	22,247
Attributable to:		
Shareholders of the parent	**(6,253)**	22,030
Non-controlling interests	**7,013**	217
Non-controlling interests held for sale	**311**	-
	1,071	22,247

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	Attributable to the shareholders of the parent								Advances for proposed increase in share capital	Non-controlling interests	Non-controlling interests held for sale	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed dividend	Total				
At 1 January 2009	**183,740**	**71,216**	**15,580**	**61,765**	**(5,606)**	**2,945**	**-**	**329,640**	**110,059**	**7,901**	**6,311**	**453,911**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(19)**	**(1,155)**	**(5,079)**	**-**	**(6,253)**	**-**	**7,013**	**311**	**1,071**
Transfer from fair value reserve	**-**	**-**	**-**	**(5,458)**	**-**	**5,458**	**-**	**-**	**-**	**-**	**-**	**-**
Business combination related movements	**-**	**-**	**-**	**(46,008)**	**-**	**-**	**-**	**(46,008)**	**-**	**-**	**-**	**(46,008)**
Issuance of additional shares (note 15)	**31,838**	**95,514**	**-**	**-**	**-**	**-**	**-**	**127,352**	**(110,059)**	**-**	**-**	**17,293**
Equity transaction costs incurred	**-**	**(25,022)**	**-**	**-**	**-**	**-**	**-**	**(25,022)**	**-**	**-**	**-**	**(25,022)**
Loss of controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(34,742)**	**-**	**(34,742)**
Non-controlling interests arising on business combination	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**57,149**	**-**	**57,149**
At 31 December 2009	**215,578**	**141,708**	**15,580**	**10,280**	**(6,761)**	**3,324**	**-**	**379,709**	**-**	**37,321**	**6,622**	**423,652**
At 1 January 2008	174,704	70,495	12,153	36,777	277	20,027	26,206	340,639	-	7,684	-	348,323
Total comprehensive (loss)/income for the year	-	-	-	(6,359)	(5,883)	34,272	-	22,030	-	217	-	22,247
Dividend paid	-	-	-	-	-	-	(26,206)	(26,206)	-	-	-	(26,206)
Transfer to consolidated statement of income on sale	-	-	-	(17,201)	-	-	-	(17,201)	-	-	-	(17,201)
Transfer to statutory reserve	-	-	3,427	-	-	(3,427)	-	-	-	-	-	-
Transfer to fair value reserve	-	-	-	48,548	-	(48,548)	-	-	-	-	-	-
Employees share based incentives scheme	-	-	-	-	-	621	-	621	-	-	-	621
Issuance of additional shares	9,036	721	-	-	-	-	-	9,757	-	-	-	9,757
Advances for proposed increase in share capital	-	-	-	-	-	-	-	-	110,059	-	-	110,059
Controlling interests held for sale acquired	-	-	-	-	-	-	-	-	-	-	6,311	6,311
At 31 December 2008	**183,740**	**71,216**	**15,580**	**61,765**	**(5,606)**	**2,945**	**-**	**329,640**	**110,059**	**7,901**	**6,311**	**453,911**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	31 December 2009	31 December 2008
OPERATING ACTIVITIES		
Net profit for the year	**2,235**	35,011
Adjustments for:		
Investment banking fees	**-**	(3,440)
Gain on sale of investment securities	**(5,440)**	(53,697)
Fair value gain on investment securities	**(4,733)**	(44,381)
Fair value loss/(gain) on investment properties	**9,374**	(4,167)
Impairment charges	**2,900**	6,950
Fair value write-downs on investment securities	**22,511**	31,822
Write-backs of fair value investment write-downs made in prior period	**(8,812)**	-
Share of loss of associates	**3,662**	2,010
Profit from assets held for sale	**(1,246)**	-
Bad debt	**5,000**	-
Share-based payments	**1,375**	1,643
Depreciation and amortisation	**3,027**	1,793
	29,853	(26,456)
Changes in:		
Due from financial and non-financial institutions	**(3,106)**	-
Other assets	**(55,901)**	(38,101)
Inventories	**2,869**	(28)
Due to financial and non-financial institutions	**119,276**	323,539
Other liabilities	**(73,444)**	47,668
Proceeds from sale of investment securities	**62,265**	214,502
Purchase of investment securities	**(119,388)**	(292,530)
Purchase of assets held for sale	**-**	(19,320)
Net cash (used in) from operating activities	**(37,576)**	209,274
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(8,566)**	(3,651)
Investment in associates	**(12,527)**	(1,325)
Net cash on disposal of subsidiary	**(89,310)**	-
Acquisition of subsidiaries, net of cash acquired	**111,586**	-
Net cash from (used in) investing activities	**1,183**	(4,976)
FINANCING ACTIVITIES		
Advances for proposed increase in share capital	**-**	110,059
Dividend paid	**-**	(17,471)
Subordinated Murabaha	**50,000**	-
Net cash from financing activities	**50,000**	92,588
NET INCREASE IN CASH AND CASH EQUIVALENTS	**13,607**	296,886
Foreign currency translation adjustments	**74**	(2,662)
Cash and cash equivalents at the beginning of the year	**420,174**	125,950
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**433,855**	420,174
Cash and cash equivalents comprise:		
Cash and balances with banks (note 3)	**135,918**	23,560
Due from financial and non-financial institutions	**297,937**	396,614
	433,855	420,174

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

Consolidated Statement of Restricted Investment Accounts

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

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

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

1. CORPORATE INFORMATION

Unicorn Investment Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No. 12/1978, and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and on 5 May 2004 was granted an Islamic investment banking licence by the Central Bank of Bahrain. In accordance with the revised banking regulations of the Central Bank of Bahrain, the Bank was granted a Wholesale Bank (Islamic Principles) Licence on 24 April 2007. The Bank's registered office is at the 3rd to 7th floors of Building No. 2304, Road No. 2830, Seef District 428, Kingdom of Bahrain.

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

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

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

The number of Group employees as at 31 December 2009 was 187 (2008: 491). The comparative figures include the employees of Victron Inc., which was deconsolidated in 2009.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

Statement of compliance

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

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 36.

Basis of consolidation

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

Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition up to the date of disposal or up to when control ceases to exist, as appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognised directly in the consolidated statement of income in the year of acquisition.

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

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
UIB Capital Inc.	100%	2004	United States of America
The main activities of UIB Capital Inc. are to source investment opportunities in the USA and monitor the performance of the acquired companies on behalf of the Bank and investors.			
Unicorn International Islamic Bank Malaysia Berhad	100%	2004	Malaysia
Unicorn International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.			
Unicorn International Islamic Bank Malaysia Berhad was granted an investment banking licence in 2007 by the Ministry of Finance of Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.			
Unicorn Capital Limited	100%	2006	United Arab Emirates
Unicorn Capital Limited was dissolved on 30 June 2009 due to restructuring of the Bank's operations and strategic focus.			
Unicorn Capital Menkul Değerler A.Ş.	91.9%	2007	Turkey
The main activities of Unicorn Capital Menkul Değerler A.Ş. are to provide investment consultancy, asset management, underwriting and brokerage services.			
Unicorn Capital Saudi Arabia	53.4%	2009	Saudi Arabia
Unicorn Capital Saudi Arabia ("UCSA") was granted a certificate of incorporation by the Saudi Arabia Capital Market Authority in March 2009. Its principal activities are investment banking.			

Apart from Victron Inc., which was de-consolidated during the year and UCSA, which has been consolidated during the year there have been no changes to the ownership structure.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates
In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. Estimates and judgements are evaluated on the continuous basis, and also based on past experience including expectations of future events. The most significant use of judgments and estimates are as follows:

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

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

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

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

- For unquoted investments, fair value is determined by reference to recent arm's length market transactions; current fair value of another instrument that is substantially the same; and other valuation models.

- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

- Investments in funds, unit trusts, or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

Impairment of goodwill
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on the discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include the restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rates used for extrapolation purposes.

The following standards and amendments, which became effective in 2009, are relevant to the Group:

Standard	Content	Applicable for financial years beginning on/after
IFRS 2	Share-based payment – Vesting conditions and cancellations	1 January 2009
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

IFRS 2 Share-based payments (Revised) - Vesting Conditions and Cancellations

The IASB issued amendments to IFRS 2 which clarified a) the definition of vesting conditions and prescribed the treatment for an award that is cancelled (effective 1 January 2009). The Group adopted these amendments as of 1 January 2009 and this did not have an impact on the financial position or performance of the Group.

2.3 Changes in accounting policies and disclosures

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 and are effective for financial years beginning on or after 1 January 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level hierarchy, by class, for all financial instruments recognised at the fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

Comparative information is not given as it is not required by the transition provisions of the amendment.

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 'Segment Reporting' and is effective for annual periods commencing 1 January 2009. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 36.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard, effective for financial years beginning on or after 1 January 2009, requires changes in equity arising from transactions with shareholders of the Bank in their capacity as owners (i.e. owner changes in equity) to be presented in the consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the consolidated statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the consolidated statement of changes in equity. Comparative information has been restated so that it also conforms with the revised standard. Since this change only impacts the presentation of the consolidated financial statements, there is no impact on retained earnings.

2.4 Summary of significant accounting policies

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

Foreign currency translation

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

Transactions and balances

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

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

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items held at fair value through profit or loss are recognised as part of fair value gains or loss and those on non-monetary items classified as held for sale are included in the fair value reserve in equity.

Group companies

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

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

Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand, balances with banks, due from financial and non-financial institutions, investment securities and receivables from clients. Financial liabilities consist of due to financial and non-financial institutions, subordinated Murabaha and other liabilities.

Date of recognition

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

Initial measurement of financial instruments

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

Due from financial and non-financial institutions

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

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

Investment securities

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Following the initial recognition, investment securities are remeasured using the following policies:

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

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

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

(ii) Available for sale investments

Investments are classified as "available for sale" if they are not classified as carried at fair value through statement of income. They mainly include strategic equity instruments and Sukuk.

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

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

Due to financial and non-financial institutions

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

Subordinated Murabaha

Subordinated Murabaha are based on the principles of Murabaha contracts and are convertible where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash, or to satisfy the obligation other than by the exchange of cash for a fixed number of own equity shares, at the discretion of the seller. Subordinated Murabaha are initially recognised at the fair value of consideration and are subsequently measured at amortised cost.

Derecognition of financial instruments

Financial assets

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

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

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

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial instruments (continued)

Financial liabilities

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

Impairment of financial assets

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

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

In the case of Sukuk classified as available for sale, impairment is assessed based on the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset. Profit will stop accruing from the date of impairment. If, in a subsequent year, the fair value of a Sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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

Impairment of non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed in the statement of income only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses relating to goodwill cannot be reversed for subsequent increases in the recoverable amount in future periods.

Offsetting of financial instruments

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Restricted investment accounts

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

Recognition of income and expense

Income recognition

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

Investment banking fees

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

Income from financial and non-financial institutions

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

Net non-banking activities income

Net non-banking activities income represents net income from both Victron, Inc. ("Victron") and Condor Holdings Limited ("Condor").

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

The revenues from Condor comprises of margin on sales of foreign currencies, gold, commission earned on the sale of travellers' cheques and income earned from banks. Margin on sales of foreign currencies and drafts is recognised as income on the accruals basis upon delivery to the customers. Commission income is recognised upon completion of services as accepted by the customer.

Other investment banking income

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

Dividend income is recognised when the Group's right to receive the payment is established. Management fees represent recurring fees earned by the Group for rendering management and administrative services to funds managed by the Group. Management fees are recognised over the period of the services rendered.

Expense recognition

Expenses are recognised on the following bases:

Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Bahraini employees are covered under the 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.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Expense recognition (continued)

Expense due to financial and non-financial institutions

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

Zakah

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

Taxation

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

Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises: cash and balances with banks; and amounts due from financial non-financial institutions and cash in transit with an original maturity of three months or less.

Investments in associates

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

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

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

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

Investment in Joint Venture

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

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

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Investment properties

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

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

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

Premises and equipment

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

Assets held for sale

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

Business combinations and goodwill

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

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

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

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

Provisions

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

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Share-based payments to employees

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

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

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

Fiduciary assets

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

Dividends on ordinary shares

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

Equity transaction costs

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

Segment reporting

IFRS8 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. The Group's segmental reporting is based on the following operating segments: Capital Markets and Treasury, Private Equity, Corporate Finance, Asset Management, Strategic Mergers and Acquisitions and other. Additional disclosures about each of these segments are shown in note 36.

Contingent liabilities and contingent assets

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

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

Standards issued but not effective

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

2. ACCOUNTING POLICIES (continued)

Standards issued but not effective (continued)

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Group's 2010 financial statements.

IFRS 9 Financial Instruments Part 1: Classification and measurement

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

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

3. CASH AND BALANCES WITH BANKS

	2009	2008
Cash on hand	**27**	29
Balances with banks	**85,891**	23,531
Cash in transit	**50,000**	-
	135,918	23,560

Cash in transit relates to subordinated Murabaha which has been received subsequent to the year end.

4. DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2009	2008
Murabaha receivables	**303,124**	396,774
Less: deferred profits	**(2,081)**	(160)
	301,043	396,614
Due from financial institutions	**188,465**	396,614
Due from non-financial institutions	**112,578**	-
	301,043	396,614

Due from financial and non-financial institutions represents Murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2009 was equivalent to an average rate of 2.7% per annum (2008: 3.4% per annum).

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES

	2009	2008
Carried at fair value through statement of income (note 5.1)	**198,109**	271,171
Available for sale investments at fair value:		
Quoted (note 5.2)	**27,734**	23,305
Unquoted (note 5.3)	**22,156**	14,852
Investment-related receivables	**-**	19,232
	247,999	328,560

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

5.2 Quoted available for sale investments comprise:

	31 December 2009					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**11,783**	**-**	**-**	**-**	**11,783**
Real estate and construction	**-**	**15,951**	**-**	**-**	**-**	**15,951**
Total	**-**	**27,734**	**-**	**-**	**-**	**27,734**

	31 December 2008					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	6,423	-	-	-	6,423
Real estate and construction	-	16,882	-	-	-	16,882
Total	-	23,305	-	-	-	23,305

5.3 Unquoted available for sale investments comprise:

	31 December 2009					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**7,261**	**-**	**96**	**-**	**7,357**
Government	**-**	**2,000**	**-**	**-**	**-**	**2,000**
Real estate and construction	**-**	**6,400**				**6,400**
Oil and energy	**-**	**1,157**	**-**	**-**	**3,669**	**4,826**
Technology	**-**	**-**	**-**	**1,573**	**-**	**1,573**
Total	**-**	**16,818**	**-**	**1,669**	**3,669**	**22,156**

	31 December 2008					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	10,150	-	56	-	10,206
Oil and energy	-	1,047	-	-	3,599	4,646
Total	-	11,197	-	56	3,599	14,852

(Amounts in United States Dollars thousands)

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	2009	2008
Associates:		
Dawood Islamic Bank Limited	**21,804**	11,689
t'azur B.S.C. (c)	**10,800**	12,738
Condor Holdings Limited	**89,458**	-
Total of associates	**122,062**	24,427
Joint venture:		
Victron Inc.	**29,286**	-
Total of associates and joint venture	**151,348**	24,427

The Bank has a 37.78% (2008: 22.22%) interest in Dawood Islamic Bank Limited, an unlisted Islamic commercial bank in Pakistan.

The Bank has a 25.86% (2008: 25.86%) interest in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain.

The Bank has a 45.28% (2008: 45.28%) interest in Condor Holdings Limited ("Condor"), a company based in the United Arab Emirates. Condor was incorporated to acquire Bahrain Financing Company B.S.C. (c) in Bahrain, Bahrain Exchange Company W.L.L. in Kuwait and EZ Remit in the United Kingdom (note 8).

The Bank has a 56% (2008: 80% - note 8) interest in Victron Inc., a company based in the United States of America through UII-Victron Inc., (the "joint venture") a special purpose vehicle incorporated in Delaware. Victron specialises in providing sophisticated manufacturing process technologies for complex printed circuit boards, other electronics assemblies and complete products or original equipment manufacturer.

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

	2009	2008
Assets	**349,176**	172,555
Liabilities	**(203,652)**	(71,856)
Net assets	**145,524**	100,699
Share of the associates revenue and loss:		
Revenue	**1,952**	2,075
Loss for the year	**(3,662)**	(2,010)

As the joint venture was entered into on 31 December 2009, no revenue or profit has been contributed by the joint venture.

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2009 and 2008 and 1 January 2008 related to its joint venture.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

7. INVESTMENT PROPERTIES

Investment properties comprise a plot of vacant land in the Seef District of the Kingdom of Bahrain. The fair value of this investment property at 31 December 2009 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms.

8. BUSINESS COMBINATION AND DECONSOLIDATION

Condor Holdings Limited

De-facto Control

In April 2009, the Bank obtained de-facto control over Condor. Condor was incorporated to acquire a portfolio of exchange and remittance companies. Prior to the date of obtaining de-facto control, Condor had been designated as investment securities (carried at fair value through statement of income). The acquisition has been accounted for using the purchase method of accounting.

On the date of obtaining de-facto control, the fair value of the identifiable assets and liabilities of Condor were:

	Carrying value	Fair value recognised on acquisition
Cash and balances with banks	71,754	71,754
Due from financial institutions	1,860	1,860
Other assets	10,139	10,139
Premises and equipment	1,039	1,039
Total Assets	84,792	84,792
Due to financial institutions	(20,761)	(20,761)
Other liabilities	(32,673)	(32,673)
Total Liabilities	(53,434)	(53,434)
Fair value of net assets		31,358
Net identifiable assets acquired (45.28%)		**14,199**
Goodwill arising on acquisition		69,569
Cost of acquisition		**83,768**
Cash outflow on acquisition:		
Net cash and cash equivalents acquired with the subsidiary in 2009 (comprise of cash and balances with banks and due from financial institutions)		73,614
Cash paid		(83,768)
Net cash outflow		**(10,154)**

Loss of de-facto control

During 2009, the Bank ceased to have de-facto control over Condor as a result of re-composition in Condor's Board of Directors. Accordingly the Bank classified the investment as an associate accounted for under the equity method (note 6). No gain or loss was recognised on loss of control.

(Amounts in United States Dollars thousands)

8. BUSINESS COMBINATION AND DECONSOLIDATION (continued)

Victron Inc.

Loss of Control

During 2009, the Group entered into a joint venture with a non-related party by disposing of 30% equity interest of UII Victron Inc. ("UII Victron") - a company that holds 80% equity interest in Victron Inc. ("Victron"). No gain or loss was recognised on disposal. Subsequent to loss of control this is now classified as an investment in a joint venture under IAS31 (note 6).

9. OTHER ASSETS

	2009	2008
Accounts receivable from Victron Inc.	**-**	14,120
Capital raising costs	**-**	6,989
Deal related advances	**9,490**	9,680
Dividend receivable	**11,993**	-
Fees and recoverable expenses outstanding from clients (note 9.1)	**72,514**	16,625
Prepayments and advances	**4,047**	4,692
Receivable from sale of investments (note 9.2)	**13,765**	-
Other	**4,901**	5,852
	116,710	57,958

9.1 Out of US$72.5 million, the Bank has received US$48.5 million subsequent to the year end.

9.2 The Bank has received this amount subsequent to the year end.

10. ASSETS HELD FOR SALE

In October 2008, the Bank acquired a 75% stake in a leading independent oil services company (the "Company") based in the Williston Basin in the United States of America. As at 31 December 2009, the Company's total assets and liabilities amounted to US$40.6 million (2008: US$39.2 million) and US$13.6 million (2008: US$13.6 million) respectively, and the non-controlling interest resulting from the acquisition of the Company amounted to US$6.6 million (2008: US$6.3 million).

During 2009, certain circumstances arose that were beyond the Bank's control previously considered unlikely and, as a result, the Company classified as held for sale was not disposed during 2009. Furthermore, the Bank is committed to selling the asset, the asset is being actively marketed at a reasonable price and the Bank has initiated an active program to locate buyers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

11. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets	Total
Cost:			
At 1 January 2009	**44,586**	**8,530**	**53,116**
Additions due to acquisition of subsidiary	**69,569**	**-**	**69,569**
Disposals due to deconsolidation of subsidiaries	**(112,167)**	**(8,530)**	**(120,697)**
Exchange adjustment	**30**	**-**	**30**
At 31 December 2009	**2,018**	**-**	**2,018**
Amortisation:			
At 1 January 2009	**-**	**(663)**	**(663)**
Amortisation charge for the year	**-**	**(663)**	**(663)**
Disposal due to deconsolidation	**-**	**1,326**	**1,326**
At 31 December 2009	**-**	**-**	**-**
Net book value:			
At 1 January 2009	**44,586**	**7,867**	**52,453**
At 31 December 2009	**2,018**	**-**	**2,018**
Cost:			
At 1 January 2008	45,110	8,530	53,640
Exchange adjustment	(524)	-	(524)
At 31 December 2008	44,586	8,530	53,116
Amortisation:			
Amortisation charge for the year	-	(663)	(663)
At 31 December 2008	-	(663)	(663)
Net book value:			
At 1 January 2008	45,110	8,530	53,640
At 31 December 2008	44,586	7,867	52,453

Impairment testing of goodwill

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

The carrying amount of goodwill is as follows:

	2009	2008
Victron Inc.	**-**	42,598
Unicorn Capital Menkul Değerler A.Ş.	**2,018**	1,988
	2,018	44,586

Unicorn Capital Menkul Değerler A.Ş.

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

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

(Amounts in United States Dollars thousands)

12. DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2009	2008
Victron Inc. notes payable	-	22,874
Due to financial institutions	**300,766**	383,468
Due to non-financial institutions	**220,657**	16,105
	521,423	422,447

Included in due to financial institutions is a 3-year syndicated financing facility of US$125 million repayable in February 2011. The profit is payable biannually at a rate of 6 months LIBOR + 170 basis points. The facility is not secured against the assets of the Bank, but has certain financial covenants that cover the consolidated tangible net worth and the leverage ratio of the Bank.

13. SUBORDINATED MURABAHA

During 2009, the Bank obtained a US$50 million facility from a related party which is convertible at the discretion of the related party into ordinary shares of the Bank, in December 2015; at a mutually agreed price and subject to legal and regulatory requirements. The average effective profit rate on the subordinated Murabaha is 6% (2008: nil).

14. OTHER LIABILITIES

	2009	2008
Accrued expenses	**1,204**	3,637
Deal-related payables	**10,672**	62,016
Staff-related payables	**4,256**	5,287
Trade and other payables	**8,856**	17,916
	24,988	88,856

15. SHARE CAPITAL

	2009	2008
Authorised:		
750,000,000 ordinary shares of US$1 each	**750,000**	750,000
Issued and fully paid:		
185,819,019 (2008: 158,304,361) ordinary shares of US$1 each, issued against cash	**185,819**	158,305
27,819,966 (2008: 23,801,343) ordinary shares of US$1 each, issued in kind	**27,820**	23,801
1,938,994 (2008: 1,633,994) ordinary shares of US$1 each, granted to employees	**1,939**	1,634
	215,578	183,740

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

15. SHARE CAPITAL (continued)

	No. of shares (thousands)	Nominal Value
At 1 January 2008	174,704	174,704
Issued during the year	9,036	9,036
At 1 January 2009	**183,740**	183,740
Issued during the year	**31,838**	31,838
At 31 December 2009	**215,578**	215,578

16. SHARE PREMIUM

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

17. STATUTORY RESERVE

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

18. PROPOSED DIVIDEND

No dividend has been proposed for 2009 (2008: nil) since the Board and management deem it prudent under the prevailing market conditions to preserve the cash generated by the Bank during 2009 as there is still considerable uncertainty as to how long the current global economic slowdown will last.

19. INVESTMENT BANKING FEES

	2009	2008
Advisory and placement fees	**66,547**	12,248
Arrangement and underwriting fees	**7,532**	1,358
Performance fees	**-**	5,013
Structuring fees	**67**	6,159
	74,146	24,778

(Amounts in United States Dollars thousands)

20. OTHER INVESTMENT BANKING INCOME

	2009	2008
Dividend income	**12,910**	1,154
Fair value (write-downs)/gain on investment properties	**(9,374)**	4,167
Fair value gain on investment securities	**4,733**	44,381
Gain on sale of investment securities	**5,440**	53,697
Management fees	**3,387**	3,186
Other income	**1,903**	5,019
	18,999	111,604

21. NET EXPENSE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2009	2008
Income on due from financial and non-financial institutions	**7,680**	6,178
Expense on due to financial and non-financial institutions	**(17,007)**	(9,014)
Net expense from financial and non-financial institutions	**(9,327)**	(2,836)

22. NET INCOME FROM NON-BANKING ACTIVITIES

	2009	2008
Sales from Victron Inc.	**88,065**	99,104
Less cost of sales from Victron Inc.	**(73,374)**	(80,907)
Gross profit from Victron Inc.	**14,691**	18,197
Other expenses from Victron Inc.	**(6,458)**	(8,663)
Net revenue from Victron Inc.	**8,233**	9,534
Revenue from Condor	**32,693**	-
Expenses from Condor	**(19,870)**	-
Net revenue from Condor	**12,823**	-
Net income from non-banking activities	**21,056**	9,534

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(Amounts in United States Dollars thousands)

23. OPERATING EXPENSES

	2009	2008
Advertising	**763**	1,042
Bad debt	**5,000**	-
Business development	**4,888**	4,496
Depreciation and amortisation	**2,106**	925
General and administrative	**5,081**	6,919
Legal and professional	**7,234**	4,953
Premises	**3,840**	2,452
Staff costs	**47,927**	40,951
Other	**3,374**	1,754
	80,213	63,492

24. FAIR VALUE GAIN/FAIR VALUE WRITE-DOWNS AND WRITE-BACKS ON INVESTMENT SECURITIES

	2009	2008
Fair value gain on investment securities	**4,733**	44,381
Write-downs on investment securities	**(22,511)**	(31,822)
Write-backs of fair value write-downs made in prior year	**8,812**	-
Net fair value (loss)/gain on investment securities	**(8,966)**	12,559
Impairments	**(2,900)**	(6,950)

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments

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

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

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

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

(Amounts in United States Dollars thousands)

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2009:

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

Movements in level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value for the year ended 31 December 2009:

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

Gains or losses on level 3 financial instruments included in profit or loss for the year ended 31 December 2009 comprise:

	Realised gains	Unrealised (losses)	Total
Total gains or (losses) included in profit or loss for the year	-	(9,910)	(9,910)

Transfers between level 1, level 2 and level 3

None of the financial assets were transferred from level 1 to level 2 or level 1 and level 2 to level 3 during the year ended 31 December 2009.

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25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
The following table shows the impact on fair value of level 3 financial instruments of using reasonably possible alternative assumptions by class of instrument:

	Carrying amount	Effects of reasonably possible alternative assumptions
Investment securities		
Investment securities carried at fair value through statement of income	**105,960**	**7,847**

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

Investment securities designated as available for sale - Unquoted	**8,930**	**447**

26. EQUITY TRANSACTION COSTS

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

	2009			2008		
	In cash	**In kind**	**Total**	In cash	In kind	Total
Sponsors	**1,658**	**16,074**	**17,732**	-	-	-
Others	**7,290**	**-**	**7,290**	-	-	-
	8,948	**16,074**	**25,022**	-	-	-

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

During the year US$25.0 million (2008: nil) of equity transaction costs has been transferred to share premium.

27. ASSETS UNDER MANAGEMENT

	2009	2008
Proprietary	**101,175**	88,427
Clients	**287,406**	275,959
	388,581	364,386

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

(Amounts in United States Dollars thousands)

28. COMMITMENTS

	2009	2008
Investment-related	**24,493**	35,980
Lease commitments	**5,195**	6,515
	29,688	42,495
Guarantees	**3,863**	4,167
	33,551	46,662

29. 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.

	2009	2008
Short term employee benefits	**13,706**	10,430
Post employment benefits	**536**	1,327
Share-based payments	**1,220**	721
	15,462	12,478

Transactions, arrangements and agreements involving related parties

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

Related parties also comprise the Group's investment companies and funds that hold clients' investments. The Group manages its investment companies and funds on a fiduciary basis on behalf of its clients, who are third parties and are the beneficiaries of a majority of the economic interest of the underlying investments in the investment companies and funds. All transactions with these related parties arose from the ordinary course of business at normal commercial rates.

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29. RELATED PARTY TRANSACTIONS (continued)

Transactions, arrangements and agreements involving related parties (continued)

	2009			2008		
	Shareholders/ Directors	Senior management	Other entities	Shareholders/ Directors	Senior management	Other entities
Assets						
Due to financial and non-financial institutions	-	-	85,304	-	-	-
Investment securities	-	-	143,399*	-	-	252,132
Investments in associates and joint venture	-	-	151,348	-	-	24,427
Other assets	-	110	81,053	-	95	16,155
Liabilities						
Due to financial and non-financial institutions	-	-	47,422	-	-	115,187
Subordinated Murabaha	-	-	50,000	-	-	-
Other liabilities	1,040	1,032	8,242	2,877	-	66,535
Shareholders' equity						
Equity transaction costs	10,953	6,780	-	-	-	-
Statement of income						
Investment banking fees	-	-	69,647	-	-	24,098
Other investment banking income	-	-	12,447	-	-	52,321
Net income from financial and non-financial institutions	-	-	188	-	-	595
Bad debt	-	-	(5,000)	-	-	-
Share of loss of associates	-	-	(3,662)	-	-	(2,010)
Victron Inc. expenses	-	-	(359)	-	-	(329)
Fair value loss on investment-related receivables	-	-	(10,000)	-	-	-
Directors' remuneration and expenses	(656)	-	-	(666)	-	-
Shari'ah Supervisory Board remuneration and expenses	-	-	(409)	-	-	(398)

* The investment securities amount includes investment-related receivable amounting to US$10 million.

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

30. RISK MANAGEMENT

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

- Risk identification: The Group's exposure to risk through its business activities, including investment in private equity, asset management, strategic mergers and acquisitions, corporate finance and capital markets, is identified through the Group's risk management infrastructure. In 2009, Risk Management infrastructure and governance model was significantly enhanced by the setup of specific departments for the handling of all risk policies, processes and infrastructures; the analysis of credit, investment and counterparty risk as well as the monitoring and controlling of exposures on a global basis. Furthermore, local risk teams have been strengthened. This process continues through expansion of the Group's Risk Management infrastructure.

30. RISK MANAGEMENT (continued)

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

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

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

Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework.

Board of Directors

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

Shari'ah Supervisory Board

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

Risk Committee

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

Asset and Liability Committee (ALCO)

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

Risk Management

Risk Management is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. Risk Management reports directly to the Board of Directors (via the Chief Risk Officer) and conducts risk assessments of strategic developments, and business area plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. It is responsible for the implementation of the Group's Business Change Implementation Guidelines, which defines the principles by which new strategies, products, systems and processes are developed in a systematic and co-ordinated fashion and for implementing control and compliance processes for use by the wider businesses involved in control and operational activities (principally Finance, Compliance, Information Technology and Operations).

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

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30. RISK MANAGEMENT (continued)

Treasury

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Capital Markets and Institutional Banking

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

Audit Committee

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

Internal Audit

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

Investment Risk

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective investment departments. This is supported by Risk Management which undertakes an additional and independent risk assessment of every planned transaction. The Group's investments in private equity are by definition in illiquid markets, frequently in emerging markets. Such investments cannot generally be hedged or liquidated easily. Consequently, the Group seeks to mitigate its risks via more direct means. Post acquisition risk management is rigorously exercised, mainly via board representation within the investee company, during the life of the private equity transaction. Periodic reviews of investments are undertaken and presented to the Investment and Post Investment Management Committee for review.

Risk Concentration

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

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

31. CREDIT RISK

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activity in close cooperation with Risk Management and proposes limits for review and approval by RC. RC periodically reviews these limits for appropriateness in prevailing market conditions.

(Amounts in United States Dollars thousands)

31. CREDIT RISK (continued)

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

	Gross maximum exposure 2009	Gross maximum exposure 2008
Balances with banks	**135,891**	23,531
Due from financial and non-financial institutions	**301,043**	396,614
Investment securities	**25,661**	29,382
Other assets – (fees and recoverable expenses outstanding from clients, accounts receivable from Victron, dividend receivable and receivable from sales of investments)	**99,912**	30,745
Total	**562,507**	480,272
Guarantees	**3,863**	4,167
Total credit risk exposure	**566,370**	484,439

Risk concentration of the maximum exposure to credit risk

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2009 was US$84.9 million (2008: US$44.1 million).

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

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

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

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31. CREDIT RISK (continued)

Risk concentration of the maximum exposure to credit risk (continued)
The distribution of assets and off-statement of financial position items by industry sector is as follows:

	Assets	Off-statement of financial position	Total 2009	Total 2008
Industry Sector				
Banking and finance	**427,340**	**863**	**428,203**	435,524
Industrial	**5,445**	**-**	**5,445**	141
Real estate and construction	**91,468**	**-**	**91,468**	30,529
Technology	**-**	**3,000**	**3,000**	17,120
In-house funds	**1,060**	**-**	**1,060**	1,125
Trade	**6,015**	**-**	**6,015**	-
Government	**2,000**	**-**	**2,000**	-
Individual	**29,179**	**-**	**29,179**	-
Total	**562,507**	**3,863**	**566,370**	484,439

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

Credit quality per class of financial assets
The Group does not currently apply a standard credit rating to its investment business. The Group assessed investment quality according to the policies of the respective business areas in 2009. However, this will change with the rollout of new/updated scoring models in 2010. Management considers the credit quality of the Group's financial assets to be of materially standard quality as at 31 December 2009. Following is an analysis of credit quality by class of financial assets:

	Neither past due nor impaired	Past due but not impaired	Individually Impaired	31 December 2009 Total
Balances with banks	**135,891**	**-**	**-**	**135,891**
Due from financial and non-financial institutions	**301,043**	**-**	**-**	**301,043**
Investment securities	**18,400**	**-**	**7,261**	**25,661**
Other assets – receivable from clients	**80,707**	**19,205**	**-**	**99,912**
	536,041	**19,205**	**7,261**	**562,507**

	Neither past due nor impaired	Past due but not impaired	Individually Impaired	31 December 2008 Total
Balances with banks	23,531	-	-	23,531
Due from financial and non-financial institutions	396,614	-	-	396,614
Investment securities	19,232	-	10,150	29,382
Other assets – receivable from clients	19,703	11,042	-	30,745
	459,080	11,042	10,150	480,272

(Amounts in United States Dollars thousands)

31. CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

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

	Less than 120 days 2009	Less than 365 days 2009	More than 365 days 2009	Total 2009
Other assets – receivable from clients	**2,036**	**12,237**	**4,932**	**19,205**

	Less than 120 days 2008	Less than 365 days 2008	More than 365 days 2008	Total 2008
Other assets – receivable from clients	3,709	1,601	5,732	11,042

32. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity management

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

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

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2009 and 31 December 2008 based on contractual undiscounted repayment obligations.

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

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2008					
Due to financial and non-financial institutions	9,945	264,628	-	147,874	422,447
Other liabilities	-	64,250	20,659	3,947	88,856
Total financial liabilities	9,945	328,878	20,659	151,821	511,303
Total undiscounted financial liabilities	9,945	330,835	25,246	162,661	528,687

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32. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of liabilities (continued)

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

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
2009					
Commitments	**13,551**	**-**	**12,027**	**4,110**	**29,688**
Guarantees	**3,863**	**-**	**-**	**-**	**3,863**
Total	**17,414**	**-**	**12,027**	**4,110**	**33,551**
2008					
Commitments	12,970	23,372	1,086	5,067	42,495
Guarantees	4,167	-	-	-	4,167
Total	17,137	23,372	1,086	5,067	46,662

33. MARKET RISK

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

Market Risk: Non-trading

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: due from financial and non-financial institutions, investments in Sukuk, due to financial and non-financial institutions and subordinated Murabaha.

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

	2009	Change in basis points (+/-) 2009	Effect on net profit (+/-) 2009	2008	Change in basis points (+/-) 2008	Effect on net profit (+/-) 2008
Assets						
Due from financial and non-financial institutions	**301,043**	**200**	**4,319**	396,614	200	7,932
Investment in Sukuk	**15,661**	**200**	**313**	10,150	200	203
Liabilities						
Due to financial and non-financial institutions	**521,423**	**200**	**(8,484)**	422,447	200	(8,449)
Total			**(3,852)**			(314)

(Amounts in United States Dollars thousands)

33. MARKET RISK (continued)

Currency risk

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

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

Currency	Exposure (US$ equivalent) 2009	Effect on net profit (+/-) 2009	Effect on equity (+/-) 2009	Exposure (US$ equivalent) 2008	Effect on net profit (+/-) 2008	Effect on equity (+/-) 2008
Kuwaiti Dinar	**462**	**92**	**-**	-	-	-
Turkish Lira	**10,290**	**-**	**2,058**	10,674	-	2,135
Malaysian Ringgit	**2,974**	**-**	**595**	(3,602)	-	720
Euro	**2,350**	**470**	**-**	2,226	445	-

Equity price risk

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

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2009) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$29.717 million and US$5.134 million, respectively (2008: US$39.626 million and US$4.201 million, respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

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

The Group is not exposed to any significant prepayment risk.

34. OPERATIONAL RISK

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

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

Capital charge for operational risk	2009	2008
Gross Income	**199,136**	178,953
Average for preceding three years	**162,596**	110,525
Alpha	**15%**	15%
Capital charge for operational risk	**24,389**	16,579

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35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

31 December 2009	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and balances with banks	**135,918**	**-**	**135,918**
Due from financial and non-financial institutions	**297,937**	**3,106**	**301,043**
Investment securities	**82,494**	**165,505**	**247,999**
Investments in associates and joint venture	**-**	**151,348**	**151,348**
Investment properties	**-**	**29,164**	**29,164**
Inventories	**-**	**-**	**-**
Other assets	**115,699**	**1,011**	**116,710**
Premises and equipment	**-**	**8,797**	**8,797**
Assets held for sale	**40,622**	**-**	**40,622**
Goodwill and intangible assets	**-**	**2,018**	**2,018**
Total assets	**672,670**	**360,949**	**1,033,619**
LIABILITIES			
Due to financial and non-financial institutions	**396,423**	**125,000**	**521,423**
Subordinated Murabaha	**-**	**50,000**	**50,000**
Other liabilities	**17,581**	**7,407**	**24,988**
Liabilities relating to assets held for sale	**13,556**	**-**	**13,556**
Total financial liabilities	**427,560**	**182,407**	**609,967**
Net gap	**245,110**	**178,542**	**423,652**
Net cumulative gap	**245,110**	**423,652**	

31 December 2008	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and balances with banks	23,560	-	23,560
Due from financial and non-financial institutions	396,614	-	396,614
Investment securities	76,137	252,423	328,560
Investments in associates	-	24,427	24,427
Investment properties	-	38,538	38,538
Inventories	10,695	-	10,695
Other assets	56,949	1,009	57,958
Premises and equipment	-	6,778	6,778
Assets held for sale	39,187	-	39,187
Goodwill and intangible assets	-	52,453	52,453
Total assets	603,142	375,628	978,770
LIABILITIES			
Due to financial and non-financial institutions	273,736	148,711	422,447
Other liabilities	85,409	3,447	88,856
Liabilities relating to assets held for sale	13,556	-	13,556
Total liabilities	372,701	152,158	524,859
Net liquidity gap	230,441	223,470	453,911
Net cumulative gap	230,441	453,911	

36. SEGMENT INFORMATION

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

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

Capital Markets and Treasury	The Group's capital markets business is engaged in structuring, managing and placing financing and equity offerings and securitisation transactions for corporate clients. It also targets sovereign clients. The Shari'ah-compliant products include Sukuk, asset backed securitisations and syndicated facilities. Capital markets also provides credit rating advisory services and maintains a proprietary investment book. The Group's treasury business provides Shari'ah-compliant funding, liquidity and hedging products and services. Treasury is currently focused on meeting the Group's internal cash management needs.
Private Equity	The Group's private equity business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. The business acquires portfolio companies through direct investments and also manages the Bank's Global Private Equity Fund.
Corporate Finance	The Group's corporate finance business provides clients with corporate finance advisory services for capital planning and funding strategy, financial restructuring and mergers and acquisitions. The services include balance sheet structuring, valuation, financing alternatives and strategic business advisory services.
Asset Management	The Group's asset management business is engaged in real estate funds, real estate private equity opportunities and equity funds.
Strategic Mergers and Acquisitions ("SM&A")	The Group's SM&A business is primarily responsible for acquiring investment banking businesses, opening new offices and securing the appropriate banking licenses in order to expand the Group's global footprint. SM&A also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.
Other	'Other' comprises the central management and support functions of the Group.

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

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36. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2009							
	Capital Markets & Treasury	Private Equity	Corporate Finance	Asset Management	Strategic M&A	Other	Elimination	Total
Third party income	68,035	9,515	434	6,084	16,374	(7,297)	-	93,145
Profit from assets held for sale	-	1,246	-	-	-	-	-	1,246
Net income from non-banking activities	-	8,233	-	-	12,823	-	-	21,056
Inter-segment income	-	1,757	-	472	-	444	(2,673)	-
Net income/(expense) from financial and non-financial institutions	3,276	(6,851)	(700)	(554)	(4,623)	125	-	(9,327)
Share of loss of associates	-	-	-	-	(3,662)	-	-	(3,662)
Total income	71,311	13,900	(266)	6,002	20,912	(6,728)	(2,673)	102,458
Depreciation and amortisation	-	-	-	-	-	(1,646)	-	(1,646)
Income tax expense	-	(3,099)	-	5	(323)	6	-	(3,411)
Other operating expenses	(1,851)	(6,174)	(1,468)	(5,961)	(5,164)	(57,949)	-	(78,567)
Total expenses	(1,851)	(9,273)	(1,468)	(5,956)	(5,487)	(59,589)	-	(83,624)
Impairments	(2,900)	-	-	-	-	-	-	(2,900)
Write-downs on investment securities	(10,163)	(5,823)	(4,500)	-	(17)	(2,008)	-	(22,511)
Write-backs of fair value write-downs made in prior year	-	8,812	-	-	-	-	-	8,812
Net Profit	56,397	7,616	(6,234)	46	15,408	(68,325)	(2,673)	2,235
Investments in associates and joint venture	-	29,285	-	-	122,063	-	-	151,348
Capital expenditure	-	5	-	14	-	8,552	-	8,571
Segment Assets	478,572	219,333	19,154	39,679	147,825	129,056	-	1,033,619
Segment Liabilities	171,248	202,042	19,259	15,242	127,189	74,987	-	609,967

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36. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2008							
	Capital Markets & Treasury	Private Equity	Corporate Finance	Asset Management	Strategic M&A	Other	Elimination	Total
Third party income	10,150	19,907	23,515	12,253	68,814	1,743	-	136,382
Net income from non-banking activities	-	9,534	-	-	-	-	-	9,534
Inter-segment income	-	3,211	-	-	-	-	(3,211)	-
Net income/(expense) from financial and non-financial institutions	4,228	(3,013)	(420)	(693)	(2,441)	(497)	-	(2,836)
Share of loss of associates	-	-	-	-	(2,010)	-	-	(2,010)
Total income	14,378	29,639	23,095	11,560	64,363	1,246	(3,211)	141,070
Depreciation and amortisation	-	(43)	-	(24)	-	(858)	-	(925)
Income tax expense	-	(3,788)	-	(1)	-	(6)	-	(3,795)
Other operating expenses	(1,666)	(4,531)	(1,261)	(3,336)	(3,994)	(47,779)	-	(62,567)
Total expenses	(1,666)	(8,362)	(1,261)	(3,361)	(3,994)	(48,643)	-	(67,287)
Impairments	(4,350)	-	-	-	(2,600)	-	-	(6,950)
Write-downs on investment securities	-	(26,117)	-	-	(5,705)	-	-	(31,822)
Net Profit	8,362	(4,840)	21,834	8,199	52,064	(47,397)	(3,211)	35,011
Investments in associates	-	-	-	-	24,427	-	-	24,427
Capital expenditure	-	134	-	12	-	3,505	-	3,651
Segment Assets	469,634	223,647	24,178	44,719	166,471	50,121	-	978,770
Segment Liabilities	155,600	152,118	14,506	23,934	84,306	94,395	-	524,859

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36. SEGMENT INFORMATION (continued)

Geographic segment information:

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets expenditure by geographical segments, based on the location in which the transactions and assets are recorded, for the years ended 31 December 2009 and 2008.

31 December 2009	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total (loss)/income	**(24,617)**	**110,945**	**8,662**	**1,400**	**6,068**	**102,458**
Non-current assets	**36,310**	**809**	**38**	**716**	**2,106**	**39,979**

31 December 2008	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	17,072	100,761	12,147	1,957	9,133	141,070
Non-current assets	42,863	267	52,174	711	1,754	97,769

37. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

38. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

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

39. SOCIAL RESPONSIBILITIES

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

40. ZAKAH

In accordance with the instructions of the Shari'ah Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the 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 2009 was US$0.05 per share (2008: US$0.05 per share).

41. CAPITAL

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

Notes to the Consolidated Financial Statements
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41. CAPITAL (continued)

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

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

	2009 (Basel II)	2008 (Basel II)
Regulatory capital base:		
Tier 1 capital	**295,363**	197,150
Tier 2 capital	**-**	-
Total regulatory capital	**295,363**	197,150
Risk-weighted assets	**1,281,160**	1,022,093
Tier 1 capital adequacy ratio	**23.05%**	19.29%
Total capital adequacy ratio	**23.05%**	19.29%

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

42. COMPARATIVE FIGURES

Some of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not have any effect on last year's reported figures.