VENTURE CAPITAL BANK

ANNUAL REPORT 2007

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بسم اللّه الرحمن الرحيم

﴿ وَقُلِ اعْمَلُواْ فَسَيَرَى اللّهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ ﴾

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VENTURE CAPITAL BANK

ADDING A NEW DIMENSION TO ISLAMIC INVESTMENT BANKING

THE VENTURE CAPITAL INVESTMENT BANK CONCEPT PIONEERED BY VENTURE CAPITAL BANK (VCBANK) IN THE GCC AND MENA REGION IS THE FIRST INITIATIVE OF ITS KIND THAT IS PRESENTED AND FORMULATED IN AN INVESTMENT BANKING CONTEXT.

BY INCORPORATING VENTURE CAPITAL INVESTMENT ACTIVITIES IN A SHARI'AH COMPLIANT INVESTMENT BANKING FORMAT, VCBANK IS ADDING A NEW DIMENSION TO THE REGIONAL AND GLOBAL ISLAMIC INVESTMENT BANKING INDUSTRY.

VISION, MISSION AND VALUES

VISION

Our vision is to be the leading regional Islamic venture capital based investment bank, helping to drive business growth, and supporting the social and economic development of the GCC and MENA region.

MISSION

Our mission is to create a pioneering business model and take a leadership role in institutionalising investment in the regional venture capital market. By forging enduring strategic partnerships, we aim to provide support and encouragement for the growth and development of the under-served small-to-medium enterprises (SMEs) sector in the GCC and MENA region that lack the necessary resources for growth and expansion.

VALUES

Our values of performance, innovation, client focus, team work and compliance with the rules and principles of Islamic Shari'ah guide us in our personal and professional behaviour. Our adoption of international standards and global best practice govern the way that we manage the operations of the Bank across all areas of activity.

PROFILE OF VENTURE CAPITAL BANK

VENTURE CAPITAL BANK (VCBANK) IS THE FIRST ISLAMIC INVESTMENT BANK IN THE GCC, MIDDLE EAST AND NORTH AFRICA TO SPECIALISE IN VENTURE CAPITAL INVESTMENT OPPORTUNITIES DESIGNED TO DRIVE BUSINESS GROWTH IN PORTFOLIO INVESTMENT, AND PROVIDE RISK ADJUSTED RETURNS ON INVESTMENTS.

Established in the Kingdom of Bahrain in October 2005, VCBank operates under an Islamic wholesale banking licence from the Central Bank of Bahrain. With an authorised capital of US$ 500 million and initial paid up capital of US$ 66 million, increased recently to US$165 million, the Bank benefits from the financial backing and support of a selected group of regional shareholders, an experienced team of industry professionals, and a close-knit network of strategic partners, business associates and allies.

VCBank offers clients a broad range of superior services and unique investment opportunities across a number of promising asset classes in the GCC and MENA markets. The Bank is active in four principal areas: venture capital and business development, private equity, real estate, and financial advisory.

VCBank is uniquely positioned to lead the development of the nascent venture capital industry in the region by providing unmatched levels of support for fundamentally strong, undervalued, small-to-medium enterprises (SMEs) that lack the necessary resources for growth and expansion.

2007 AT A GLANCE

NEW INVESTMENT ACTIVITIES

- US$ 100 million Saudi Venture Capital Investment Company under formation.
- US$ 54 million World Development Company established to invest in 'The World', in Dubai.
- US$ 24.85 million private placement offer to fund expansion plans of Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO), in the Hashemite Kingdom of Jordan.
- US$ 120 million private placement offer for Lemissoler Maritime Company in the Kingdom of Bahrain.
- MENA SMEs Private Equity Fund and co-investors acquired 79% stake in ITWorx in Egypt.
- US$ 113 million Global Omani Development & Investment Company (GLOREI) established in Sultanate of Oman.
- US$ 20 million Mozon Investment Holding Company established in Kingdom of Morocco.
- Bronco Drilling Company acquired 25% of Challenger Limited, an oil drilling company active in MENA region.

ORGANISATIONAL DEVELOPMENTS

- Further strengthened Corporate Governance and Risk Management framework.
- Grew staff through additional recruitment of high-calibre professionals.
- Enhanced IT infrastructure.
- Relocated to new HQ premises at Venture Capital Bank Building.
- Introduced share ownership plan for employees.

FINANCIAL HIGHLIGHTS

Total Income

US $ 54.4 MILLION

2007	54.4
2006	24.7

Net Profit

US $ 32.3 MILLION

2007	32.3
2006	13.3

Total Assets

US $ 222 MILLION

2007	222
2006	90.9

Total Shareholders' Equity

US $ 202 MILLION

2007	202
2006	79.8

Return on Equity

33%

2007	33%
2006	20.1%

Dividend Distribution

15%

2007	15%
2006	12.5%

Paid-up Capital Increased to:

US $ 165 MILLION

2007	165
2006	66

CHAIRMAN'S STATEMENT

In the Name of Allah, the Most Merciful, the Most Beneficent, Prayers and Peace be upon the Last Apostle and Messenger, our Prophet Mohammed, His Comrades and Relatives.

On behalf of the Board of Directors, it gives me great pleasure to report to you on a very successful second year of operations for Venture Capital Bank and to present the audited financial statements of the Bank for the year ended 31 December 2007, on which the auditors have expressed an unqualified opinion.

Dr. Ghassan Ahmed Al Sulaiman
Chairman

The Bank has earned a net profit of US$ 32.3 million for the period, which is a return on shareholders' equity of 33.0 per cent - a second year of record-breaking performance for the Bank.

During the year we more than doubled our capital through a rights issue and a private placement, and our total capital and reserves now stand at US$ 202 million. Total assets of the Bank at 31 December 2007 amounted to US$ 222 million.

Another landmark event was the set up of our Employees Share Ownership Plan ("ESOP"), which was rolled out in the last quarter as a measure to reward and retain our key employees. Our investment and placement teams have continued their outstanding work and I am delighted to inform you that deal flow has been excellent in the past year.

On behalf of the Board I would like to express our sincere thanks to Dr. Sami Mohsin Baroum who served as a member of the Board from the inception of the Bank till 11 November 2007, when his resignation was regrettably accepted since he wished to devote more time to his responsibilities as the Managing Director of the Savola Group.

+33%

Return on shareholders' equity

Appropriations

The Board of Directors recommended the following appropriations out of the net profit for 2007 for the approval of the shareholders:

- US$ 3.23 million representing 10% of the net profit to be transferred to statutory reserve in accordance with the Bahrain Commercial Companies Law 2001;
- US$ 23.77 million as cash dividends, representing 15% on issued and paid up capital including shares issued to the Employee Share Ownership Plan; and
- US$ 1.31 million representing directors' remuneration.

These appropriations were approved at the Annual General Meeting on 10 February 2008.

I would like to express my sincere thanks and appreciation to His Majesty King Hamad bin Isa Al Khalifa, His Highness the Prime Minister and His Highness the Crown Prince for their wise leadership, and their support and encouragement to the financial services sector in Bahrain and to the Islamic banking industry in particular. I also would like to express my thanks and appreciation for the support and guidance of the Central Bank of Bahrain to the Islamic financial services sector in Bahrain. My thanks also go to the renowned scholars of our Shari'ah Supervisory Board chaired by Shaikh Nidham Yaqooby for their guidance and supervision of the Bank during the period, and for their report which is attached. Last but not least, I would like to thank my fellow directors for their support and congratulate the management and staff of the Bank for their hard work, dedication and the excellent result.

I am confident in the strength and vitality of the Bank's vision and strategic business plan to grow to be the premier venture capital Islamic investment bank in the GCC and MENA region. On behalf of the Board, I would like to thank all of you for the support and confidence you have vested in us, and to assure you of our commitment to working for the continued success of Venture Capital Bank for the benefit of all stakeholders.

May Allah guide us on the proper path and lead us to the realisation of our goals for the success of VCBank.

Yours truly,

Dr. Ghassan Ahmed Al-Sulaiman
Chairman

BOARD OF DIRECTORS


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BOARD OF DIRECTORS

1. Dr. Ghassan Ahmed Al Sulaiman
Chairman
Kingdom of Saudi Arabia

Board Committees: Chairman of Finance & Investment Committee; Member of Nomination, Remuneration & Corporate Governance Committee.

Chairman: Ghassan Ahmed Al Sulaiman Trading (GAAT); Ghassan Ahmed Abdullah Al Sulaiman Trading.

Chairman of the Board: Ghassan Ahmad Al Sulaiman Furniture Co. Ltd (IKEA); Ghassan Ahmad Al Sulaiman & Partners Co. (GASP); House of Development Co. Ltd (HOD); Sahary Information Development (SID); Emara International for Development & Construction Co. Ltd; Training & Education Services Co. Ltd (TESCO); Tauzeef Human Resource Co. Ltd; Ghassan Ahmad Al Sulaiman Holding Co.; Venture Capital Bank; Khaleej Salman Bay Development Co.; Siraj Capital Ltd.

Director: Propaganda Advertising Co. (ISH'HAR); Bin Sulaiman Holding Co.; Abna' Abdullah Al Sulaiman Co. Ltd; Arabian Cement Co.

2. Abdulfatah Mohammed Rafei Marafie
Deputy Chairman
State of Kuwait

Board Committees: Chairman of Nomination, Remuneration & Corporate Governance Committee; Member of Finance & Investment Committee.

Chairman and Managing Director: Al-Tijaria Real Estate Company.

Chairman: Mozon Holding Company.

Director & Treasurer: Kuwait Union for Real Estate, Commercial & Investment Owners.

Director: Marafie Group of Companies; Commercial Bank of Kuwait; Amar Finance & Leasing Company; College of Business Administration, Kuwait University.

3. Abdullatif Mohammed Janahi
Board Member & Chief Executive Officer
Kingdom of Bahrain

Board Committees: Chairman of Executive Management Committee; Member of Finance & Investment Committee.

Chairman: OASIS Middle East Holding Company; Gulf Projects Company;Lemissoler Maritime Company and World Development Company.

Deputy Chairman: Omran Al Bahrain Company.

Director: ASAS Company; Mozon Holding Company; JAFFCO; Challenger Company.

Co-founder: International Investment Bank (IIB).

4. Ali Mousa Al Mousa
Board Member
State of Kuwait

Board Committees: Chairman of Risk Committee.

Chairman & Managing Director: Securities Group Company.

Ex. Planning Minister – State of Kuwait.

Ex. Deputy Governor – Central Bank of Kuwait.

5. Marwan Ahmad Al Ghurair
Board Member
United Arab Emirates

Board Committees: Member of Nomination, Remuneration & Corporate Governance Committee.

Chairman: Fanan Investments; Fanan Food Trading; Dubai National School.

6. Saleh Mohammed Al Shanfari
Board Member
Sultanate of Oman

Board Committees: Member of Finance & Investment Committee.

Managing Director: The Global Omani Investment Company; Industrial Systems Corporation.

Chairman: Global Computer Services Company; Asaffa Poultry Company; Al Telfaz Media Services Company; Al Kawther United Service Company; Dhofar Stones Company.

Director: Global Mining Company; Global Gypsum Company; Dhofar Agriculture Marketing Products; Muscat Securities Market; Oman Chamber of Commerce (Banking & Investment Committee); International Relations Committee; Omani-UAE Joint Business Council; Omani-Syrian Joint Business Council.

7. Bader Grmallah Al Zahrani
Board Member
Kingdom of Saudi Arabia

Board Committees: Member of Risk Committee.

Chairman: Etab Company.

Managing Director: Zahran Group.

Manager, Operations: Zahran Operations and Maintenance Company .

General Manager: Al-Mashriq medical O & P Company.

Director: Asseer Development Company; Saudi Detergents Company; ACROW Miser- Egypt; Naeem - Egypt.

8. Salman Mohammed Hassan Al Jishi
Board Member
Kingdom of Saudi Arabia

Board Committees: Member of Finance & Investment Committee; Member of Nomination, Remuneration & Corporate Governance Committee.

Proprietor: Salman Group of Companies.

Vice Chairman: Al Shifae Medical Syringes Manufacturing Company.

Vice President: Mohammed Hassan Al Jishi & Sons Holding Company; Saudi-Bahraini Businessmen's Society.

Director: Saudi United Cooperative Insurance Company; Chemical Development Company; ASAS Real Estate Company; Saudi Chamber of Commerce & Industry, Eastern Province.

9. Nedhal Saleh Al Aujan
Board Member
Kingdom of Bahrain

Board Committees: Chairman of Audit Committee.

Chief Executive Officer: Bahrain Development Bank (BDB).

Director: Retail Arabia; Bahrain Atomisers International; Bahrain Specialist Hospital; Joslin Diabetes Center; Bahrain Business Incubator Centre; Batelco; Dun & Bradstreet Same Limited.

10. Sulaiman Haider Al Haider
Board Member
State of Qatar

Board Committees: Member of Audit Committee.

Chairman: Sulaiman & Brothers.

Director: Qatar Navigation; Qatar German Medical Company; Qatar Chamber of Commerce.

11. Mohammed Bin Sulaiman Abanumay
Board Member
Kingdom of Saudi Arabia

Director: SABIC; Malath Insurance Company; Qassim Camant Company; Al Waten Newspapser in Kingdom of Saudi Arabia.

12. Christopher Brown
Board Member
United States of America

Board Committees: Member of Risk Committee.

Director: Global Emerging Markets (GEM), North America; Challenger Company.

SHARI'AH SUPERVISORY BOARD

Shaikh Nidham Mohammed Saleh Yaqooby
Chairman

Shaikh Yaqooby is a Ph.D. Reader at University of Wales (Islamic Law). He holds a BA in Economics & Comparative Religion from McGill University, Canada, in addition to Traditional Islamic Studies under the guidance of eminent Islamic scholars, among them: Shaikh 'Abdullah al-Farisi (Bahrain), Sh. Yusuf al-Siddiqi (Bahrain), Sh. Muhammad Saleh Al-Abbasi (Bahrain), Sh. Muhammad Yasin al-Fadani (Mecca), Sh. Muhammad Khatir (Egypt), Sh. Habib-ur-Rahman Azmi (India), Sh. Abdullah b. al-Siddiq Al-Ghumari (Morocco) and many other scholars. Sh. Nidham used to be a Khatib in Bahrain in the nineties, and since 1976 he has been teaching Islamic subjects. He is a Member of the Shari'ah Supervisory Board for a number of Islamic banks and institutions, Member of AAIOFI Sharia Council, IIFM Sharia Council, Islamic Rating Agency Sharia Council, Central Bank of Bahrain Sharia Board, and Dow Jones Islamic Index.

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Member

Dr. Abu Ghuddah is a Member of the Islamic Fiqh Academy, which evolved from the Organisation of Islamic Conference in Jeddah, Kingdom of Saudi Arabia. He previously held the positions of Expert and Reporter for the Islamic Fiqh Encyclopedia, Ministry of Awqaf & Islamic Affairs, State of Kuwait. He is a Member of the Sharia Supervisory Board of several Islamic financial institutions, and a Member of the Standards Board and Sharia Council of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). Dr. Abu Ghuddah holds a Ph.D. in Sharia from Al-Azhar University, Cairo, Egypt.

Dr. Essa Zaki Essa
Member

Dr. Essa is Assistant Professor at the College of Basic Education, Public Authority for Applied Education & Training, State of Kuwait. He is a Member of several Fatwa and Sharia Boards and Committees. Dr. Essa is the author of several books and publications on different Islamic subjects, and is a regular speaker at Islamic conferences and forums. He holds a Ph.D. in Comparative Fiqh from the Islamic University, Almadina Almonawarah, Kingdom of Saudi Arabia.

OUR VALUES OF PERFORMANCE, INNOVATION, CLIENT FOCUS, TEAM WORK AND COMPLIANCE WITH THE RULES AND PRINCIPLES OF ISLAMIC SHARI'AH GUIDE US IN OUR PERSONAL AND PROFESSIONAL BEHAVIOUR.

REPORT OF CHIEF EXECUTIVE OFFICER

In the name of Allah, the Most Beneficent, the Most Merciful. Prayers and Peace be upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

I am delighted to report that Venture Capital Bank enjoyed an excellent second year of operations in 2007, with a strong performance across all areas of our activities that exceeded expectations. As a result, we have successfully demonstrated the viability of our business strategy and operating model. With God's will, this performance will form a solid base for the ongoing success of VCBank.

Abdullatif Mohammed Janahi
Board Member & Chief Executive Officer

Financial Performance

Venture Capital Bank posted record-breaking financial results during 2007. Net profit grew by 143% to US$ 32.3 million compared to US$ 13.3 million in 2006. Return on equity was 33.0% (2006: 20.1%), comparing favourably with even the most successful, long-established international institutions.

Total income for the year was US$ 54.4 million (2006: US$ 24.7 million), while total expenditure amounted to US$ 22.1 million (2006: US$ 11.4 million). Total assets at the end of 2007 stood at US$ 222 million (2006: US$ 91 million) while total shareholders' equity before appropriations was US$ 202 million (2006: US$ 79.8 million).

The results reinforce the effectiveness of the Bank's team in delivering the best results for shareholders and investors through innovative investments with high returns.

Business Achievements

Superior deal flow and strong placement capability are among the most critical factors for the success of a financial institution such as ours. Building on our impressive business achievements during our first year of operations, VCBank successfully executed several new innovative products, projects and deals in the GCC and MENA region during 2007. These are fully detailed in the Investment Portfolio section of this annual report, so I will just highlight some of the major achievements here.

1. As part of its strategy of regional expansion, VCBank has made good progress with its plans to establish Saudi Venture Capital Investment Company (SVCIC) in the Kingdom of Saudi Arabia, which aims to capitalise on the significant potential of investment banking activities in the Saudi market. VCBank has successfully completed the raising of US$ 100 million capital for the SVCIC, and its application for a securities business licence

+143%

Growth in Net Profit (US$ 32.3 million)

from the Saudi Capital Markets Authority is currently under process.

2. VCBank has formed a 50:50 joint venture with Arabian Holdings International to establish the US$ 54 million World Development Company Limited, which will develop a high end residential and leisure community on a prestigious island within the iconic 'The World' master plan in Dubai.

3. The proceeds of a US$ 24.85 million private placement offering, arranged and placed by VCBank, will be used to fund Jordan Al Abyad Fertilizers and Chemicals Company's (JAFCCO) growth plan, which comprises the development of a state of the art industrial complex, specilaising in the manufacture of chemical fertilisers and industrial chemicals.

4. VCBank acted as the arranger and placement agent for a US$ 120 million private placement offering in Lemissoler Maritime Company in Bahrain, which has been formed with the objective of owning and operating a fleet of specialised commercial vessels.

5. The MENA SMEs Private Equity Fund along with two co-investors acquired a 79% stake in ITWorx Limited, the largest third party software developer in Egypt, specialising in providing tailor made products for Global 2,000 companies.

6. The Global Omani Development and Investment Company (GLOREI), an Omani closed joint stock company to be incorporated with a paid up capital of US$ 113 million, is being established at an opportune time to take advantage of the growing activity in Oman's different economic sectors with emphasis on the real estate sector.

7. VCBank has completed the procedures for the establishment of Mozon Investment Holding Company (Mozon) in the Kingdom of Morocco, with a paid up capital of US$ 20 million. Mozon aims to capture the many lucrative investment opportunities available to Arab and foreign investors in the Kingdom of Morocco.

8. The Bank and Challenger Limited signed a definitive agreement with Bronco Drilling Company Inc. whereby Bronco acquires 25% of Challenger Limited in return for a combination of in-kind and cash contributions from Bronco. Bronco is a publicly held company headquartered in Edmond, Oklahoma, USA and is a provider of contract land drilling and workover services to oil and natural gas exploration and production companies.

This major partnership deal between Challenger and Bronco, comes only one year after the Bank and its partner, the US private equity firm Global Emerging Markets (GEM), made a sizable private equity investment through the MENA Small & Medium Enterprises Fund in Challenger, hence strengthening Challenger's position and creating a formidable contractor in the MENA region and beyond. This achievement has resulted in a 39% growth in the value of the MENA Fund's Investment within a year from acquiring shares in Challenger.

In addition, VCBank's existing portfolio of investments progressed well during the year. These include the MENA SMEs Private Equity Fund, Jeddah and Abha city centres' regeneration projects, Park Plaza, ASAS Real Estate Company, Challenger Limited and House of Development.

We are also currently working on a number of major investment projects as investment products for the Bank's clients, offering a rewarding yield and high value. These include the establishment of a US$ 15 million Venture Capital Fund - Bahrain, designed to spur the growth of small-to-medium enterprises, in partnership with the government's Labour Fund; and a US$ 150 million

REPORT OF CHIEF EXECUTIVE OFFICER
CONTINUED

Net Profit
Expressed in USD Million

US $ 32.3 MILLION

investment to develop two residential tower blocks in the prestigious Reef Island development project in Bahrain.

These form part of the Bank's planned US$ 1 billion investment programme in the GCC and MENA region during 2008, of which more than 25% will be focused on sustainable and added-value projects in the Kingdom of Bahrain.

Organisational Developments

VCBank started operations in October 2005 with just five employees. By the end of 2007, that number had risen to 50, and will further increase to 90 employees by the end of 2008, which represents realistic staffing levels needed to support the Bank's growing business activities. Despite an increase of 21 people during 2007, recruitment was constrained by the size of VCBank's temporary head office premises.

The move in early 2008 to spacious new offices at Park Plaza, which has been renamed Venture Capital Bank Building, will enable the Bank to fulfill its urgent recruitment needs in all areas of the organisation, especially the critical back office support functions. It will also facilitate the implementation of an enhanced, scalable IT infrastructure that is needed to support current activities and future growth plans.

I am pleased to report that the Bank's employee share ownership plan, which was introduced in 2007, has been taken up by all employees. This plan is aimed at motivating staff to take an active role in contributing to, and benefiting from, our continued growth and profitability. As well as aiding employee retention, it will also provide an extra incentive with which to attract new recruits.

Our impressive business achievements to date underline the success of the Bank's GCC and MENA-based strategic focus, which is to target fundamentally sound and well managed SMEs across multiple industry sectors, and selected real estate theme projects, with strong growth potential. Through such investments, we aim to offer investors superior risk adjusted returns and co-investment opportunities, which are in full compliance with Islamic Shari'ah principles. Given the continued positive outlook for the region, VCBank is uniquely placed to take full advantage of the growing potential for emerging venture capital-related investment opportunities.

In conclusion, I would like to thank our shareholders and directors, our strategic partners and our investors, and the management team and staff of VCBank, for their valuable contributions during 2007. With God's blessing, I look forward to working with you to achieve even greater success in 2008 and beyond.

AbdulLatif Mohammed Janahi
Board Member and Chief Executive Officer

VENTURE CAPITAL BANK BUILDING

VCBank recognises the strong potential of the regional private equity market, and believes that well-envisioned, well-structured, and well-managed private equity investments can offer investors superior opportunities and rates of return. With its unmatched knowledge of local markets, and a strategically-positioned network of regional and global partners, VCBank is poised to emerge as the leading regional private equity investor, offering investors unique access to an unrivalled deal flow.

VCBank uses its expertise to put in place innovative and sophisticated vehicles and investment structures designed both to reduce the risks traditionally associated with venture capital investing, and to ensure superior returns for investors. Access to venture capital investments not only offers the Bank's clients with opportunities in an under-invested, niche asset class, but also enables them to play a positive role in channelling funds towards investment activities that will stimulate the growth and development of regional economies.

EXECUTIVE MANAGEMENT TEAM

Abdullatif Mohammed Janahi
Board Member and
Chief Executive Officer

Dr Khalid Abdulla Ateeq
Deputy CEO
Operations & Support

Sharif Ebrahim Monfaradi
Chief Investment Officer
Private Equity & Financial Advisory

The originator of the VCBank initiative and one of its key founders, Mr. Janahi served as the Executive Director of the Incorporating Committee of the Bank. He is the Chairman and Managing Director of Oasis Middle East Holding Company, an investment holding company that was responsible for originating, structuring, and exiting the Blue City project in the Sultanate of Oman, one of the Middle East's major real estate development projects. He is also the Chairman of Gulf Projects Company, Lemissoler Maritime Company and World Development Company. Previously, Mr. Janahi was one of the key founders and a Director of the Incorporating Committee of International Investment Bank, a Bahrain-based Islamic investment bank. Prior to this, he was Head of Business Advisory with Arthur Andersen in Bahrain. A Fellow of the Chartered Institute of Management Accountants in the UK. Besides his professional qualification, Mr. Janahi holds an M.Sc. in Accounting & Finance from the UK.

Dr. Ateeq has over 25 years experience in banking, finance, auditing and accounting. Prior to joining VCBank he was Executive Director of Banking Supervision at the Central Bank of Bahrain, where he was responsible for the licensing, inspection and supervision of financial institutions, ensuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at the University of Bahrain. In addition, through his diversified exposure, Dr. Ateeq served in senior posts with a number of reputable firms. He holds a Ph.D. in Philosophy of Accounting from the UK.

Prior to joining VCBank, Mr. Monfaradi was with Kuwait Finance House Bahrain, where he was Head of the Group's Private Equity and Direct Corporate Investment Department. Prior to that, he was Director of the Merchant Banking Group at Bahrain International Bank. Mr. Monfaradi worked for over 5 years at BIB's New York and London Offices, where he gained considerable experience in international private equity, structured finance, and high-yield debt markets. During his career, he has concluded a number of private equity, direct corporate and structured finance transactions in the US, Europe, Middle East and Australasia. Mr. Monfaradi holds a Bachelor of Engineering degree (Honours) in Computer and Control Systems from the UK.

EXECUTIVE MANAGEMENT TEAM

Dr. Ahmed Al-Jawhary
Chief Investment Officer
Venture Capital & Business Development

Khalid Habib Abdul Karim
Chief Investment Officer
Real Estate

Masood Ahmed Al-Bastaki
Chief Placement Officer

Prior to joining VCBank, Dr. Al-Jawhary was with International Investment Bank, a Bahrain-based Islamic investment bank, where he was Director of the International Investment Division, responsible for originating, negotiating and structuring private equity and real estate investments. Prior to that, he was a freelance investment advisor providing business and investment consultancy to domestic and regional financial institutions and corporate clients. He was also involved in originating, screening and structuring private equity investments globally.

Dr. Al-Jawhary was also Director of Parallel Program, and an Assistant Professor at University of Bahrain, during which time he advised on major government and private projects. He holds an MBA in Financial Services and a Ph.D. in Strategies for Foreign Investment & Multinational Corporations in Emerging Markets from the UK.

Mr. Abdul Karim has over 15 years experience in real estate, private equity, strategic management and audit. Prior to joining VCBank, he was Executive Director – Private Equity at Gulf Finance House. Before that, he was Managing Director of Gulf Arab Investment Company, and the Chairman and Managing Director of Egyptian European Real Estate Company.

During his career, he has participated in a number of mergers and acquisitions, direction setting and strategic management for numerous growth businesses and turnarounds. A Fellow of the Association of Chartered Certified Accountants in the UK, Mr. Abdul Karim holds a Bachelor of Accounting & Computer Science degree from the University of Wales, UK.

Prior to joining VCBank, Mr. Al-Bastaki was Head of the Islamic Banking Division at Bank Muscat International, with a mandate to establish an Islamic banking subsidiary. Before that, he was with JPMorgan Chase Bank for 6 years where he was Head of the GCC Client Management, responsible for the bank's business with financial institutions, government agencies and large corporates. Previously, he spent 5 years with Arab Banking Corporation as a Client Relationship Manager in the Islamic banking subsidiary, covering various regions including the GCC, Far East and the Americas, and responsible for syndication finance, and originating and structuring deals.

He started his banking career with Bank of Bahrain & Kuwait where he spent more than 7 years in the field of corporate and project finance, investment, and financial institutions. Mr. Al-Bastaki holds a Post Graduate Diploma and a B.Sc. in Business Administration from the University of Bahrain.

THE BANK'S INITIAL INNOVATIVE INVESTMENT PRODUCTS, PROJECTS AND DEALS, WHICH WERE SUCCESSFULLY EXECUTED IN 2006, MADE EXCELLENT PROGRESS DURING 2007.

INVESTMENT PORTFOLIO

Saudi Venture Capital Investment Company (SVCIC)

Value:	US$ 100 million
Country:	Kingdom of Saudi Arabia
Nature of Investment :	Venture Capital - Investment
Year:	2007

As part of its strategy of regional expansion, VCBank has made good progress with its plans to establish Saudi Venture Capital Investment Company (SVCIC) in the Kingdom of Saudi Arabia, which aims to capitalise on the significant potential of investment banking activities in the Saudi Arabian market. SVCIC has successfully completed the raising of capital for the investment, and its application for a securities business licence from the Saudi Capital Markets Authority is currently under process. The economic performance of Saudi Arabia in 2007 was exceptionally strong. Key factors fuelling this growth include the high price of oil, record budget and current account surpluses, increased government spending on major projects, and enhanced levels of liquidity resulting from wealth returning to the region from the USA and Europe. Investors can expect 2008 to be a pivotal year in this economic boom, highlighted in particular by a continued dynamic growth of the Kingdom's non-oil private sector, which is forecast to grow by over seven per cent, the fastest rate for more than 25 years. This will create ample investment opportunities for venture capital and private equity firms such as SVCIC, who will be able to capitalise on the high economic growth to achieve superior returns on their investments.

The economic fundamentals that are supporting this current boom, such as the improving macroeconomic condition, the improving capital markets and the improving regulatory structure, remain in place and will continue to do so. Attracted by this sustained economic boom, the number of private sector investments, particularly in the small & medium enterprises (SME) segment in Saudi Arabia, has increased significantly. SMEs, which account for well over 50% of the private sector, are also considered to be an important source for creating jobs, fostering technological innovation, and introducing new products and services. As such, they are expected to contribute even more substantially to Saudi Arabia's manufacturing and production capacity in the near future. Nevertheless, despite the strategic importance of SMEs, very few financial institutions and other funding sources in Saudi Arabia have focused on opportunities represented and offered by SMEs. With most intermediaries mainly focusing on late stage financing, there is a clear opportunity for a new player, such as SVCIC, to focus on providing early, expansion and bridge stage capital to SMEs in Saudi Arabia.

World Development Company

Value:	US$ 54 million
Country:	U.A.E.
Nature of Investment :	Real Estate
Year:	2007

VCBank has formed a 50:50 joint venture with Arabian Holdings International Limited to establish the US$ 54 million World Development Company Limited, which will develop a high end residential and leisure community on a prestigious island within the iconic 'The World' master plan. The World master plan is made up of 300 islands that are reclaimed in the shape of the world. Measuring nine by seven kilometres, and covering over 9 million square metres, The World will be visible to the naked eye from outer space.

Covering a total area of 900,000 square feet, the island (called Dikson) is located in the northern part of The World, and is part of the land mass more commonly known as Russia. The island was carefully chosen for its strategic location and size. Dikson, situated in close proximity to some islands which are categorised as "Private Islands", and enjoys excellent and unobstructed views of the sunset and open waters. The low density island will house an exclusive residential community that will be operated by an internationally renowned operator as a 'managed residence'. It will comprise only 122 individually designed and carefully zoned residential units, ranging from junior suites to four-bedroom signature villas, with canal-side or waterfront settings. The lead developer for the project is dxb-lab, a Dubai-based architectural firm that has designed and completed several projects to international acclaim. The gross development value of the project is US$ 164 million, and will encompass a gross floor area of approximately 284,000 square feet. World Development Company Limited provides a unique investment opportunity that is not available to average individual real estate investors in the region. The projected return on investment is in excess of 100% over the anticipated three-year investment period.

INVESTMENT PORTFOLIO

Jordan Al Abyad Fertilizers & Chemicals Co. (JAFCCO)

Value:	US$ 24.85 million
Country:	Hashemite Kingdom of Jordan
Nature of Investment:	Private Equity - Chemical Fertilizers
Year:	2007

The proceeds of a US$ 24.85 million private placement offering, arranged and placed by VCBank, will be used to fund Jordan Al Abyad Fertilizers and Chemicals Company's (JAFCCO) growth plan, which comprises of development of a state-of-the art industrial complex, specialising in the manufacture of chemical fertilisers and other kinds of chemicals that are currently imported into the MENA region. Since its incorporation in 1997, JAFCCO has established a strong name in the chemical fertilizers industry, specialising in the manufacture of high quality sulphate of potassium (SOP) and hydrochloric acid (HCL) as a by-product of SOP. The Company started with one reactor producing 1,500 tons of SOP and 1,800 tons of HCL, which have since risen to 11,500 tons and 13,800 tons respectively. JAFCCO's full production capacity is sold to customers in Egypt, Saudi Arabia, Syria, Spain, Australia, India and the UAE, and it enjoys a natural barrier to entry as Jordan is the only producer of Potash (KCL), the main raw material for the production of SOP, in the Arab World, which is extracted from the Dead Sea. SOP has proved to be one of the most important agricultural fertilisers as it contains nutrients needed in growing most high revenue crops such as olive trees, vegetables, fruits and coffee.

World consumption and production of SOP reached equilibrium in 2005, at 3.1 million tons, of which Asia and Africa account for around 50% of market demand. JAFCCO, being located in Jordan, therefore has a clear competitive advantage versus global producers in terms of transportation costs and the availability of raw materials to satisfy this supply / demand imbalance. The new manufacturing facility to be built by JAFCCO will contain a sulphuric acid production line, an SOP plant and a technical grade phosphoric acid plant that uses HCL as a raw material, which results in another by-product – calcium chloride – that has a good market in the region. The projected production capacity of the new plant, which is expected to be operational in early 2010, will be 80,000 tons of SOP, 75,000 tons of sulphuric acid, 22,000 tons of purified phosphoric acid, and 32,000 tons of calcium chloride.

Lemissoler Maritime Company

Value:	US$ 120 million
Country:	Kingdom of Bahrain
Nature of Investment:	Private Equity - Shipping
Year:	2007

VCBank is the arranger and placement agent for a US$ 120 million private placement offering in Lemissoler Maritime Company in Bahrain, which has been formed with the objective of owning and operating a fleet of specialised commercial vessels. The Company has acquired five specialist newsprint paper-carrying vessels that will comprise its initial fleet, and has already identified eight feeder containerships that will be acquired in two phases during 2008, as an expansion fleet. The vessels of both fleets have long term, fixed-rate time charter agreements with blue chip shipping charterers.

The Company will utilise the strengths and experience of the Lemissoler Shipping Group, which is involved in international shipping activities including ship owning, container feedering services and third party ship management services. Through the Group's subsidiary, Lemissoler Ship Management Ltd., the Company will benefit from the considerable expertise on offer to help identify, acquire and operate the entire fleet with the necessary technical, administrative and commercial skills. The shipping industry is an important and fast growing sector that is directly linked to the world's escalating trade activity, led increasingly by emerging economies of Asia as well as those of the Middle East and North Africa. The international shipping industry is responsible for the carriage of 90% of world trade and is the life blood of the global economy.

Lemissoler Maritime is therefore well positioned to take advantage of near term market opportunities including a growing need for specialised shipping vessels; an increasing shortage of adequate feedering services to complement larger container ships; and the worldwide development of new port facilities.

INVESTMENT PORTFOLIO

ITWorx

Value: US$ 8 million
Country: Egypt
Nature of Investment: Private Equity - Software Development
Year: 2007

The latest acquisition by the MENA SMEs Private Equity Fund is ITWorx Limited, the largest third party software developer in Egypt. ITWorx specializes in providing tailor-made products for Global 2,000 companies with specific focus on financial service firms, educational institutions, telecommunication operators, regional governments and diversified conglomerates, and includes the likes of Vodafone, Microsoft, United Technologies Corporation, the Egyptian Government, du, OTIS Elevators, Siemens, Adobe and Sony. Led by a strong management team, the award winning Company has a track record of profitable growth and currently has over 700 employees. It competes favourably on quality and expertise with similar companies in Asia and has the added advantage of a multi-language capability. Approximately 45% of sales are from the USA and Europe, while 55% are from the fast growing Middle East and North Africa region.

The MENA SMEs Private Equity Fund along with two co-investors has acquired 79% of ITWorx, EuroMena Fund administered by Capital Trust and Proparco, the private sector arm of the French Development Agency. The Fund's ownership interest in ITWorx is approximately 30%.

Global Omani Development & Investment Co. (GLOREI)

Value: US$ 113 million
Country: Sultanate of Oman
Nature of Investment: Business Development - Investment
Year: 2007

Oman is witnessing an unprecedented rate of growth. The main drivers are favourable regulatory changes, regional liquidity surge, availability of financing, strategic geographic location and population growth. Regionaly speaking, however, Oman represents an excellent destination for investments due to the presence of numerous untapped opportunities throughout its economic landscape.

These combined factors make it one of the high potential markets in the region. The Global Omani Development and Investment Company (GLOREI), an Omani closed joint stock investment company to be incorporated with a paid up capital of US $ 113 million, is being established at an opportune time to take advantage of the growing activity in various Omani sectors. Founding investors include VCBank and a number of prominent investment houses from around the Gulf.

GLOREI shall act through its broad investments mandate as an investment platform and outpost through which attractive investment opportunities from different economic sectors can be identified, screened and structured as investment products.

INVESTMENT PORTFOLIO

Mozon Investment Holding Company

Value:	US$ 20 million
Country:	Kingdom of Morocco
Nature of Investment:	Business Development - Investment
Year:	2007

VCBank has joined forces with Commercial Real Estate Company, Al Burooj Real Estate Investment, Al Khaleeji Investment House, and Aayan Leasing and Investment to create a formidable player on the business scene in the Kingdom of Morocco in the form of Mozon Investment Holding Co. ("Mozon").

Through this partnership, Mozon endeavours to capture the many lucrative investment opportunities available to Arab and foreign investors in the Kingdom of Morocco, and to take advantage of the progressive investment environment of the Kingdom, which has successfully attracted foreign investments. In terms of its direction and strategy, Mozon will concentrate its efforts and aptitude on a variety of investment activities in the Kingdom, including buying and selling, and the establishment of companies spanning a range of economic sectors. These include, but are not limited to, industrial, service, real estate, finance, and investment. Through its projects and activities in Morocco, Mozon will provide several well-governed and thoroughly-studied investment channels for a large GCC investor base, particularly for those who are on the verge of entering the promising assortment of markets and economic sectors in the Kingdom.

The Company is currently engaged in performing detailed analyses of several key projects in alliance with strategic partners in the Morocco, in order to begin implementation and execution in the near future.

MENA Small & Medium Enterprises Fund I

Value:	US$ 80 million
Country:	MENA
Nature of Investment:	Private Equity - Investment Funds
Year:	2006

This US$ 80 million MENA Small & Medium Enterprises Fund I achieved its second and final closing in 2007. The Fund's first acquisition – the MENA-based oil drilling contractor Challenger Limited – has performed extremely well, experiencing high demand in the region for its services. A major recent development was the acquisition of a 25% stake in Challenger by Bronco Drilling Company. Listed on the NASDAQ, Bronco is the sixth largest drilling operator in the USA. Such an acquisition reinforces Challenger's growing reputation in the industry.

In the fourth quarter of 2007, the Fund acquired 12.8% of Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO), a company incorporated in the Hashemite Kingdom of Jordan, specialising in manufacturing chemical fertilisers and other kinds of industrial chemicals. The equity contributions alongside a Shari'ah compliant financing facility, will be used primarily to fund Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO) expansion plan.

Furthermore, in the fourth quarter of 2007, the fund acquired approximately 30% of ITWorx Limited, the largest software development company in Egypt in terms of revenue.

INVESTMENT PORTFOLIO

House of Development

Value:	US$ 5 million
Country:	Kingdom of Saudi Arabia
Nature of Investment:	Venture Capital - Information Technology
Fund**Year:**	2006

VCBank acquired a controlling stake in this Saudi-based IT applications solutions provider to help it implement its global expansion plans. In 2007, House of Development opened an office in New York and commenced marketing its services in the USA.

Based in Jeddah, Kingdom of Saudi Arabia, HoD has developed a unique electronic certification and authentication (EC&A) technology using cryptography and barcode technologies, which can be used to develop Internet-based document certification and authentication products for a range of industries.

Gulf Projects Company

Value:	US$ 27 million
Country:	Kingdom of Bahrain
Nature of Investment:	Venture Capital - Logistical Assets
Year:	2006

VCBank's investment in Gulf Projects Company (GPC) was based on the Bank's venture capital approach of creating substantial return and value through turning a concession into an operational asset.

The first operational asset of GPC is the Park Plaza project, combining retail outlets, office space and multi-storey car parking in the Diplomatic Area of Manama, Kingdom of Bahrain, which is now fully let and operational. To date, the targeted return on investment has been exceeded, with the payment of quarterly cash dividends starting in September 2007. Park Plaza, which houses the new headquarters of VCBank, was renamed Venture Capital Bank Building in early 2008. The complex also includes a new concept in world class business centres – The Lounge Serviced Offices Company – which was designed and funded by VCBank.

INVESTMENT PORTFOLIO

Venture Estates / Asas Realty Company

Value:	US$ 40 million
Country:	Kingdom of Saudi Arabia
Nature of Investment:	Real Estate
Year:	2006

Venture Estates is a well governed investment structure that holds a 40% stake in ASAS Realty Company, which is based in the Eastern Province of Saudi Arabia, and focuses on non-speculative real estate projects in the Kingdom. In 2007, the establishment formalities of ASAS were completed, with the establishment of the Board of Directors, the recruitment of an executive management team, and the selection of premises in Al Khobar for the Company's head-quarters. The Company is currently screening and negotiating several residential and mixed-use projects in the Eastern Province.

Jeddah City Centre Regeneration

Country:	Kingdom of Saudi Arabia
Nature of Investment:	Real Estate
Year:	2006

This challenging project involves the regenration of the Al Balad district, one of the oldest areas of Jeddah City, which covers a total area of over 5 million square metres, and faces serious problems of decaying properties and outdated amenities. VCBank is part of a consortium that will develop the master plan and build the successful economic model for the project in close coordination with Jeddah Municipality.

Progress to date includes the commissioning of international consultants to develop a master plan, and the development of a business plan for the implementation of this prestigious but complex project. The consortium are in the final negotiation stage to attract a global development partner to be a strategic investor alongside other members of the consortium.

INVESTMENT PORTFOLIO

Abha City Centre Regeneration

Country: Kingdom of Saudi Arabia
Nature of Investment: Real Estate
Year: 2006

This ambitious project entails the development of the centre of the city of Abha in the Aseer region, in order to exploit the potential of this city as a tourist destination. VCBank is part of an investment alliance responsible for evaluating the best available development and funding options. A recent key achievement was the presentation of the concept plan to the Custodian of the Holy Mosques, King Abdullah, which received his blessing. Additional progress to date includes the development of a business model that will meet the interests of the many owners of different parts of this 2 million square metre area, and aligning the interest of all parties (govermental bodies and land owners).

Omran Al Bahrain Company

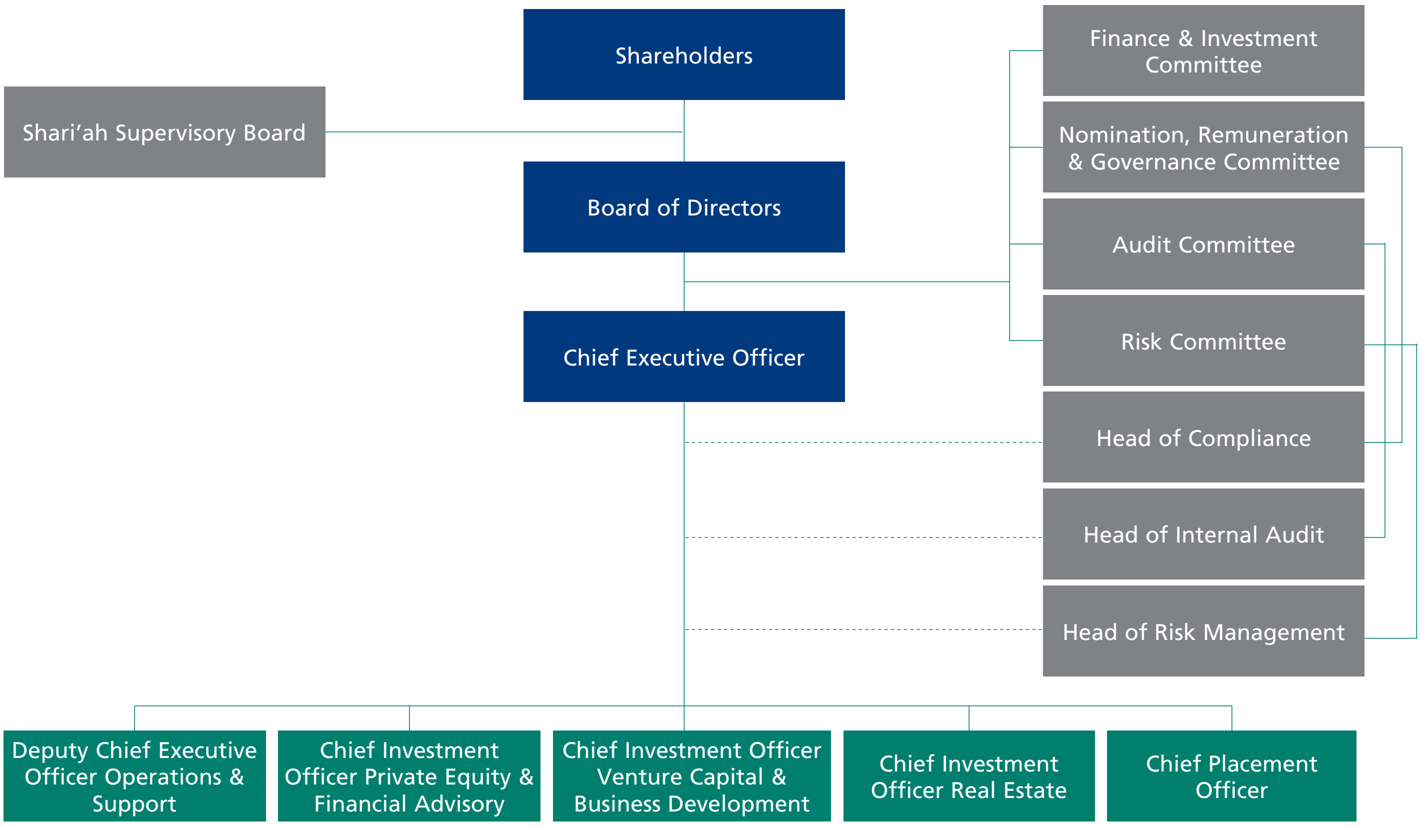
Country: Kingdom of Bahrain
Nature of Investment: Real Estate
Year: 2006

A key business development of Omran Al Bahrain Company during 2007 was the successful five-fold increase of the Company's paid up capital, which was fully subscribed by existing shareholders. In addition to the initial Rainbow Towers development project in the Emirate of Umm A-Qaiwain, UAE, the Company has identified a number of real estate projects in Bahrain. These include residential plots on Reef Island and in the Dana district, plus a commercial plot in the Seef district.

CORPORATE GOVERNANCE

VCBank is committed to upholding the highest standards of corporate governance in compliance with relevant governing regulations and global best practice. Accordingly, the Bank has put in place a robust and comprehensive corporate governance framework aimed at ensuring operational effectiveness while protecting the rights and interests of all stakeholders.

The Bank is organised as follows:



Corporate Governance Structure

Board of Directors

Role - the Board is responsible for the stewardship of the Bank's business and affairs on behalf of the shareholders, with a view to enhancing long term shareholder value whilst taking into account the interest of other stakeholders, and maintaining high standards of transparency and accountability.

Members

1. Dr. Ghassan Ahmed Al Sulaiman – Chairman
2. Abdulfatah Mohammed Rafei Marafie – Deputy Chairman
3. Abdullatif Mohammed Janahi
4. Ali Mousa Al Mousa
5. Marwan Ahmad Al Ghurair
6. Saleh Mohammed Al Shanfari
7. Bader Grmallah Al Zahrani
8. Salman Mohammed Hassan Al Jishi
9. Nedhal Saleh Al Aujan
10. Sulaiman Haider Al Haider
11. Mohammed Bin Sulaiman Abanumay
12. Christopher Brown

Board Committees

Finance & Investment Committee
Role - the purpose of the Finance & Investment Committee is to oversee the financial and investment affairs of the Bank.

Members
Dr. Ghassan Ahmed Al Sulaiman – Chairman
Abdulfatah Mohammed Rafei Marafie
Saleh Mohammed Al Shanfari
Abdullatif Mohammed Janahi
Salman Mohammed Hassan Al Jishi

Nomination, Remuneration & Governance Committee
Role – The Nomination, Remuneration & Governance Committee oversees matters related to the nomination of new directors, assessment of the Board and its committees and directors, and the remuneration of directors and senior management. In addition, the Committee imposes the highest level of ethical conducts; ensuring full compliance with the by-laws, and the rules and regulations that govern the Bank's business.

Members
Abdulfatah Mohammed Rafei Marafie – Chairman
Dr. Ghassan Ahmed Al Sulaiman
Marwan Ahmad Al Ghurair
Salman Mohammed Hassan Al Jishi

Audit Committee
Role – The Audit Committee is tasked with oversight responsibilities on financial reporting, systems of internal control, internal and external audit, legal and regulatory compliance.

Members
Nedhal Saleh Al Aujan – Chairman
Sulaiman Haider Al Haider
Giles Catchpole (non-board member)
Ihsan Al Jishi (non-board member)

Risk Committee
Role – The Risk Committee is tasked with maintaining oversight of the Bank's management systems covering all risks faced by the Bank and reporting them to the Board.

Members
Ali Mousa Al Mousa – Chairman
Bader Grmallah Al Zahrani
Christopher Brown
Muneer Al Shehri (non-board member)

Shari'ah Supervisory Board
Role – The Shari'ah Supervisory Board is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'ah.

Members
Shaikh Nidham Mohammed Saleh Yaqooby – Chairman
Shaikh Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Shaikh Dr. Essa Zaki Essa

Executive Management Team
The Board has delegated the authority for day-to-day management of the Bank to the Chief Executive Officer, who is supported in his duties by the Executive Management Team.

Abdullatif Mohammed Janahi	Chairman
Dr. Khalid Abdulla Ateeq	Member
Sharif Ebrahim Monfaradi	Member
Dr. Ahmed Al Jawhary	Member
Khalid Habib Abdul Kareem	Member
Masood Ahmed Al Bastaki	Member

Code of Conduct
The Bank has developed a Code of Conduct to which all directors and employees must adhere, acting ethically at all times.

Compliance
The Bank has in place comprehensive policies and procedures to ensure full legal and regulatory compliance with relevant rules and regulations of the Central Bank of Bahrain. These include money laundering reporting and prudential reporting.

Communications
The Bank conducts all communications with its stakeholders in a professional, transparent, accurate and timely manner. Main communication channels include the annual general meeting of shareholders, annual report, corporate website and brochure, newsletter, and regular announcements in the appropriate local media.

RISK MANAGEMENT

VCBank maintains a prudent and disciplined approach to risk taking, and considers risk management to be an integral part of the Bank's decision-making process.

Risk Management Framework

The Board of Directors of VCBank through its Risk Committee (RC) (a sub-committee of the Board of Directors), has the responsibility for ensuring the establishment and effective implementation of a risk management framework. Further, the Risk Management Department (RMD) is empowered to identify, evaluate and mitigate risk however, and wherever, it may arise from the business and operating activates of the Bank, and through regular reporting to the RC, is able to ensure that policy remains aligned with the risk appetite of the Board.

Investment Risk

The RMD evaluates the business risk of all potential investments at an early stage of the due diligence process. Formulated in close co-operation with the respective deal teams, these risk evaluations support the decision-making process through both a qualitative and a quantitative analysis, the latter applying sophisticated risk modeling techniques to the financial projections of the Target Company (or real-estate development project) in order to comprehend inherent risk by attributing estimates of likelihood to a multitude of possible investment outcomes.

Operational Risk

VCBank is committed to the implementation of its Operational Risk Management (ORM) framework to meet the 2008 regulatory requirements of the Central Bank of Bahrain. VCBank's ORM framework will ensure risk management discipline to enhance the efficiency of its end delivery of added value, which is its promise to shareholders. At its core, is a close and on-going dialogue between the RMD and each business and support unit in order to protect shareholder value through the identification, assessment, mitigation and monitoring of all operational risks.

Capital Adequacy

The Bank's Risk-Asset-Ratio in December 31, 2006 was 69%, after the capital increase the Bank's Risk-Asset-Ratio (at December 31, 2007) was 86%. This indicates a robust and flexible capital base offering significant potential for leverage and business expansion to pursue further valuable investment opportunities in the future.

Risk Philosophy

The Bank strongly believes that while much emphasis continues to be placed on the use of sophisticated techniques to identify, measure and mitigate risk, it is through a robust corporate governance structure, and the leveraging of the collective experience of a disciplined management team, that the Bank expects to minimize risk at its very source.

FINANCIAL SECTION

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REPORT OF THE SHARI'AH SUPERVISORY BOARD
for the year 2007

In The Name of Allah, The Merciful, The Compassionate

The Shari'ah Supervisory Board ("the Board") of Venture Capital Bank ("the Bank") convened on Wednesday 8 Moharram 1429H, corresponding to 17 January 2008 to review the Bank's activities and investments.

The Board discussed with the Bank's management the financial statements and the income statement for the year ended 31 December 2007.

The Board found that all business, activities, investments and projects carried out by the Bank are in compliance with Islamic Shari'ah, and that they were previously presented to the Board, represented by its Chairman, and they were reviewed and approved.

Moreover, the Board, represented by its Chairman, has reviewed all introductory literatures related to investments made by the Bank, as well as funds created by the Bank, and certified that they are Shari'ah compliant investments, literature, and funds.

The Board has also reviewed the audited financial statements as certified by the external auditors for the aforementioned period, and found them in compliance with Islamic Shari'ah.

Therefore, the Board issues its report to acknowledge that Venture Capital Bank's activities, investments, funds and statements during this year are in compliance with Islamic Shari'ah, gives thanks to Allah Almighty, and expresses appreciations to all Venture Capital Bank staff, commending their cooperation and assiduity in applying Shari'ah to their transactions.

Sh. Nidham M. Yaqooby
Chairman

Sh. Abdul Sattar Abu Ghuddah
Member

Sh. Essa Zaki
Member

REPORT OF THE AUDITORS

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Audit
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Chamber of Commerce Building
PO Box 710, Manama, Kingdom of Bahrain

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TO THE SHAREHOLDERS
Venture Capital Bank BSC (c)
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Venture Capital Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows, the consolidated statement of changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibilities of the directors for the consolidated financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the Bank's undertaking to operate in accordance with Islamic Shari'ah rules and principles.

Auditor's 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 of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and of its financial performance, its cash flows, its changes in equity and its changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Bank.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

Manama, Kingdom of Bahrain
22 January 2008

CONSOLIDATED BALANCE SHEET
as at 31 December 2007

	Note	31 December 2007 USD' 000	31 December 2006 USD' 000
ASSETS			
Cash and balances with banks		170	236
Placements with financial institutions	3	69,823	6,907
Islamic financing receivables	4	6,084	7,900
Investment securities	5	69,376	36,775
Investments in associates and joint ventures under equity method	6	3,034	-
Investment property	7	9,380	9,287
Other assets	8	61,012	29,619
Equipment	9	3,127	198
Total assets		222,006	90,922
LIABILITIES			
Islamic financing payables	10	8,674	7,824
Other liabilities	11	10,717	3,261
Total liabilities		19,391	11,085
EQUITY			
Share capital	12	165,000	66,000
Share premium	12	13,533	-
Unvested ESOP shares	12	(15,000)	-
Statutory reserve		4,552	1,322
Investments fair value reserve		180	-
ESOP reserve		1,800	-
Retained earnings		31,887	11,901
Total equity attributable to shareholders of the Bank		201,952	79,223
Minority interest		663	614
Total equity (page 36)		202,615	79,837
Total liabilities and equity		222,006	90,922
Off-balance sheet items			
Restricted investment accounts (page 38)		5,110	7,324

The consolidated financial statements, which consist of pages 34 to 60, were approved by the Board of Directors on 22 January 2008 and signed on its behalf by:

Dr. Ghassan Al Sulaiman
Chairman

Abdul Latif M. Janahi
Director and Chief Executive Officer

The accompanying notes from 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

	Note	31 December 2007 (12 months) USD' 000	31 December 2006 (15 months) USD' 000
Income from investment banking services	13	39,143	5,836
Income from placements with financial institutions		2,073	1,854
Income from Islamic financing		2,735	4,094
Income from investment securities	14	9,179	12,440
Income from investment in joint ventures under equity method		900	-
Other income		368	436
Total income		54,398	24,660
Staff cost	15	15,245	6,143
Travel and business development expenses	16	2,432	1,818
Impairment losses on available-for-sale investments		1,708	1,450
Finance expense		459	412
Other operating expenses	17	2,218	1,579
Total expenses		22,062	11,402
Profit for the period		32,336	13,258
Attributable to:			
Shareholders of the Bank		32,301	13,223
Minority interest		35	35
		32,336	13,258
Earnings per share (US cents)			
Basic	33	39.10	19.08
Diluted		37.78	19.08

The accompanying notes from 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

2007 (12 months) USD' 000

	Attributable to the shareholders of the bank									
	Share capital	Share premium	Unvested ESOP shares	Statutory reserve	Investments fair value reserve	ESOP reserve	Retained earnings	Total	Minority interest	Total
Balance at 1 January 2007	66,000	-	-	1,322	-	-	11,901	79,223	614	79,837
Fair value changes	-	-	-	-	180	-	-	180	-	180
Net income recognised directly in equity	-	-	-	-	180	-	-	180	-	180
Profit for the year	-	-	-	-	-	-	32,301	32,301	35	32,336
Total recognised income and expense	**-**	**-**	**-**	**-**	**180**	**-**	**32,301**	**32,481**	**35**	**32,516**
Transfer to statutory reserve	-	-	-	3,230	-	-	(3,230)	-	-	-
Dividends declared for 2006	-	-	-	-	-	-	(4,950)	(4,950)	-	(4,950)
Directors remuneration declared for 2006	-	-	-	-	-	-	(835)	(835)	-	(835)
Issue of bonus shares	3,300	-	-	-	-	-	(3,300)	-	-	-
Issue of ordinary shares	80,700	13,533	-	-	-	-	-	94,233	-	94,233
Issue of shares to ESOP (note 12 and note 19)	15,000	-	-	-	-	-	-	15,000	-	15,000
Employee share ownership plan	-	-	-	-	-	1,800	-	1,800	-	1,800
Unvested shares held by ESOP (note 19)	-	-	(15,000)	-	-	-	-	(15,000)	-	(15,000)
Minority interest	-	-	-	-	-	-	-	-	14	14
Balance at 31 December 2007	**165,000**	**13,533**	**(15,000)**	**4,552**	**180**	**1,800**	**31,887**	**201,952**	**663**	**202,615**

2006 (15 months) USD' 000

	Attributable to the shareholders of the bank									
	Share capital	Share premium	Unvested ESOP shares	Statutory reserve	Investments fair value reserve	ESOP reserve	Retained earnings	Total	Minority interest	Total
Net income recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	13,223	13,223	35	13,258
Total recognised income and expense	-	-	-	-	-	-	**13,223**	**13,223**	**35**	**13,258**
Transfer to statutory reserve	-	-	-	1,322	-	-	(1,322)	-	-	-
Issue of ordinary shares	66,000	-	-	-	-	-	-	66,000	-	66,000
Minority interest	-	-	-	-	-	-	-	-	579	579
Balance at 31 December 2006	**66,000**	-	-	**1,322**	-	-	**11,901**	**79,223**	**614**	**79,837**

The accompanying notes from 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2007

	31 December 2007 (12 months) USD' 000	31 December 2006 (15 months) USD' 000
OPERATING ACTIVITIES		
Proceeds from investment banking services	8,324	1,652
Profits received from Islamic financing receivables	2,735	4,094
Profits received from placements with financial institutions	2,073	1,854
Dividends and income from held to maturity investments	352	185
Proceeds from sale of available-for-sale investments	-	7,439
Proceeds from sale of investments at fair value through profit or loss	27,263	2,725
Proceeds from sales of trading investments	533	-
Purchase of available-for-sale investments	(7,776)	(24,555)
Purchase of investments at fair value through profit or loss	(28,765)	(24,175)
Investments in associates	(2,134)	-
Purchase of held-to-maturity investments	(7,800)	(21,571)
Proceeds from maturity of investments	-	10,983
Advances towards purchase of investments	(8,943)	(1,953)
Murabaha financing	-	(2,267)
Purchase of investment property	(93)	(9,287)
Directors remuneration paid	(835)	-
Payments for staff expenses	(6,353)	(3,639)
Payments for other expenses	(4,207)	(2,528)
Other income received	229	-
Cash flows from operating activities	(25,397)	(61,043)
INVESTING ACTIVITIES		
Commodity murabaha sales/(purchases)	1,956	(5,494)
Purchase of equipment	(3,121)	(311)
Cash flows from investing activities	(1,165)	(5,805)
FINANCING ACTIVITIES		
Proceeds from issue of share capital	93,881	66,000
Dividend paid	(4,875)	-
Murabaha financing received	392	7,412
Minority interest	13	580
Cash flows from financing activities	89,411	73,992
INCREASE IN CASH AND CASH EQUIVALENTS	62,849	7,144
Cash and cash equivalents at beginning of the period	7,144	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	69,993	7,144
Cash and cash equivalents per the balance sheet		
Cash and balances with banks	170	236
Placements with financial institutions	69,823	6,908
	69,993	7,144

The accompanying notes from 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2007

2007 (12 months) USD' 000

	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross Income	Dividend paid	Administration expenses	Bank's fees as agent	Fund value 31 Dec 2007
The GCC Pre-IPO Fund	10,073	(4,637)	(460)	134	-	-	-	5,110
Representing:								
Investments in equities								4,927
Funds in short term murabaha								183
								5,110

2006 (15 months)

	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross Income	Dividend paid	Administration expenses	Bank's fees as agent	Fund value 31 Dec 2007
The GCC Pre-IPO Fund	7,242	-	-	82	-	-	-	7,324
Representing:								
Investments in equities								5,387
Funds in short term murabaha								1,937
								7,324

The GCC Pre-IPO Fund targets investments in selected GCC equities in the pre-IPO stage with the primary objective of benefiting from the potential market gains expected to arise from their IPO's. Investors nominate the specific equities they wish to participate in from a pool of GCC Pre-IPO equities, specifying the amounts in each, and receive all returns less the Bank's fee of 20% over a 10% simple return.

The accompanying notes from 1 to 35 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

1 STATUS AND PRINCIPAL ACTIVITY

Venture Capital Bank BSC (c) ("the Bank") was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry and Commerce. The Bank is licensed as a Wholesale Islamic bank by the Central Bank of Bahrain ("CBB") and is subject to the regulations and supervision of the CBB.

The principal activities of the Bank comprise venture capital, real estate and private equity investment transactions and related investment advisory services. The Bank conducts all its activities in compliance with Islamic Shari'ah, under the guidance and supervision of the Bank's Shari'ah Supervisory Board, and in compliance with applicable laws and regulations.

The authorised share capital of the Bank is 500 million shares of USD 1 each. During 2007, the Bank increased its paid up capital from USD 66 million to USD 150 million comprising 150 million shares of USD 1 each through a rights issue and a private placement to new strategic investors. In addition, 15 million shares of USD 1 each have been authorised by the shareholders for allocation to the Bank's Employees Share Ownership Plan ("ESOP"). Further details of the capital increase and the ESOP can be found in the notes related to these items below.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (collectively, "the Group").

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in consolidated financial statements, and have been consistently applied by Group entities.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements the Group has adopted IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements – Capital Disclosures. The adoption of IFRS 7 and amendments to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had not impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided the full comparative information.

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Group's operations. The consolidated financial statements have been prepared on the historical cost basis except for the measurement at fair value of investments at fair value through the income statement and certain available-for-sale investments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

(ii) Associates and joint ventures

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. On initial recognition of investment in an associate or a joint venture, the Group makes an accounting policy choice as to whether the associate or the joint venture shall be equity accounted or designated as at fair value through profit or loss.

The Group, being a venture capital organisation, designates certain of its investments in associates and joint ventures, as allowed by IAS 28 'Investments in Associates', and IAS 31 "Interests in Joint Ventures", respectively as 'investments at fair value through profit or loss in accordance with IAS 39 [refer note 2d (i)].

If the equity accounting method is chosen for an associate or a joint venture, the consolidated financial statements include the Group's share of the associate's or the joint venture's total recognised gains and losses. When the Group's share of losses exceeds its interest in an associate or a joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Investment securities

The Group classifies its investment securities in the following categories: investment at fair value through profits or loss; held-to-maturity investments; and available-for-sale investments. Management determines the classification at initial recognition.

(i) Investments at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value trough profit or loss at inception

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or part of a portfolio of identified financial instruments that are managed tighter and for which there is evidence of a recent actual pattern of short-term profit-taking. These include investments in quoted equities.

The Group designate a financial asset as at fair value through profit or loss at inception only when it is managed, evaluated and reported internally on a fair value basis. These include certain private equity investments and investments in associates and joint ventures (see note 2c (ii). Note 5(i) details the investments that have been designated at fair value through profit or loss, and the amount of fair value gains and losses recognised.

The Group recognises and carries these investments at fair value with fair value changes recognised in the income statement in the period in which they arise

(ii) Held-to maturity

Held-to-maturity investments are investments with fixed and determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These include investments in Islamic Sukuk.

Held to maturity investments are carried at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investment securities (continued)

(iii) Available-for-sale investments

Available-for-sale investments are those investments that are not classified at fair value through profit or loss or held to maturity. These include investments in unquoted shares. The Group recognises these investments initially at fair value, plus attributable transaction costs and subsequently measured to fair value. Fair value changes are recognised in a separate fair value reserve in equity and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement.

Available-for-sale investments that are not quoted and for which there are no other appropriate methods from which to derive fair value are carried at cost less impairment allowance.

(iv) Recognition and de-recognition

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction cost are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risk and rewards of ownership.

(v) Trade date accounting

Purchases and sales of investment securities are initially recognised on the trade date, i.e. the date that the Group commits to purchase or sell the investment.

(vi) Fair value measurement principles

The fair values of quoted investment in active markets are based on current bid prices. If there is no active market for an investment, the Group establishes fair value using valuation techniques. These include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, the price of a recent transaction in the shares, and other valuation techniques commonly used by market participants. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

The value of investment produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all the factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for normal model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

(vii) Impairment of investment securities

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. In case of equity securities quoted in active market, the Group considers a decline in value of 20% below cost or a decline in value that persists for more than 6 months as an indicator of impairment. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

Impairment losses on held-to-maturity securities carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance against the investment. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

(e) Islamic financing receivables

The Group initially recognises Islamic financing receivables on the date it is originated. Islamic financing receivables are stated at amortised cost less impairment allowances. Impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the income statement and reflected in an allowance account against Islamic financing receivables.

(f) Investment property

Investment properties are accounted for under the cost method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

(iii) Translation of financial statements of group companies

The functional currencies of all group companies are either in US Dollars or in currencies which are effectively pegged to the US Dollar and, accordingly, the translation of financial statements of group's entities does not result in significant exchange differences.

(h) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with banks and highly liquid financial assets (commodity murabahas) with original maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

(i) Impairment of other assets

The carrying amount of the Group's assets other than investment securities (refer 2 d (vii)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset›s recoverable amount is estimated. Impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(j) Revenue recognition

Income from investment banking services is recognised when the service is provided and income is earned. This is when the Group has performed all significant acts relating to the service being rendered and it is highly probable that economic benefits from the transaction will flow to the Group.

Placement, management and arrangement fees are recognised as income when earned.

Income from Murabaha contracts are recognised on a time-apportioned basis over the period of the contract.

Income from Sukuk is recognised on a time-apportioned basis over the term of the Sukuk.

Income from investments (dividend income) is recognised when the right to receive is established.

(k) Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 2 to 4 years. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(l) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investment account holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a defined contribution scheme under IAS 19, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

(ii) Expatriate employees

Expatriate employees are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector 1976, based on length of service and final remuneration. Provision for this unfunded commitment, which is a defined benefit plan under IAS 19, has been made by calculating the notional liability had all employees left at the balance sheet date.

(iii) Share based payment transactions

The Group has established an employees share ownership plan (ESOP) under which employees are entitled to purchase units in the ESOP on a deferred payment basis. Each unit carries the rights to benefits of ownership of one share upon completion of a 5 year lock-in period. The cost to the Group, representing the fair value of the units offered, is determined by an independent firm of accountants using the Black-Scholes model, and is recognized as an expense in the consolidated income statement over the vesting period of 5 years, with corresponding increase in the ESOP reserve recognised as a separate component of the consolidated statement of changes in equity.

(n) Dividends and Board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(o) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve, which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

3 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Gross short-term commodity murabaha	70,074	6,907
Less: Deferred profits	(251)	-
	69,823	6,907

Short-term commodity murabaha deals are entered into for cash management purposes with local and regional banks of good credit standing after credit evaluation.

4 ISLAMIC FINANCING RECEIVABLES

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Gross murabaha financing to unlisted non-financial institutions in the GCC	6,875	9,362
Less: deferred profits	(791)	(1,462)
	6,084	7,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

5 INVESTMENT SECURITIES

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Investments at fair value through profit or loss	35,932	10,266
Available-for-sale investments	25,644	15,212
Held-to-maturity investments	7,800	11,297
	69,376	36,775

(i) Investments at fair value through profit or loss

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Held for trading - listed equities	1,396	1,471
Designated at fair value though profit or loss:		
Unquoted associates	4,940	4,940
Unquoted joint ventures	13,278	2,655
Unquoted equity securities	8,218	1,200
Unquoted funds	8,100	-
	35,932	10,266

Movement on investments in associates and joint ventures are as follows:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
At 1 January	7,595	-
Acquisitions during the year	10,623	14,226
Disposals during the year	-	(6,631)
	18,218	7,595

Summarised financial information for investment in joint ventures and associates at fair value through profit or loss not adjusted for the percentage ownership held by the Group:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Total assets	31,278	5,305
Total liabilities	1,005	133
Total revenues	981	-
Total net profit (loss) for the year	(1,027)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

5 INVESTMENT SECURITIES (continued)

(ii) Available-for-sale investment securities

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Quoted equity securities	14,032	10,241
Unquoted equity securities	14,196	6,421
	28,228	16,662
Less: Specific allowance for impairment on quoted securities	(2,584)	(1,450)
	25,644	15,212

Investments with a carrying value of USD 14,196 thousand (2006: USD 6,421 thousand) in unquoted equities are stated at cost less impairment in the absence of a reliable measure of fair value. The bank has insignificant shareholding in these companies and accordingly is unable to obtain reliable information to perform valuation of these investments. The carrying value of the investments that are impaired is USD 8,143 thousand (2006: USD 2,079 thousand).

(iii) Held-to-maturity securities

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Sukuk Al-Musharaka securities of PCFC Development FZCO – Dubai.	-	11,297
Short-term sukuk of the Liquidity Management Centre - Bahrain	7,800	-
	7,800	11,297

6 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES UNDER EQUITY METHOD

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Associates	2,134	-
Joint ventures	900	-
	3,034	-

Movement on investments in associates and joint ventures are as follows:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
At 1 January	-	-
Acquisitions during the year	2,134	-
Share of profits of joint venture	900	-
	3,034	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

6 INVESTMENT IN ASSOCIATES AND JOINT VENTURES UNDER EQUITY METHOD (continued)

Summarised financial information for investment in joint ventures and associates equity accounted not adjusted for the percentage ownership of the group:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Total assets	12,671	533
Total liabilities	226	-
Total revenues	1,922	-
Total net profit for the year	1,576	-

7 INVESTMENT PROPERTY

This comprises an investment in land in Bahrain held for investment purposes. The fair value of property at 31 December 2007 is approximately USD 20.6 million, based on a valuation by an independent external professional valuer.

8 OTHER ASSETS

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Receivable from investment banking services	34,505	-
Receivable from sale of investments	-	23,258
Advances to acquire investments	10,317	1,953
Receivable on redemption of HTM investment	8,424	-
Structuring fee and other receivables	7,766	4,408
	61,012	29,619

9 EQUIPMENT

	Computers and equipment (USD'000)	Furniture and fixtures (USD'000)	Motor Vehicles (USD'000)	2007 Total (USD'000)	2006 Total (USD'000)
Cost					
At 1 January	195	115	-	310	
Additions	104	2,511	506	3,121	310
At 31 December	299	2,626	506	3,431	310
Depreciation					
At 1 January	44	68	-	112	
Charge for the period	52	47	93	192	112
At 31 December	96	115	93	304	112
Net book value at 31 December	203	2,511	413	3,127	198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

10 ISLAMIC FINANCING LIABILITY

This includes an Islamic financing (Murabaha) from a financial institution of USD 7,412 thousand, which bears a profit rate of 5.85% annually and matures in January 2008.

11 OTHER LIABILITIES

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Employee accruals	8,821	2,415
Accounts payable and other accruals	1,896	846
	10,717	3,261

12 SHARE CAPITAL

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Authorised: 500,000,000 ordinary shares of USD 1 each	500,000	500,000
Issued and fully paid up: 150,000,000 shares of USD 1 each (2006: 66,000,000 shares of USD 1 each)	150,000	66,000
Total	150,000	66,000

At the Extra Ordinary General Meeting (EGM) of the shareholders held on 25 March 2007 it was resolved to increase the issued and paid up capital from 66 million shares of USD 1 each (USD 66 million) to 150 million shares of USD 1 (USD 150 million) through:

Bonus issue of 3.3 million shares of USD 1 each representing 5% of the existing paid up capital;

Rights issue of 48.51 million shares of USD 1 at a price of USD 1.06, being the book value at 31 December 2006; and

Issue of 32.19 million shares of USD 1 each to new investors at a price of USD 1.33 per share, representing a 25% premium on book value.

In addition, the shareholders also resolved at the EGM to allocate an additional 15 million shares of USD 1 each to the Employees Share Ownership Plan (ESOP), to be offered to eligible employees in the form of ESOP units at book value, as further explained in note 19.

The legal formalities of registering this increase with the Ministry of Industry and Commerce was still in progress at the year end.

13 INCOME FROM INVESTMENT BANKING SERVICES

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Investment advisory and structuring income	38,147	4,600
Investment management and advisory fee	346	349
Placement and arrangement fee	650	887
	39,143	5,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

14 INCOME FROM INVESTMENT SECURITIES

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Trading securities	446	25
Investments designated at fair value through profit or loss	7,690	11,995
Held-to-maturity (HTM)	935	754
Available-for-sale investments (AFS)	108	(334)
	9,179	12,440

Details of income by nature are as follows:

2007 US$'000

	Trading	Designated at fair value	HTM	AFS	Total 2007
Fair value gain	347	3,626	-	108	4,081
Profit on sale	53	4,005	-	-	4,058
Dividends	46	59	-	-	105
Profit income	-	-	935	-	935
	446	7,690	935	108	9,179

2006 US$'000

	Trading	Designated at fair value	HTM	AFS	Total 2006
Fair value (loss)/gain	(112)	537	-	(454)	(29)
Profit on sale	118	11,458	-	-	11,576
Dividends	19	-	-	120	139
Profit income	-	-	754	-	754
	25	**11,995**	**754**	**(334)**	**12,440**

15 STAFF COST

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Salaries and benefits	14,831	5,737
Social insurance expenses	397	390
Other staff expenses	17	16
	15,245	6,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

16 TRAVEL AND BUSINESS DEVELOPMENT EXPENSES

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Travel and accommodation	1,207	869
Legal and professional	1,225	829
Other	-	120
	2,432	1,818

17 OTHER EXPENSES

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Rent and office expenses	1,013	723
Publicity, conferences and promotion	497	351
Board and Shari'ah expenses	348	269
Depreciation	192	112
Set up and other costs	168	124
	2,218	1,579

18 TOTAL FINANACE INCOME AND EXPENSES

TOTAL FINANCE INCOME	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Income from Islamic financing	2,735	4,094
Income from placements with financial institutions	2,073	1,854
	4,808	5,948
TOTAL FINANCE EXPENSE		
Islamic financing expense	459	412
NET FINANCE INCOME	4,349	5,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

19 EMPLOYEE SHARE OWNERSHIP PLAN

On 1 October 2007, the Group set up an employees share ownership plan (ESOP) under which employees are offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. Each unit represents the rights to the benefits of one equity share in the Bank and the purchase price of these units is to be paid in instalments over a 5 year vesting period upon which the employee will be allotted shares underlying these units. The units carry the rights to the full value of the underlying shares including dividends conditional on completion of the 5 year vesting period and settlement of the cost of the units. The cost to the Bank, representing the fair value of the units offered, is determined by an independent firm of accountants using the Black-Scholes model, and is recognized as an expense in the consolidated income statement over the vesting period of 5 years, with corresponding increase in the ESOP reserve recognised as a separate component of the consolidated statement of changes in equity.

The shareholders have authorised 15 million shares (maximum) to be allotted in this scheme. These shares will be allotted to the employees on completion of vesting period. During 2007 the Bank has granted 8.5 million units at an exercise price of USD 1.06 per unit. The fair value of the units granted during 2007 amounted to USD 4.5 million, of which USD 1.8 million has been charged to consolidated income statement during the year and included in staff costs (note 15). The Group has incorporated VC Bank ESOP SPC (SPV) to hold the shares for the benefits of the participating employees.

The model inputs used to determine the fair value of the units granted in 2007 were: the fair value of share on grant date of USD 1.33 per share, the exercise price of USD 1.06 per share, expected volatility of 14.8%, dividend yield (expected dividends) nil and a risk free rate of 5.5 percent. The expected volatility was determined based on the volatility of a listed comparator.

20 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portion of the Group's income from placement and investment management fees and Islamic financing are from entities over which the Group exercises significant influence.

Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. Consequently, the true nature of the Group's transactions with these entities is effectively conducted at commercial terms and conditions. The terms and conditions for these transactions are approved by the Board of Directors of the Group.

The related party balances included in these consolidated financial statements are as follows:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Assets		
Islamic financing	-	5,494
Investments at fair value through profit or loss	25,289	8,795
Advances to acquire investments	-	576

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Income		
Placement and investment management fees	1,057	355
Income from Islamic financing	2,735	4,094
Income from investment banking	-	2,960

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20 RELATED PARTY TRANSACTIONS (continued)

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Board remuneration	1,310	835
Board member fees	106	31
Salaries and other short-term benefits of executive management	7,473	3,741

21 ZAKAH

In accordance with the Articles of Association, the Bank is not required to collect or pay Zakah on behalf of its shareholders or restricted investment accounts holders. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of Zakah on each share held in the Bank. Zakah payable by the shareholders is computed by the Bank based on the method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of each share for the year ended 31 December 2007 is US cents 1.9461 for every share held (31 December 2006: US cents 1.8381 for every share held).

22 EARNINGS PROHIBITED BY SHARI'AH

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. There were no earnings from non-Islamic sources during the period.

23 SHARI'AH SUPERVISORY BOARD

The Group's Shari'ah Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'ah principles and specific fatwas, rulings and guidelines issued. 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 Islamic Shari'ah principles.

24 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations.

25 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank propose the following appropriations, subject to the approval of the shareholders at the annual general meeting:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Proposed dividend – cash*	23,775	4,950
Directors' remuneration	1,310	835

* In 2006, the Board of Directors had also proposed a 5 % bonus share dividend of USD 3.3 million representing 1 share for every 20 shares held.

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26 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

Judgement

(i) Investments classification

The Group accounting policies provide certain criteria for investments to be designated on inception into different accounting categories:

In classifying investments as trading, the Group has determined that it meets the description of trading investments set out in accounting policy 2d (i)

In classifying investments as at fair value through profit or loss, the Group has determined that it meets the requirements set out in accounting policy 2d (i)

In classifying investments as held-to maturity, the Group has determined that it has both the positive intention and ability to hold the investment until maturity date as required by accounting policy 2d (ii)

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not control. In cases where it is difficult to determine whether the Group controls an SPE, the Group makes judgments about its exposure to the risk and rewards, as well as its ability to make operational decisions for the SPE in question.

Key sources of estimating uncertainty

(i) Fair value of investments

The Group determines the fair values of unquoted investments by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, these are reviewed by personnel independent of the department that formulated the valuation techniques. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies/funds. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

The future cash flows have been estimated by the management, based on information and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an initial period of two to five years and then a terminal value has been estimated at a perpetual growth rate of up to 3% applied on the discounted cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 15% – 69%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. The potential income effect of 10% change, up or down, in the discount rates, which is a key variable used in the valuation technique, would increase the fair values by USD 3,338 thousands or reduce the fair values by USD 3,102 thousands respectively.

(ii) Impairment on available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. Where fair values are not readily available and the investments are carried at cost, the Group determines impairment taking into account among other factors, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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27 MATURITY PROFILE

The following table discloses undiscounted residual contractual maturities of the Group's assets and liabilities, except in case of investments in equity instruments, investment property, equipment and certain other assets and other liabilities, which are based on management's estimate of realisation.

2007	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and balances with banks	170	-	-	-	-	170
Placements with financial institutions	69,823	-	-	-	-	69,823
Islamic financing receivables	2,546	3,538	-	-	-	6,084
Investment securities	7,800	-	3,305	18,735	39,536	69,376
Investments in associates and joint ventures under equity method	-	-	-	-	3,034	3,034
Investment property	-	-	-	9,380	-	9,380
Other assets	9,785	40,909	10,318	-	-	61,012
Equipment	-	-		-	3,127	3,127
Total assets	**90,124**	**44,447**	**13,623**	**28,115**	**45,697**	**222,006**
Liabilities						
Islamic financing payables	8,263	-	-	-	411	8,674
Other liabilities	10,717	-	-	-	-	10,717
Total liabilities	**18,980**	**-**	**-**	**-**	**411**	**19,391**
Off-balance sheet items						
Restricted investment accounts	182	-	-	-	4,928	5110

2006	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and balances with banks	236	-	-	-	-	236
Placements with financial institutions	6,907	-	-	-	-	6,907
Islamic financing receivables	7,900	-	-	-	-	7,900
Investment securities	-	1,471	-	32,650	2,654	36,775
Investment property	-	-	-	9,287	-	9,287
Other assets	27,666	-	1,953	-	-	29,619
Equipment	-	-	-	-	198	198
Total assets	**42,709**	**1,471**	**1,953**	**41,937**	**2,852**	**90,922**
Liabilities						
Islamic financing payable	-	-	-	7,824	-	7,824
Other liabilities	3,261	-	-	-	-	3,261
Total liabilities	**3,261**	**-**	**-**	**7,824**	**-**	**11,085**
Off-balance sheet items						
Restricted investment accounts	1,937	-	-	5,387	-	7,324

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for the year ended 31 December 2007

28 CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS

a) Industry sector

2007	Trading & manufacturing	Banks & financial institutions	Real estate	Oil and gas	Technology	Transportation	Others	Total
Assets								
Cash and balances with banks	-	170	-	-	-	-	-	170
Placements with financial institutions	-	69,823	-	-	-	-	-	69,823
Islamic financing receivables	-	-	2,546	-	-	-	3,538	6,084
Investment securities	1,209	8,721	23,052	9,913	4,941	3,305	18,235	69,376
Investment in associates and joint ventures under equity method	-	-	134	-	-	-	2,900	3,034
Investment property	-	-	9,380	-	-	-	-	9,380
Other assets	9,552	-	21,440	-	6,650	14,358	9,012	61,012
Equipment	-	-	-	-	-	413	2,714	3,127
Total assets	**10,761**	**78,714**	**56,552**	**9,913**	**11,591**	**18,076**	**36,399**	**222,006**
Liabilities								
Islamic financing payables	-	8,674	-	-	-	-	-	8,674
Other liabilities	-	-	-	-	-	-	10,717	10,717
Total liabilities	**-**	**8,674**	**-**	**-**	**-**	**-**	**10,717**	**19,391**
Off balance sheet assets								
Restricted investment accounts		3,280	1,830					5,110

2006	Trading and manufacturing	Banks and financial institutions	Real estate	Oil and gas	Technology	Transportation	Others	Total
Assets								
Cash and balances with banks	-	236	-	-	-	-	-	236
Placements with financial institutions	-	6,907	-	-	-	-	-	6,907
Islamic financing receivables	-	-	7,900	-	-	-	-	7,900
Investments securities	4,156	854	15,527	-	4,941	11,297	-	36,775
Investment property	-		9,287	-	-	-	-	9,287
Other assets	576	-	12,170	11,090	1,335	-	4,448	29,619
Equipment	-	-	-	-	-	-	198	198
Total assets	**4,732**	**7,997**	**44,884**	**11,090**	**6,276**	**11,297**	**4,646**	**90,922**
Liabilities								
Islamic financing payables	-	7,824	-	-	-	-	-	7,824
Other liabilities	-	-	-	-	-	-	3,261	3,261
Total liabilities	**-**	**7,824**	**-**	**-**	**-**	**-**	**3,261**	**11,085**
Off-balance sheet items								
Restricted investment accounts	-	5,387	1,937	-	-	-	-	7,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28 CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic region

2007	GCC countries	Other MENA countries	UK	Europe (excluding UK)	Cayman/ Americas	Total
Assets						
Cash and balances with banks	170	-	-	-	-	170
Placement with financial institutions	69,823	-	-	-	-	69,823
Islamic financing receivables	6,084	-	-	-	-	6,084
Investment securities	56,037	5,239	-	-	8,100	69,376
Investment in associates and joint ventures under equity method	134	2,000	-	-	900	3,034
Investment property	9,380	-	-	-	-	9,380
Other assets	32,217	22,619	-	5,934	242	61,012
Equipment	3,127	-	-	-	-	3,127
Total Assets	**176,972**	**29,858**	**-**	**5,934**	**9,242**	**222,006**
Liabilities						
Islamic financing payable	8,674	-	-	-	-	8,674
Other liabilities	10,717	-	-	-	-	10,717
Total liabilities	**19,391**	**-**	**-**	**-**	**-**	**19,391**
Off balance sheet assets						
Restricted investment accounts	5,110					5,110

2006	GCC countries	Other MENA countries	UK	Europe (excluding UK)	Cayman/ Americas	Total
Assets						
Cash and balances with banks	236	-	-	-	-	236
Placements with financial institutions	6,907	-	-	-	-	6,907
Islamic financing receivables	2,406	-	5,494	-	-	7,900
Investments securities	36,775	-	-	-	-	36,775
Investment property	9,287	-	-	-	-	9,287
Other assets	18,569	-	-	-	11,050	29,619
Equipment	198	-	-	-	-	198
Total assets	**74,378**	**-**	**5,494**	**-**	**11,050**	**90,922**
Liabilities						
Islamic financing payable	7,824	-	-	-	-	7,824
Other liabilities	3,261	-	-	-	-	3,261
Total liabilities	**11,085**	**-**	**-**	**-**	**-**	**11,085**
Off-balance sheet items						
Restricted investment accounts	7,324	-	-	-	-	7,324

29 FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group acting as the custodian of the assets and or making decisions on behalf of such entities in a fiduciary capacity. Assets that are held in such capacity are not included in these consolidated financial statements. At the balance sheet date, the Group had fiduciary assets under management of USD 181 million (2006: USD 47 million.)

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30 COMMITMENTS AND CONTINGENCIES

Investment commitments

The Group has issued a letter of guarantee for USD 2.66 million (2006: USD 3.55 million) in respect of a tender for a development project, on which no losses are expected. Also, at 31 December 2007, the Group had commitments to make investments totalling USD 27.17 million (2006: USD 2 million).

Operating lease commitments

The Group has signed a long-term lease for office space at the Park Plaza building in the Diplomatic Area of Bahrain, in respect of which lease rentals are due as follows:

Payable	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Within one year	858	-
Two to five years	3,433	-
	4,291	-

31 RISK MANAGEMENT AND CAPITAL ADEQUACY

The Group has an internal risk management function to oversee risk management and ensure the maintenance of an adequate capital base in line with best practice and in compliance with the regulations of the Central Bank of Bahrain. The Risk Committee of the Board has the overall responsibility for this function, which is managed by the Management's Executive Committee through the Risk Management Department.

The Risk Management Department independently identifies and evaluates risks in respect of each investment proposal, and periodically monitors and measures risks at investment and balance sheet level. The Head of Risk Management is the secretary to the Risk Committee of the Board and has access to the Board of Directors.

The Group is exposed to credit risk, concentration risk, liquidity risk, and market risk (which comprises equity price risk, profit rate risk and currency risk), in addition to operational risk. The Group's approach to monitoring, measuring and managing these risks are discussed below.

(a) Credit risk

Credit risk is the risk that counterparty to a financial instrument does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the cash and balances with banks, placements with financial institutions, Islamic financing receivables, Held-to-Maturity securities (Sukuks) and certain other assets like receivables from investment banking services, structuring fee, receivable on redemption of HTM investment.

The Group has put in place policies and procedures for managing credit risks to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures, including large exposures, are evaluated on a monthly basis to ensure a broad diversification of risk by counterparties and concentration limits by geography and industry.

The maximum exposure of credit risk on the financial assets of the bank is the carrying value of the financial assets.

The carrying amount of financial assets represents the maximum credit exposure. Following are the large exposures (defined as exposures that exceed 10% of the Bank's capital base) as at 31 December 2007:

Large exposures

Exposures exceeding 10% of capital and reserves	31 December 2007 (USD'000)	31 December 2006 (USD'000)
PCFC Development FZCO, Dubai - Sukuk Al Musharaka (14.30% of equity on 31 Dec 2006)	-	11,297
Commitment to investment in a private equity transaction	24,900	-

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31 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

(b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographical and industry wise distribution of assets and liabilities are set out in note 28.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Group will not have funds to meet liabilities as they fall due. The Group uses a maturity ladder approach for managing and monitoring the liquidity risk. It is the Group's policy to keep a significant part of its assets in highly liquid assets such as short-term murabahas.

The maturity profile of assets and liabilities is set out in note 27.

(d) Market risk

Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's significant financial assets and liabilities sensitive to profit rate are placements with financial institutions, Islamic financing receivables, Held-to-maturity securities and Islamic financing payable. The Group's exposure to profit rate risk is limited due the relatively short-term nature of these assets. Average profit rate on financial instruments were:

	2007	2006
Placements with financial institutions	5.00%	10.32%
Islamic financing receivables	15.00%	20.00%
Held-to-maturity securities	7.20%	7.13%
Islamic financing payables	5.85%	5.85%

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risks on certain Islamic financing receivables and investment securities denominated in Kuwaiti Dinars, Saudi Riyals and UAE Dirhams. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

The Group had the following significant currency exposures as of 31 December:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Kuwaiti Dinars	4,783	7,300
Saudi Riyals	13,326	13,196
UAE Dirhams	28,759	7,385

A 10 percent strengthening of the USD against the Kuwaiti Dinars at 31 December 2007 would have decreased profit by USD 478 thousand (2006: 730 thousand). This analysis assumes that all other variables, in particular profit rates, remain constant.

A 10 percent weakening of the USD against the Kuwaiti Dinars would have increased profit by USD 478 thousand (2006: 730 thousand), all other variables remaining constant.

Saudi Riyals and UAE Dirhams are pegged to USD and there is no significant currency risk arising from these two currencies.

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31 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

(d) Market risk (continued)

Other price risk

The Group's available for sale equity securities carried at cost are exposed to risk of changes in equity values. Please refer to note 2d(iii) for accounting policies on valuation of available for sale investments and note 26 for significant estimates and judgments in relation to impairment assessment of available for sale securities. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The Group does not have significant exposure to listed equity instruments. The Group's exposure is detailed in note 5 to these financial statements.

(e) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Group is committed to recruitment in addition to training of staff. The Group is currently undertaking an operational risk assessment in all divisions as part of internal risk assessment process in preparation for the implementation of the Basle II Capital Accord by the Central Bank of Bahrain.

(f) Capital management

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to risk-weighted assets. The Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital requirements of the CBB have been complied with throughout the year.

There have been no significant changes in the Group's management of capital during the year.

The Group's regulatory capital position as at 31 December was as follows:

Capital adequacy	31 December 2007 USD.000	31 December 2006 USD.000
Total risk weighted assets	229,430	115,826
Tier 1 capital		
Share capital and share premium	163,533	66,000
Statutory reserve	1,322	
Retained earnings	32,301	13,223
Minority interest	662	614
AFS reserve	180	-
Total regulatory capital	197,998	79,837
Total regulatory capital expressed as a percentage of total risk weighted assets	86%	69%

32 FAIR VALUE

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than certain available-for-sale investments of USD 14,196 thousand (2006: USD 6,421 thousands), Islamic financing receivables of USD 6,084 thousands (2006: USD 7,900 thousands) and investment in sukuk of USD 7,800 thousands (2006: USD 11,297 thousands) that are carried at cost, the estimated fair values of the Group's other financial instruments are not significantly different from their book values.

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32 FAIR VALUE (continued)

The table below sets out the Group's classification of each class of financial assets and liabilities:

2007	Trading	Designated at fair values	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Assets							
Cash and balances with banks	-	-	-	170	-	-	170
Placements with financial institutions	-	-	-	69,283	-	-	69,283
Islamic financing receivables	-	-	-	6,084	-	-	6,084
Investments securities	1,396	34,536	7,800	-	25,644	-	69,376
Other assets	-	-	-	61,012	-	-	61,012
Total financial assets	**1,396**	**34,536**	**7,800**	**136,549**	**25,644**	**-**	**205,925**
Liabilities							
Islamic financing payable	-	-	-	-	-	8,674	8,674
Other liabilities	-	-	-	-	-	10,717	10,717
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**19,391**	**19,391**
Off-balance sheet items							
Restricted investment accounts	-	-	-	183	4,927	-	5,110

2006	Trading	Designated at fair values	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Assets							
Cash and balances with banks	-	-	-	236	-	-	236
Placements with financial institutions	-	-	-	6,907	-	-	6,907
Islamic financing receivables	-	-	-	7,900	-	-	7,900
Investments securities	1,471	8,795	11,297	-	15,212	-	36,775
Other assets	-	-	-	29,619	-	-	29,619
Total assets	**1,471**	**8,795**	**11,297**	**44,662**	**15,212**	**-**	**81,437**
Liabilities							
Islamic financing liability	-	-	-	-	-	7,824	7,824
Other liabilities	-	-	-	-	-	3,261	3,261
Total liabilities	**-**	**-**	**-**	**-**	**-**	**11,085**	**11,085**
Off-balance sheet items							
Restricted investment accounts	-	-	-	1,937	5,387	-	7,324

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33 EARNINGS PER SHARE

Basic earning per share

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of equity shares outstanding during the period ended 31 December as follows:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Profit for the period attributable to equity shareholders of the Bank	32,301	13,223
Weighted average number of equity shares (in 000's)	82,602	69,300
Basic earnings per share (in US cents)	39.10	19.08

Diluted earning per share

Diluted earnings per share is calculated by dividing the profit for the period by the weighted average number of equity shares outstanding during the period ended 31 December after adjustment for the effects of dilutive potential ESOP shares calculated as follows:

	31 December 2007 (USD'000)	31 December 2006 (USD'000)
Profit for the period attributable to equity shareholders of the Bank	32,301	13,223
Weighted average number of equity shares - basic (in 000's)	82,602	69,300
Effect of ESOP shares (in 000's)	2,885	-
Weighted average number of equity shares – diluted (in 000's)	85,487	69,300
Diluted earnings per share (in US cents)	37.78	19.08

34 NEW / REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

A number of new relevant standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and therefore have not been applied in preparing these consolidated financial statements:

- IFRS 8 Operating Segments (effective for annual period beginning on or after 1 January 2009);

- IAS 1 Presentation of financial statements (effective for annual period beginning on or after 1January 2009)

- IAS 23, Borrowing costs (effective for annual period beginning on or after 1January 2009)

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual period beginning on or after 1 March 2007)

The application of these new standards and interpretations are not expected to have a material impact on the consolidated financial statements.

35 COMPARATIVES

Certain prior period amounts have been reclassified to conform to the current year's presentation. Such reclassifications do not affect previously reported net profit or equity