ANNUAL REPORT 2009

VENTURE CAPITAL BANK

بسم الله الرحمن الرحيم

"وقل اعملوا فسيرى الله عملكم
ورسوله والمؤمنون"

صدق الله العظيم

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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 VCBANK

Venture Capital Bank (VCBank) is the first Islamic investment bank in the GCC and Middle East and North Africa (MENA) to specialise in venture capital investment opportunities.

Established in the Kingdom of Bahrain in October 2005, VCBank operates under an Islamic investment banking licence from the Central Bank of Bahrain. With an authorised capital of USD 500 million and paid up capital of USD 250 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.

2009 AT A GLANCE

Increasing the Bank's paid up capital from USD 165 million to USD 250 million, to support VCBank growth plans

Closing the placement in the "Royal Maternity Hospital" project, the first of its kind in the Middle East to provide basic and advanced healthcare services for women and children.

Initiation of an innovative Liquidity Program (Trust Certificates Program) totaling USD 55 million structured in connection with the exit of its Venture Logistics Properties investments.

VCBank received approval from the Capital Market Authority of the Kingdom of Saudi Arabia to establish the Saudi Venture Capital Investment Company with a capital of SAR 375 million

Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO) received a syndicated financing facility of USD 45 million to further finance the work in progress of its industrial complex

Venture Capital Fund Bahrain has signed a partnership agreement with Dutch Delight, a Bahraini company specializing in the production of high quality handmade chocolates

Jebel Ali Development Company signed a contract with Suvadh Contracting L.L.C to develop three labour housing facilities in Jebel Ali.

The completion of the German Orthopaedic Hospital, which represents a state of art medical facility specializing in the provision of orthopaedics health care and is operated by world renowned German surgeons and medical staff

FINANCIAL HIGHLIGHTS

Total Income

2009	32
2008	82
2007	54

USD 32 million

Net Profit

2009	11
2008	47
2007	32

USD 11 million

Total Assets

2009	356
2008	244
2007	91

USD 356 million

Total Shareholders' Equity

2009	286
2008	225
2007	203

USD 286 million

Return on Equity

2009	5.4%
2008	27%
2007	33%

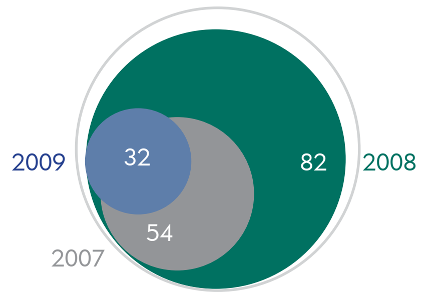
5.4%

Dividend Distribution

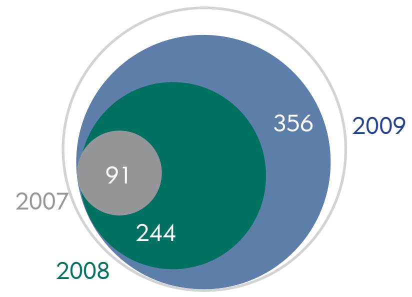
2009	8.5%
2008	15%
2007	15%

8.5%

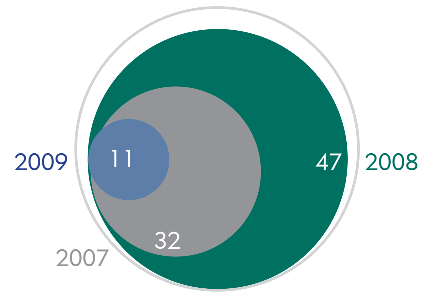
Total Income (USD million)



Total Assets (USD million)



Net Profit (USD million)



CHAIRMAN'S REPORT

Dr. Ghassan Ahmed Al Sulaiman
Chairman

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.

On behalf of the Board of Directors, it gives me great pleasure to present the fourth Annual Report of Venture Capital Bank (VCBank) for the year ended 31 December 2009. Notwithstanding the unprecedented economic and financial challenges during 2009, yet the year was characterized by VCBank's stable performance, while our investments and projects continued to achieve positive results and the Bank continued to strengthen its institutional capabilities, most notably with the successful completion of its second capital increase.

With the continuous difficult economic conditions and operating environment which imposed a myriad of challenges during the year 2009, VCBank relentlessly continued its successful progress toward realization of its vision to become the leading regional Islamic venture capital investment bank. In the light of the negative consequences of the global financial downturn, VCBank continued to embrace a conservative and balanced approach to enter into new investments and focused its attention on its current projects and funds to ensure realization of its objectives both from a financial perspective and its contribution to Bahrain's economic and social development.

The most striking feature which characterizes our performance this year is that it is a collective representation of the efficiency and effectiveness of the solid strategic initiatives undertaken by the bank throughout the years, especially in a period of global and regional economic challenges that have shaken the foundations of many well-established international financial institutions. In spite of these conditions, VCBank's efforts have been successful in enhancing its activities and in preserving the consistency of its performance with flying colours and full merit.

One indicator which illustrates the strength that the Bank enjoys is the financial strength of its capital. In the first quarter of 2009, the Bank's AGM approved an increase of its capital from USD 165 million to USD 250 million, an increase of USD 85 million which will enable VCBank to continue its growth plan and enhance its investment and operational capabilities.

During 2009, VCBank managed to realize good and positive financial results in comparison with the prevailing market conditions. Net profits reached to USD 11 million and achieved a return on equity of 5.4% for 2009. The Bank has consistently returned net profits since its inception in 2005, which is an excellent performance for a young investment bank, particularly given the turmoil experienced from the start of the current financial crises beginning in September 2008. Furthermore, our balance sheet has grown from a modest base of USD 66 million at inception to a total balance sheet size of USD 356 million now; an increase of 5.4 times since inception and of 48% over last year. In addition, off balance sheet fiduciary assets have grown from zero at inception to USD 672 million as at 31 December 2009. This track record is further corroboration of VCBank's status as the first Islamic investment bank specializing in venture capital investments in small and medium businesses (SMEs) in the MENA region.

During 2009, VCBank launched the Royal Maternity Hospital, an innovative project focused on the premium health care segment. We remain focused on the MENA region, targeting sound and yielding private equity opportunities from sound and well-managed small-to medium enterprises (SMEs). The Bank also initiated an innovative Liquidity Program totalling USD 55 million comprising Shari'ah compliant Certificates structured in connection with the exit of its Venture Logistics Properties investments, which has been exited at an excellent IRRs (pre-performance fee) of 35% and 27% for the 1st and 2nd tranches respectively. We have also taken the step of recording impairment provisions wherever necessary to protect our investors from the prevailing adverse conditions.

Positive steps are being taken to ensure that the growth and profitability of our Bank is sustained and initiatives implemented to bear fruit in the coming years. Following on from the steps taken in 2008, the Board has continued to press forward a strategic review process, together with the Executive Management and external consultants, to appropriately deal with the critical issues facing us including corporate governance, risk monitoring and mitigation, competitive awareness and the challenges posed by the ongoing financial crisis and market turmoil.

To support our business activities, we have continued to build the institutional capabilities of the Bank in 2009, including strengthening our framework of corporate governance, risk management and internal controls and enhancing our IT infrastructure.

We have applied a cost reduction policy to reduce administrative and operational expenses, and we followed a prudent and diversified policy of investing across a range of sectors such as medical and industrial services, information technology, shipping and real estate projects both investment and residential.

We should not forget, after more than one year to the crisis, that the world is going through a very slow economic recovery phase, which leaves us with no option but to look forward to the near future with caution and wisdom in terms of investment diversification, and scrutiny of the various opportunities, since our objective is to protect the best interests of the shareholders, and creating an ideal work environment that contribute to the economic development of our community through adding a new dimension to the Islamic investment banking.

Venture Capital investments are of long term nature with exit periods that could reach up to seven years. We are planting today the seeds of future success for our shareholders and investors by capitalizing on the exceptional opportunities that the global financial crisis currently offers in early to mid-stage growth companies with significant market potential that are seeking access to capital and additional technical and operational support to facilitate growth and expansion.

We are confident of achieving more positive results in the coming difficult and challenging years and to demonstrate that the Bank's business model actually improves the regional economies through investment in small and medium-sized companies, creating distinct success stories

The Board of Directors is recommending the following appropriations out of the 2009 net profit for the approval of our shareholders:

- USD 1.1 million representing 10% of the net profit to be transferred to the Statutory Reserve in accordance with the Bahrain Commercial Companies Law.
- USD 18.9 million representing 8.5% of the issued capital as a stock dividend.

On behalf of the Board of Directors, I would like to express my sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al-Khalifa, King of the Kingdom of Bahrain, and His Royal Highness Prince Khalifa bin Salman Al-Khalifa, the Prime Minister, and His Royal Highness Prince Salman bin Hamad Al-Khalifa, the Crown Prince and Deputy Supreme Commander, for their wise leadership and constant encouragement of the economic sector and the Islamic banking industry in particular. My thanks also goes to the Central Bank of Bahrain, the Ministry of Industry and Commerce and other Government authorities for their continued guidance and support during the year 2009.

I wish also to extend my gratitude and thanks to the shareholders, clients, investors and business partners for their unwavering loyalty and encouragement, as well as to the executive management and all members of VCBank team for their constant efforts and endeavour which enabled the bank to achieve good results in spite of the difficult global markets conditions.

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

Dr. Ghassan Ahmed Al-Sulaiman
Chairman

BOARD OF DIRECTORS

Dr. Ghassan Ahmed Al Sulaiman
Chairman, Kingdom of Saudi Arabia
VCBank Committees: Chairman of Finance & Investment Committee; Chairman of Nomination & Remuneration Committee and Member of 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); (SID) Sahary Information Development; 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; Al Sulaiman Inter-market Co. Ltd (SIC); Propaganda Advertising Company (Ish'har); Manafith International Marketing Company Ltd (MANAFITH); Saudi Chamber of Commerce and Industry of Jeddah.
Member of the Board: Propaganda Advertising Co. (ISH'HAR); Bin Sulaiman Holding Co.; Abna Abdullah Al Sulaiman Co. Ltd; Arabian Cement Co; Savola Company; Jeddah Province Council .
Years of Experience: 31 years

Abdulfatah Mohammed Rafei Marafie
Deputy Chairman, State of Kuwait
VCBank Committees: Chairman of Corporate Governance Committee; Deputy Chairman of Nomination & Remuneration Committee, Member of Finance & Investment Committee.
Chairman and Managing Director: Al-Tijaria Real Estate Company.
Chairman: Mozon Holding Company; Al Durrat Al Tijaria Co.
Director & Treasurer: Kuwait Union for Real Estate, Commercial & Investment Owners. Member: Center for Strategic & Futuristic Studies, Kuwait University; The Public Institution for Social Security; ASAS Real Estate Co., KSA; The Voluntary Work Center; The Fund of Awqaf for Social & Scientific Development, Kuwait Awqaf Public Foundation ; Amar Finance & Leasing Co.; Commercial Bank of Kuwait.
Years of Experience: 30 years

Abdullatif Mohamed Janahi
Board Member & Chief Executive Officer
Kingdom of Bahrain
VCBank Committees: Chairman of Executive Management Committee; Member of Finance & Investment Committee, Member of Nominations & Remunerations Committee.
Chairman: OASIS Middle East Holding Company; Al Jazira Plastic Company; Gulf Projects Company; Lemissoler Maritime Co; World Development Co.; Venture Capital Fund Bahrain; Great Harbour Project. Deputy Chairman: Challenger Oil Drilling Co; Jordan Al Abyad Fertilizers and Chemicals Co. (JAFCCO).
Director: Bayan Reality Company; Mozon Holding Company; GLOREI. Co-founder: International Investment Bank.
Years of Experience: 27 years

Ali Mousa Al Mousa
Board Member, State of Kuwait
VCBank Committees: Chairman of Risk Committee.
Chairman & Managing Director: Securities Group Company.
Vice Chairman: Themar International Holding Co.
Member: Industrial Bank of Kuwait
Ex. Planning Minister – State of Kuwait.
Ex. Deputy Governor – Central Bank of Kuwait.
Years of Experience: 35 years

Marwan Ahmad Al Ghurair
Board Member, United Arab Emirates
VCBank Committees: Member of Corporate Governance Committee.
Chairman: Fanan Investments; Fanan Food Trading; Dubai National School.
Years of Experience: 20 years

Saleh Mohammed Al Shanfari
Board Member, Sultanate of Oman
VCBank 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; Member of MENA Fund Investment Committee.
Years of Experience: 20 years

BOARD OF DIRECTORS

Nedhal Saleh Al Aujan
Board Member, Kingdom of Bahrain
VCBank Committees: Chairman of Audit Committee.
Chief Executive Officer: Bahrain Development Bank.
Director: Retail Arabia; Bahrain Atomisers International; Bahrain Specialist Hospital; Joslin Diabetes Center; Bahrain Business Incubator Centre; Batelco; Dun & Bradstreet Same Limited.
Years of Experience: 27 years

Mohammed Bin Sulaiman Abanumay
Board Member, Kingdom of Saudi Arabia
VCBank Committees: Member of Finance & Investment Committee. Chief Executive Officer: Abanumay Ind. Corp. Board member: SABIC, Malath insurance Company, Qassim Cement Company, Al-Watan Newspaper in the Kingdom of Saudi Arabia, Wajeef Brokerage; Member of MENA Fund Investment Committee.
Years of Experience: 29 years

Ajlan Abdulaziz Al Ajlan
Board Member, Kingdom of Saudi Arabia
VCBank Committees: Member of Finance & Investment Committee. Chairman: Ajlan and Bros.; Ajlan Bin Abdulaziz Al Ajlan & Bros.; Abdulaziz bin Ajlan sons Co.; Nomou Real Estate Development Co.; International Fashion Co. Ltd.; Fashion Co. Ltd. for Trade & Real Estate. Board member: Riyadh Chamber of Commerce and Industry.
Years of Experience: 30 years

Ibrahim Hamad Al Babtain
Board Member, Kingdom of Saudi Arabia
VCBank Committees: Deputy Chairman of Risk Committee.
Chairman: Al Babtain Power and Telecom Company.
Executive Director: Al Mouwasat Medical Company;
Al Maktaba Marketing Company.
Board member: Al Babtain Holding Company; Al Babtain Contracting Company.
Years of Experience: 25 years

Abdulhadi Treheeb Al Shahwani
Board Member, State of Qatar
VCBank Committees: Member of Risk Committee.
Chairman: Al Shahwani Group of Companies including; bin Nayfa Al Shahwani International; Hadi Sons Group; Al Hadi Cars & Heavy Equipments; Gulf Fire Fighting Foam Factory; Qatar Fire Extinguishers Factory; Shahwani Fire Protection & Technical Services.
Years of Experience: 30 years

Sulaiman Ibrahim Al Hudaithi
Board Member, Kingdom of Saudi Arabia
VCBank Committees: Audit Committee
Managing Director: Jeddah Commercial Investment Company
Board Memberships: Saudi Research & Marketing Group
Saudi Printing and Packaging Company
Saudi Specialized Laboratories Company
Al Madaen Star Group
Saudi Specialized Publishing Company
Saudi Shipping and Maritime Services Company
Years of experience: 27 years

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), Shaikh Yusuf al-Siddiqi (Bahrain), Shaikh Muhammad Saleh Al-Abbasi (Bahrain), Shaikh Muhammad Yasin al-Fadani (Mecca), Shaikh Muhammad Khatir (Egypt), Shaikh Habib-ur-Rahman Azmi (India), Shaikh Abdullah B. Al-Siddiq Al-Ghumari (Morocco) and many other scholars. Shaikh 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 Shari'ah Council, IIFM Shari'ah Council, Islamic Rating Agency Shari'ah Council, Central Bank of Bahrain Shari'ah 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 Shari'ah Supervisory Board of several Islamic financial institutions, and a Member of the Standards Board and Shari'ah Council of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). Dr. Abu Ghuddah holds a Ph.D. in Shari'ah 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 Shari'ah 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, Al Madina Al Monawarah, Kingdom of Saudi Arabia.

Shari'ah Supervisory Board Team (from left to right)
Dr. Abdul Sattar Abdul Kareem Abu Ghuddah, Shaikh Nidham Mohammed Saleh Yaqooby (Chairman) & Dr. Essa Zaki Essa

CEO'S REPORT

Abdullatif Mohamed Janahi
Board Member &
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.

The most salient and distinguished facet of the financial results achieved over the year ending on 31 December 2009, is that it constitutes an essential milestone in VCBank's journey of growth, as such results came amid the backdrop of a financial turbulent and challenging year that has affected not only local markets, but also many prominent international markets. In this light, I would like to take this opportunity to express our satisfaction and optimism in the Bank's performance reflecting its solid and viable investment strategy.

During 2009, VCBank business model demonstrated once again its value and flexibility in dealing with various economic conditions. Throughout the year, we continued our journey of being an integrated, diversified and comprehensive Islamic investment bank whose activities are not confined to a specific work frame but seeks to enter new sectors in uncharted waters.

Also, during 2009 VCBank achieved positive financial results where the net profits reached USD 11 million (2008: USD 47 million), leading to realization of returns on Shareholder's equity of 5.4%. The total income reached USD 32.4 million and total assets reached USD 356 million while the total Shareholders' Equity reached USD 286 million. The Bank also boasts a strong balance sheet as well as healthy cash flow and liquidity levels and strong capacity to place investments.

These financial results came in the shadow of a period where the global economy experienced the implications of the financial meltdown and economic decline which included countries all over the world. However, we, in VCBank, embraced an income diversification policy and have been extremely selective in our business pursuits which are in the best interests of the shareholders and investors. Based on this premise, the Bank persisted its efforts to build a strong investment strategy, taking into consideration the highest possible professional standards and measures, in addition to adopt best practices in risk management and corporate governance. We further continued to enhance our corporate institutional capabilities to support the growth and development of our activities.

Although the financial crisis had a negative impact on all investment sectors, VCBank conducted several deals that enhanced our current investment portfolio. VCBank received approval from the Capital Market Authority of the Kingdom of Saudi Arabia to establish the Saudi Venture Capital Investment Company with a capital of SAR 375 million, to carry out activities of management, arrangement, consultation and handling securities.

Moreover, Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO) received a syndicated financing facility of USD 45 million managed and lead by Jordan Ahli Bank to further finance the work in progress of its industrial complex to manufacture fertilizers and chemicals. Similarly, as presistence of divesification Venture Capital Fund Bahrain has entered into partnership to acquire ownership stake in various small businesses in Bahrain, which is a clear validation of VCBank's business model to invest in small and medium-sized companies, which represents a large and effective part of the global economy.

Looking ahead, we see challenges and opportunities. VCBank is very well positioned not only to meet these challenges but also to seize available investment opportunities. Our strategy is clear; and we have all the resources we need to deliver it.

Much in our environment may change. However, my colleagues and I are absolutely determined that VCBank's commitment to its stakeholders will not change. We continue to commit ourselves to the communities in which we operate. We continue to believe that our long-term success lies in delivery of outstanding service and returns to our clients and investors. We continue to invest in the skills and the future development of our young employee base, and to create for them an environment of true meritocracy. And we will continue to strive to deliver sustainable value for our shareholders.

In conclusion, I wish to thank all the staff of the Bank for their effort and hard work, and also I wish to express my high appreciation to the Chairman, Directors of the Board, the shareholders and clients for their confidence and continuous encouragement. We look forward for more achievements and success in 2010.

Abdullatif Mohamed Janahi
Board Member and Chief Executive Officer

EXECUTIVE MANAGEMENT

Abdullatif Mohamed Janahi
Board Member and Chief Executive Officer
Chairman of the Executive Management Committee
The originator of the Venture Capital Bank 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 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 Lemissoler Maritime Company, World Development Company, Gulf Projects Company, Venture Capital Fund Bahrain, the Great Harbour Project and Al Jazira Plastic Company. Mr. Janahi is Deputy Chairman of Challenger Oil Drilling Company, Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO) and Director of GLOREI in Oman as well as the Chairman of their Investment Committee. Mr. Janahi is Director of Bayan Reality Company (formerly Bayan Reality Company) in Saudi Arabia and Mozon Holding Company in Morocco.

Mr. Janahi was a member of the senior management of Assurance & Business Advisory with Arthur Andersen in Bahrain. Mr. Janahi holds a B.Sc. in Accounting from the University of Bahrain, an M.Sc. in Accounting & Finance from Leicester Business School, De-MontFort University (U.K.) and is a Fellow of the Chartered Institute of Management Accountants in the UK.

Dr. Khalid Abdulla Ateeq
Deputy CEO
Operations & Support
Dr. Khalid Ateeq has over 30 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 banks and firms. He holds a Ph.D. in Philosophy of Accounting from the UK.

Faisal A. Aziz Al Abbasi
Chief Investment Officer
Private Equity & Financial Advisory
Throughout his 11 years of working within the financial industry, Mr. Al Abbasi has gained extensive experience in private equity and investment banking from working with several leading financial institutions in the Middle East. Prior to joining VCBank, he was a senior member of the Middle East Private Equity team at Unicorn Investment Bank (UIB). Previously, he worked in the direct investment group at Kuwait Finance House Bahrain (KFH), and the investment department of Bank of Bahrain and Kuwait (BBK). Mr. Al-Abbasi holds a B.Sc. degree in Accounting from the University of Bahrain.

Dr. Ahmed Al-Jawhary
Chief Investment Officer
Venture Capital & Business Development
Dr. Al-Jawhary started his career within the financial industry in 1993. 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.

Saad Abdulla Al Khan
Acting Chief Investment Officer
Real Estate
Mr. Saad Al Khan has over 12 years experience in the field of Islamic Banking. Prior to joining VCBank, Mr. Al Khan was a member of AlBaraka Islamic Bank's (AIB) Senior Management team. He was the Senior Manager of Investments & Marketing. During his time at AIB, he gained knowledge in Islamic investment banking activities and was successful in establishing a broad network of relationships particularly in the UAE. Mr. Al Khan holds a B.Sc. degree in Accounting from the University of Bahrain.

Masood Ahmed Al-Bastaki
Chief Placement Officer
Investment Placement
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 (Honours) and a B.Sc. (Honours) in Business Administration from the University of Bahrain.

Executive Management Team (from left to right)
Saad Al Khan, Masood Ahmed Al-Bastaki, Dr. Ahmed Al-Jawhary,
Abdullatif Janahi (Board Member & CEO), Dr. Khalid A. Ateeq, Faisal Al Abbasi

INVESTMENT PORTFOLIO

The Bank's initial innovative investment products, projects and deals, which were successfully executed in 2007 and 2008, made excellent progress during 2009.

The year 2009 also witnessed the successful placement and execution of several projects in various sectors.

VENTURE CAPITAL & BUSINESS DEVELOPMENT

Venture Capital & Business Development Team (From left to right)
(Seated) Saeed Haji, Dr. Ahmed Al Jawhary (Chief Investment Officer - Venture Capital & Business Development), Abhishek Mukherjee (Standing) Elham Al Koohiji, Biju Menon, Mariam Baqer

VCBank, having identified a gap in GCC and MENA markets, is focused on harnessing the potential of the largely untapped business opportunities, which it believes, if leveraged effectively, can provide a stable stream of alternative investment opportunities for investors. In doing so, VCBank first looks to identify promising, early to mid-stage growth companies with significant market potential.

VCBank puts in place innovative and sophisticated investment structures by which it can both reduce the risks traditionally associated with venture capital investing, while simultaneously ensuring its ability to provide investors with superior returns. Access to venture capital investments, not only offers VCBank's clients opportunities in an underinvested niche asset class, but also enables them to play a positive role in the channeling of funds towards investment activities that stimulate real economic growth and further the development of regional economies.

Regardless of the global and regional financial crisis, 2009 was exceptional by all standards for Venture Capital & Business Development Unit. The year witnessed new acquisitions, closure of deals, exits and launching new investment products.

During 2009, VCBank has closed the placement in the "Royal Maternity Hospital" project, which is poised to operate as a world-class wellness center specialized in the provision of basic and advanced healthcare services for women and children in Bahrain and neighboring countries.

The project is expected to bring about a qualitative leap in the standards of healthcare provision in Bahrain through developing a center of medical excellence that will offer premium services dedicated towards serving the needs of women and children in an exclusive and resort-like environment.

The initial focus of the Royal Maternity Hospital will be the provision of comprehensive maternity services, extending to pre-natal and post-natal care, in addition to gynecology. The Royal Maternity Hospital will aim to gradually introduce and excel in the provision of medical care in the areas of maternity, gynecology and fertility, pediatrics, diagnostics, continence, reconstructive surgery, oncology, and neurology.

With the completion of placement of the Royal Maternity Hospital, VCBank will soon commence implementation thereof. The Hospital will be constructed in a strategic location measuring 40,000 sq meters, in the vicinity of one of Bahrain's most luxurious residential projects.

Investors in the Royal Maternity Hospital project are expected to achieve an internal rate of return of 20% over an investment period of up to 5 years. The Royal Maternity Hospital project was placed as a structured investment product specifically targeting a certain category of the Bank's investors with substantial interest in the healthcare sector and who are expected to add value to this unique project throughout the phases of its implementation or future potential expansion in other Gulf cities.

Within the health care sector also, VCBank announced the completion of the German Orthopaedic Hospital in Bahrain. The 18 bed Hospital, located at the Bahrain Medical Centre in Manama, represents a state of art medical facility specializing in the provision of orthopaedics health care and is operated by world renowned orthopaedic surgeons and medical staff from the Federal Republic of Germany.

This project is part of a wider plan by VCBank to establish high standard medical facilities, specializing in various branches of medicine, in the Kingdom of Bahrain; thus contributing to the efforts of promoting the Kingdom and the region as a key global healthcare destination.

The main medical team comprises of German surgeons, anesthetists, physiotherapists, and nurses who have extensive expertise in fields of orthopaedics and rehabilitation. The team is lead and supervised by Professor Dr. Heinz Rottinger, a prominent global orthopaedic surgeon, who previously held leading positions in several hospitals in Germany and played a key role in the success of those hospitals.

VCBank is currently studying the feasibility of expanding the German Orthopaedics Hospital's capacity over the coming few years to include specialized complimentary medical disciplines.

The German Orthopaedic Hospital project is based on the importance of establishing a centre of medical excellence in the field of medical treatment and orthopaedic surgery to serve the Kingdom of Bahrain and the region, and provide an effective alternative to medical tourism destinations, particularly Germany.

As a continuation of its diversification policy, Venture Capital Fund Bahrain has acquired ownership stake in Dutch Delight Company, a Bahraini company specializing in the production of high quality handmade chocolate.

This partnership is in line with VCBank's firm belief in investing through its country dedicated Venture Capital Fund Bahrain, in the Bahraini entrepreneurs' capabilities. This reflects both VCFund Bahrain's philosophy and fulfills VCBank's mandate of investing in local SMEs and nascent ventures.

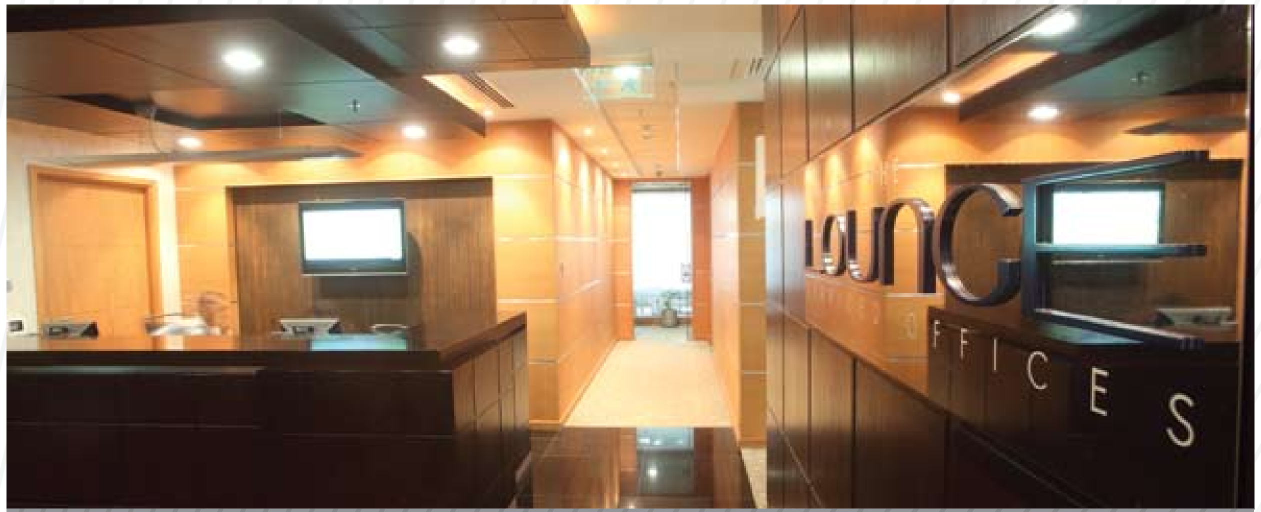
As a Bahraini company, Dutch Delight has a unique product offering, excellent growth opportunity and a high caliber management. Chocolate manufacturing represents a dynamic and significant industry globally. Worldwide chocolate sales have witnessed constant growth over the past few years.

In 2009, several national and international companies have taken advantage of the host of services offered by The Lounge Serviced Offices ("The Lounge"), making The Lounge a highly formidable contender in the marketplace.

Building on this success, the company expanded its presence outside the GCC region. The entry into the Kingdom of Morocco through the Company's maiden outlet, via a franchising arrangement in Casablanca, is considered as an outstanding achievement for a young company in its first

German Orthopaedic Hospital

Dutch Delight Company



The Lounge serviced offices

year of full operations, and a true testimony to the superior facilities and services provided by The Lounge as well as its ability to carve a niche in a competitive and demanding market.

The Lounge is currently working on implementing its ambitious expansion plan to further strengthen its presence in the regional markets, whether through franchising arrangements or strategic investments in these markets, in accordance with a gradual and well conceived plan.

Venture Capital & Business Development Unit structured and initiated in 2009 an innovative Liquidity Programme (Trust Certificates Programme) totaling USD 55 million comprising Shari'ah compliant Certificates structured in connection with the exit of its Venture Logistics Properties investments, which has been exited at Internal Rate of Returns (IRR) of 35% and 27% for the 1st and 2nd tranches respectively.

The Trust Certificates Programme provides a new tool for investors, including individuals and institutions, which is different from the classical and the currently available tools, products and instruments for liquidity and cash management in the Islamic banking industry. The new mechanism aims at the optimal management of liquidity and provides an opportunity to early liquidation at different periods ranging between 30, 90 and 180 days. The programme provides a flexible alternative to investors to manage their excess liquidity and cash flows and while achieving an attractive rate of profit.

Accordingly, this programme represents a remarkable leap to fill the large gap in the means available for the Islamic liquidity management and leads the way to the establishment of similar tools and schemes supported by quality assets that allow the investors to better manage liquidity and achieve profitable returns in accordance with the provisions of Islamic Shari'ah. The expected yield to the holders of the trust/liquidity certificates is up to 6% per annum.

Venture Capital Bank Building

PRIVATE EQUITY & FINANCIAL ADVISORY

Private Equity & Financial Advisory Team (from left to right)
Faisal Al Abbasi (Chief Investment Officer - Private Equity & Financial Advisory), Mohamed Sohail Malik, Mahmood Zainal, Sarah Mohamed Saleh, Jose Martin

VCBank sees great potential in the regional private equity market. VCBank believes it can offer investors superior opportunities and rates of return, if built on a solid foundation with well-structured and well-managed investments. With deep knowledge of the Gulf and MENA markets, and through a strategically-positioned network of regional and global associates, VCBank is poised to emerge as one of the leading regional private equity players, offering investors access to rewarding investment opportunities.

VCBank was established with a core focus on investment in undervalued and under-funded companies across multiple industry sectors. Typically, these companies are seeking access to capital and additional technical and operational support, and VCBank aims to acquire a majority stake and convert these companies into highly profitable businesses as well as adding value.

The GCC and MENA regions constitute our primary markets. VCBank may also invest in SMEs outside of these regions, where and when an exceptional opportunity exists, to utilise the expertise and technologies of portfolio companies to add value and drive advancement in our primary markets of focus.

In addition, VCBank offers clients comprehensive solutions for commercial and financial issues to help ensure they can effectively analyse and respond to the opportunities and challenges with which entrepreneurial companies are consistently faced.

In 2009, VCBank's Private Equity and Financial Advisory team continued to focus on building value within its directly-held portfolio companies. Despite the unfavorable economic conditions and the increasingly difficult finance market, VCBank was able to accomplish considerable achievements and progress in its existing investments.

Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO) finalized a USD 45 million financing facility through a syndicate facility lead by Jordan Ahli Bank, to expand and diversify the production of fertilizers and chemicals and their high value derivatives with the aim to provide products that are increasingly in demand, which will be sold regionally and internationally.

JAFCCO's USD 120 million expansion project was launched by VCBank and Jordan Phosphate Mines Company. The project is a partnership between VCBank, Jordan Phosphate

Mines Company, Arab Mining Company and strategic Jordanian partners in which VCBank represents the largest shareholder.

JAFCCO succeeded to obtain the funding required to complete the expansion project, despite the current financial crisis, which led to the scarcity of facilities provided by banks, and this demonstrates the importance and feasibility of the project. The partners have contributed 55% of the funding for the expansion project through equity and this financing facility will ensure the completion of the project.

In a similar note, Challenger Limited finalized a USD 60 million working capital facility with Natixis, a European bank specialized in the oil and gas sector, which has provided financial strength for expansion.

In 2006, VCBank's MENA Small & Medium Enterprises Fund acquired a 22.5% stake in Challenger Limited, an international provider of contract oil and gas land drilling and work-over services, operating primarily in Libya and also elsewhere in the Middle East.

Despite the current financial crisis and the difficulty in obtaining financing, Challenger Limited managed to secure this credit facility, a clear indication of the confidence of financial institutions in the capabilities of the company and an understanding of its potential for growth.

Challenger Limited has been awarded the "2009 Best Drilling Contractor" in the Oil & Gas Industry by the World Finance Magazine. This impressive award highlights Challenger Limited's strength and stability.

Lemissoler Maritime Company, a Bahrain based company that was established mid 2008, currently operates a diverse fleet of nine vessels, ranging from specialized paper vessels to container vessels, all of which are under long term time charters with blue chip companies, covering select customer segments, geographies and maturity profiles. Taking into consideration the collapse of the shipping sector as a result of the global financial crisis, Lemissoler Maritime have performed very well in 2009 and managed to pay the 9% cash dividend as promised. In an environment where vessel valuations were dropping and many major charterers were collapsing, causing most shipping companies in the world to incur sizable losses, the Company posted a good level of revenue and profitability while preserving its liquidity and the value of its assets.

Similarly, ITWorx Limited in Egypt and House of Development (HoD), a Saudi and USA based information security solutions provider, succeeded in maintaining their market position and achieving positive results which will enable them to proceed with their growth plans in the near future.

In Saudi Arabia, VCBank received approval from the Capital Market Authority to establish the Saudi Venture Capital Investment Company with a capital of SAR 375 million. The new company will carry out activities of management, arrangement, advising and dealing of investments in small and medium sized enterprises in Saudi Arabia.

The new firm is part of VCBank's expansion plan in the MENA region, and arises out of the Bank's firm belief in the importance of the Saudi market for the investment sector. It is vital for VCBank to be part of this highly dynamic and promising financial market.

The establishment of a venture capital firm in Saudi Arabia presents extraordinary potential for value creation for the aggregate economy and the private sector through economic diversification, employment generation, improved trade terms and the creation of efficient capital markets.

1

2

3


1. Challenger Limited   2. JAFCCO   3. Lemissoler Maritime Company

REAL ESTATE

Real Estate Team (from left to right)
(Standing) Saad Al Khan (Acting Chief Investment Officer - Real Estate), Abdulla Nooruddin
(Seated) Eman Abdulrahman, Ahmed Al Abbasi, Saleh Bagaeen

The real estate market in the MENA region witnessed a period of robust growth with strong market fundamentals that included high oil and equity values along with the wide availability of bank lending prior to the inception of global financial turmoil. However, these market fundamentals were significantly impaired during 2009 in the wake of the global financial crisis. Consequently, the sector suffered a significant downturn with values dropping both regionally and internationally and investor appetite towards real estate related investments diminishing.

VCBank recognizes the long term role real estate plays in regional economies and thus adopted a differentiated investment approach when conducting business within the sector. Through the use of this approach, the bank strived to manage the inherent risks associated with its real estate products by applying minimal amounts of leverage. Furthermore, the projects which were targeted were of reasonable sizes and located in prime and strategic locations.

In 2008 VCBank formed Jebel Ali Development W.L.L. to develop three strategically located labour and staff accommodation complexes within the Jebel Ali industrial Area in the UAE. The project is being developed on three adjacent plots with a total land size of 11,000 sqm, and a built up area of 41,000 sqm. The project can accommodate 4,327 workers in total of 1,279 rooms.

During the year, the company's management team was working closely on managing the cost structure of the project. The task entailed negotiations with various construction companies and value engineering exercises to control total costs.

Jebel Ali Development Company W.L.L. and Suvadh Contracting LLC entered into an agreement on November 18th 2009 to develop the three labor accommodation facilities for a total contract amount of USD 22 million. The awarded contract amount represents a saving of 40%

Jebel Ali

One major development in 2009 included the entry of Al Khozamah Management Company (AKMC) in City Centre Development Company (CCDC). In recognition of the value that has been created in CCDC, AKMC has entered into an agreement with the existing consortium to acquire a 30% stake in CCDC. AKMC is a reputable company in Saudi and will play a substantial role in the success of the project and consequently CCDC.

Further developments during the course of the year included the appointment of top international advisory and consultancy firms such as Schonbraun McCann Group (SMG) and Macquarie. The objective of the engagements was for CCDC to benefit from the solid experience of the firms in real estate investment, financial advisory and urban development.

Reef Venture Holding Company is currently, evaluating and studying tenders to select the main contractor for its first real estate project 'Difaaf', a real estate development project consisting of two high rise residential towers and situated on a plot measuring 16,000 sqm. The project is strategically located on Reef Island; a man-made island being developed off the coast of Manama and considered to be one of the most exclusive and luxurious real estate projects in the Kingdom of Bahrain.

from the original construction cost estimates which stood at USD 38 million when the project was undertaken.

The project construction is now moving in full swing, with the official commencement date for construction works being set as December 13th, 2009. The development period set-forth in the construction agreements is 12 months. Thus, Suvadh contracting LLC is expected to complete and handover the project on January 12th, 2010.

A consortium of three companies (including VCBank) won a mandate from Jeddah Municipality in July 2006 to develop the master plan and the economic model for the regeneration of 5.9 million sqm area in Jeddah Central District and the Historical District. The interest of the consortium is pooled in City Centre Development Company (CCDC).

This is a key project for Jeddah and Makah region as it aims to preserve rich history and architecture in the project area and address a number of environmental issues in the project area as well as upgrade the central district and re-position it as the centre of economic activities. The master plan was endorsed by the custodian of the two Holy Mosques, King Abdulla Bin Abdul Aziz Al Saud with the consortium being formally appointed as the project master developer.

Jeddah City

INVESTMENT PLACEMENT

Investment Placement Team (from left to right)
Bassam Haji, Mohamed Al Shaikh, Khalid A. Ghani, Hadi Al Hussaini, Jehad Qamber, Masood Al Bastaki (Chief Placement Officer), Hisham Abu Alfateh, Mohamed Abdullah, Adel Sharif & Hamad Al Jumairi

VCBank Investment Placement team is responsible for developing and maintaining relationships with the Bank's broad network of institutional investors and high net worth individuals. The team has also established a number of 'strategic' relationships with certain institutions interested in particular types of investment offerings.

The team consists of highly qualified and experienced individuals assigned to cover Bahrain, Saudi Arabia (all provinces), Kuwait, UAE (all Emirates), Qatar and Oman. Members of the team have demonstrated their technical ability to place a wide range of different products across different sectors. VCBank's core investment activities cover venture capital and business development, private equity and financial advisory, and real estate.

Placement team members are points of contact for investors and ensure regular portfolio updates, presentation material for the new opportunities, and insight into local and regional markets.

During 2009, against the very challenging backdrop of the global economy, and unlike the majority of financial institutions, VCBank placement velocity maintained its pace, and the team was able to place more than USD 150 million in new investment with its investors.

Some of the main achievements of the placement team during 2009, include; increasing the Bank's capital from USD 165 million to USD 250 million; the closure of placement in first specialized hospital for maternity in the Kingdom of Bahrain, the "Royal Maternity Hospital"; and the closure of the one-of-a-kind USD 55 million Liquidity Programme.

In just less than four years, the Investment Placement team has successfully placed all the Bank investment offerings; this constitutes an exceptional performance.

OPERATIONS & SUPPORT

VCBank's operations and support division adopts the highest standards of ethical and professional conduct, working to provide all the necessary support to facilitate investment activities and placement. The key objectives of this division is to provide superior services and effective support to the other divisions in the Bank with the highest level of integrity.

The division is now a vital element in the creation of value for the entire Bank operation, by enhancing the returns of the operations and at the same time reducing the level of risks to which the operations is exposed, and controlling the operational expenses by embracing a cost reduction policy. All employees in the operations and support division continue their hard work on building a strong team capable to realize the Bank's strategy.

Operations Unit

The Operations unit is fundamental in providing support for the entire Bank. It takes the responsibility of assuring that all the Bank's transactions are conducted accurately, easily, swiftly and up to the highest possible quality. This unit was established in 2009 with a key role to play in building cross functional working relationships between Financial Control, Treasury and Investment Administration.

Treasury

The Treasury department plays a key role in managing VCBank's liquidity and securing adequate funding to support the Bank's current and future business requirements. In addition, the department is responsible for hedging the Bank's cross-border exposure to foreign exchange and profit rate risks.

Given the current global financial crisis and credit crunch, the Treasury team's top priority during the year was the diligent and proactive management of the Bank's liquidity, through a well designed interactive approach.

Human Resources and Support

The department's areas of responsibility cover all aspects of human resources that include recruitment, training and development and personnel systems; and support including investor relations, administration support, legal services, procurement and premises. The Bank achieved an outstanding success in attracting and retaining the best possible specialized talents in banking, investment and operational services, thus creating a world class management team. The Bank also completed the recruitment of its entire core and support functions.

During the year, we remained committed to human resource empowerment and even in the midst of the economic crisis; VCBank has successfully retained its human capital and not felt the need to resort to retrenchments as well as implementing the plans approved earlier by the Board.

Information Technology

Information Technology became nowadays one of the key elements to create additional value for investment and financial institutions. Thus, VCBank established an IT department with several objectives including an enhanced Data Centre, the installation of SWIFT and a new Accounting system, the development of a Customer Relationship Management (CRM) system and the introduction of a state-of-the art Information Security system. To support the Bank's Business Continuity Plan, a world class Disaster Recovery Site was established.

Financial Control

The core activities of the Financial Control team include providing Senior Management with timely financial reports to aid decision making; preparing quarterly and annual consolidated financial statements; and ensuring that effective financial control processes and procedures are in place, and monitored on a regular basis.

Corporate Communications

The Bank adopts the highest international standards when it comes to corporate communications. A set of policies and procedures were developed to ensure an ongoing transparent, accurate and professional communications with all the relevant stakeholders inside and outside the bank. Corporate Communications Department interactively works to strengthen the bank relations with the regional and international media. As well as disseminating news release on an ongoing basis and updating the investors through quarterly newsletters with the bank's latest news and updates, particularly regarding the bank's investment projects.

Operations & Support Team (from left to right)
Hassan Murad, Santosh Jacob Karipat, Najwa Mohanna,
Abdulla Kandi, Dr. Khalid Ateeq (Deputy CEO - Operations & Support), Ahmed Sultan & May Marzooq

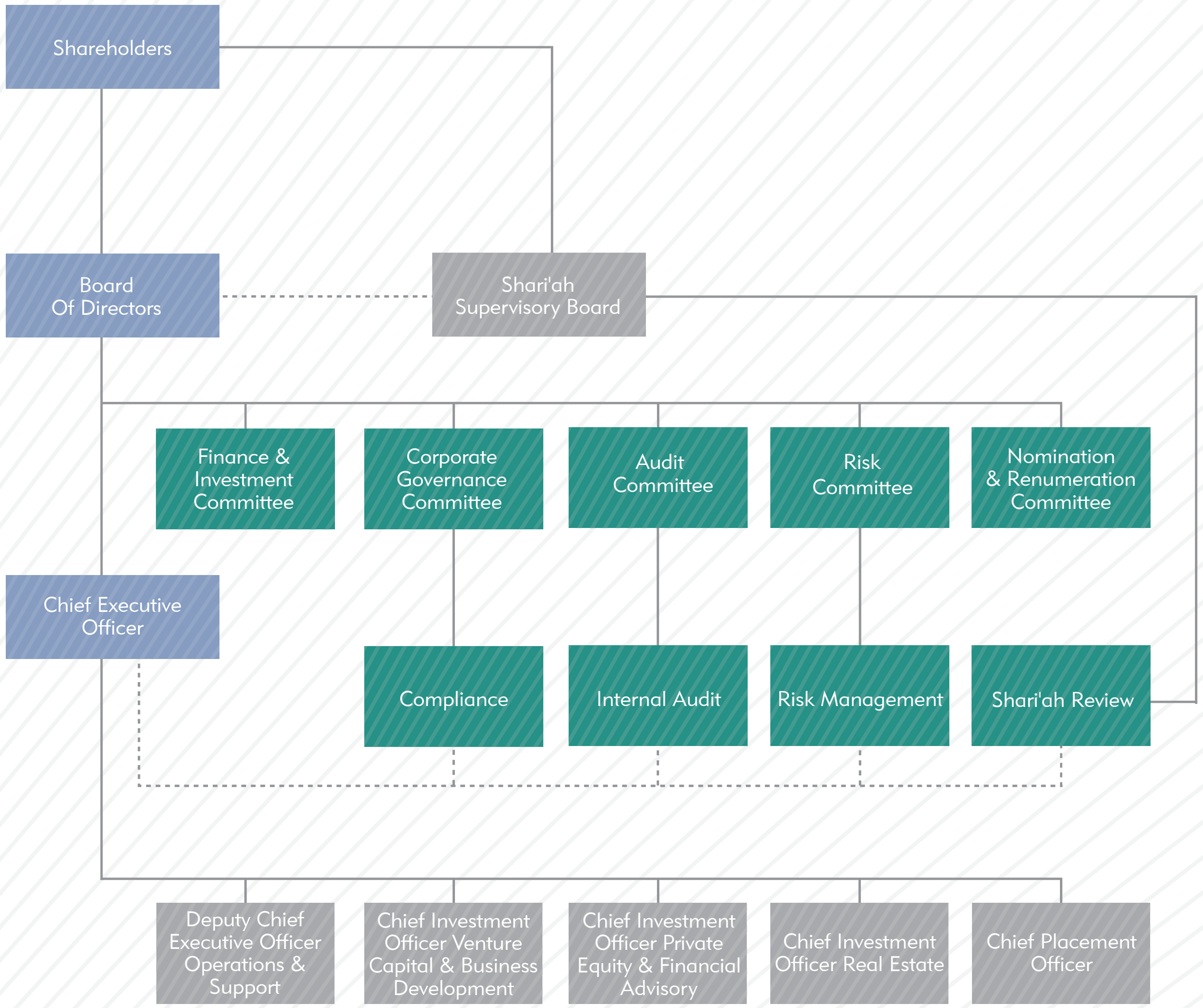
CORPORATE GOVERNANCE

VCBank is committed to upholding the highest standards of corporate governance in compliance with relevant governing laws and 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.

VCBank had successfully addressed and was keen to uphold to the best Corporate Governance practices, which were achieved through the following:

1. The majority of directors are independent
2. Directors recruited for their relevant business, industry/financial expertise
3. Independent audit function
4. Independent Compliance Function
5. Code of ethics that applies to all officers, board members and employees
6. Whistleblower Policy
7. Comprehensive policies and procedures to manage the bank
8. Effective committee structure
9. Encourages participation by independent directors
10. Verifies the Bank's financial management through external audits
11. Formal succession plan and review it annually for adequacy
12. Annual rigorous Board of Directors self-assessment

Corporate Governance Structure



Board of Directors

The composition of the Board was reviewed and reconstituted during 2009. Four new members were elected in the Bank's AGM held on 4th March 2009 to replace the retiring members, whose term ended. The Board continued to have twelve members.

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 interests of other stakeholders, and maintaining high standards of transparency and accountability. All Board Members are independent non-executive members except for the CEO.

Members

1. Dr. Ghassan Ahmed Al Sulaiman - Chairman - Independent Non-Executive Member
2. Abdulfatah Mohammed Rafei Marafie - Deputy Chairman - Independent Non-Executive Member
3. Abdullatif Mohamed Janahi (CEO) - Executive Member
4. Ali Mousa Al Mousa - Independent Non-Executive Member
5. Marwan Ahmad Al Ghurair - Independent Non-Executive Member
6. Saleh Mohammed Al Shanfari - Independent Non-Executive Member
7. Nedhal Saleh Al Aujan - Independent Non-Executive Member
8. Mohammed Bin Sulaiman Abanumay - Independent Non-Executive Member
9. Sulaiman Ibrahim Al Hudaithi - Independent Non-Executive Member
10. Ajlan Abdulaziz Al Ajlan - Independent Non-Executive Member
11. Ibrahim Hamad Al Babtain - Independent Non-Executive Member
12. Abdulhadi Treheeb Al Shahwani - Independent Non-Executive Member

Shari'ah Supervisory Board

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

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

Board Committees

The composition of the Board Committees were also reviewed and reconstituted during 2009, one major changes was the split of NRGC committee into two separate committees, the Nomination & Remuneration Committee and the Corporate Governance Committee.

Nomination & Remunerations Committee

The Nominations & Remunerations Committee is to assist the Board of Directors in establishing a fair and transparent nominations process for the appointment and remuneration of directors, other Board Committees and the Chief Executive Officer and remuneration of executive management team.

Members

1. Dr. Ghassan Ahmed Al Sulaiman - Chairman
2. Abdulfatah Mohammed Rafei Marafie – Deputy Chairman
3. Abdullatif Mohamed Janahi

Corporate Governance Committee

The Corporate Governance Committee is to assist the Board of Directors in fulfilling its responsibilities of corporate governance and oversight over the Bank's compliance with legal and regulatory requirements and Sharia'a rules.

Members

1. Abdulfatah Mohammed Rafei Marafie – Chairman
2. Dr. Ghassan Ahmed Al Sulaiman – Deputy Chairman
3. Marwan Ahmad Al Ghurair
4. Muneer Al Shehri – (independent non-board member)

Finance & Investment Committee

The purpose of the Finance & Investment Committee is to oversee the financial and investment affairs of the Bank including asset and liability management in coordination with the Executive Management Committee.

Members

1. Dr. Ghassan Ahmed Al Sulaiman – Chairman
2. Abdulfatah Mohammed Rafei Marafie
3. Saleh Mohammed Al Shanfari
4. Abdullatif Mohamed Janahi
5. Mohammed Bin Sulaiman Abanumay
6. Ajlan Abdulaziz Al Ajlan

Audit Committee

The Audit Committee is tasked with oversight responsibilities on financial reporting, internal control and risk management, internal and external audit and adherence to Shari'ah rules and principles.

Members

1. Nedhal Saleh Al Aujan – Chairman
2. Sulaiman Ibrahim Al Hudaithi – Deputy Chairman
3. Dr. Jawaher Al Mudhahki (independent non-board member)

Risk Committee

The Risk Committee is tasked with maintaining oversight of the Bank's risk management framework including its Basel II framework covering all risks faced by the Bank, as well as its control environment.

Members

1. Ali Mousa Al Mousa – Chairman
2. Ibrahim Hamad Al Babtain – Deputy Chairman
3. Abdulhadi Treheeb Al Shahwani

Other Committees

Executive Management Committee

The Executive Management Committee is responsible for assisting the CEO in overseeing day-to-day operations of the Bank, monitoring the performance of business lines and departments in relation to strategy, policies, targets and limits, conducting Investment decisions as delegated by the Board of Directors under the Discretionary Authority Limits (DAL) in addition to asset and liability management in coordination with the Finance and Investment Committee.

Members

1. Abdullatif Mohamed Janahi – Chairman
2. Dr. Khalid Abdulla Ateeq
3. Dr. Ahmed Al Jawhary
4. Faisal Abdulaziz Al Abbasi
5. Saad Al Khan
6. Masood Ahmed Al Bastaki

Directors Remuneration

The principles of VCBank's remuneration policy reflect the Bank's overall objectives of having a sound corporate governance framework, which targets the creation of a long-term value for the Bank's shareholders. Since inception, VCBank's Board of Directors was keen to put in place a robust and transparent framework to ensure that the remuneration is fair and reasonable to enhance the Bank's shareholders value and at the same time sufficient to attract, retain and motivate high quality calibers required to lead and manage the Bank in this competitive environment.

To meet the above objectives, VCBank's Board of Directors has established a Committee, to be known as the Nominations & Remunerations Committee to assist the Board in establishing a fair and transparent nominations and remunerations process for the appointment and remuneration of its Directors, other Board Committee Members, the Chief Executive Officer and Executive Management Team. This Committee is guided by the Nomination & Remunerations Committee Charter, being part of the Bank's overall Corporate Governance Framework.

The Committee's responsibility is to make recommendations to the Board on the remuneration framework for directors and senior management, which must be carried out with due regard to the local laws and regulations (especially, Bahrain Commercial Companies Law 2001, Bahrain Labor Law and Central Bank of Bahrain Rulebook together with the Bank's Memorandum and Articles of Association).

VCBank's remunerations policy was approved by the Board of Directors in year 2007 and was reviewed by the Nominations & Remunerations Committee during 2009 to ensure it remains appropriate for the Bank's needs and reflects any regulatory or market practices changes.

VCBank's Directors remunerations is a formula based approach based on the Bank's profitability level and the number of Board meetings attended by each Director. It also reflects the extent of responsibilities of each Director. Total remunerations also include Director's membership in one or more of the Board's committees, which follows the basic board membership remuneration approach above.

Board and Board Committees Development

Board Induction

All newly elected Directors of the Bank have completed the Mandatory Induction Program. The Induction program highlights, amongst others, the major duties and responsibilities of a director vis-à-vis various laws, regulations and guidelines governing the same. The Directors received briefings and updates on the Bank's financials, businesses, operations, risk management, internal controls, corporate governance, and all changes relevant to legislation, rules and regulations from the bank executive management and professionals.

Board Awareness and Development

VCBank Board Members & Executive Management attended two risk Management and Compliance & Corporate Governance training workshops during the second half of 2009. This reflected Board and Management's keenness to be updated with the latest risk management and corporate governance developments in international markets especially during the current financial crisis.

Board Evaluation

In today's environment, Banks are under more and more pressure to demonstrate that they are meeting the highest ethical, regulatory, supervisory, and governance standards. VCBank Board of Directors commit them self to conduct a comprehensive self assessment that is designed to help them in identifying where there is room for improvement and to reinforce their responsibilities and to help the Bank to achieve even greater success. During 2009 the Bank successfully implemented the first phase of the Board Evaluation program by conducting its first self assessment on the Board level, the next phase will be a self assessment on Boards Committee Level and the final phase will be on Directors Individual Level.

Compliance

Compliance is most effective in a corporate culture that emphasizes on standards of honesty and integrity, where the board and senior management lead by example. Hence, Compliance at VCBank starts at the top. The Compliance function effectiveness is lead by the Bank's Board of Directors and Executive Management, which emphasise on standards of transparency and integrity in conducting business across the whole Bank. Compliance concerns everyone within the bank and is considered as part of the Bank's culture and is not just the responsibility of the VCBank's Compliance team.

Compliance, Risk Management, Internal Audit and Shari'ah Team (from left to right)
(Standing) Khalid Al Madani, Tat Thong
(Seated) Vivek Shenoy, Khalid Al Jassim & Kubra Ali

The Bank was keen to establish a strong and independent Compliance Department to assist Senior Management in managing effectively the compliance risk faced by the Bank. The Compliance Department is directly reporting to the Corporate Governance Committee and administratively to the CEO ensuring the Bank's Compliance objectives are achieved. The Compliance function is independent from other business activities and performs only compliance responsibilities and shall not be involved in those activities where there is a probability of their independence and objectivity being compromised. However, they can work with other departments as facilitators and assisting them complying with applicable rules and regulations. Compliance function also performs AML function, as approved by Central Bank of Bahrain (CBB).

The Compliance Department oversees the Bank's compliance program and functions as an independent and objective body that reviews and evaluates the Bank's compliance issues. The Compliance function monitors the Bank's operations and activities are in compliance with the rules and regulations of the CBB, the Ministry of Industry and Commerce or any other applicable laws or regulations. It also monitors that the behavior in the organization meets the Bank's ethical standards and assists senior management in educating staff and increasing awareness on compliance issues across the whole organization. This is supported by comprehensive policies and procedures put in place to ensure full legal and regulatory compliance, including anti-money laundering reporting and prudential reporting.

The compliance team also works closely with internal Audit and Risk Management, and places increased emphasis on providing Executive Management with preventative advice and guidance.

Risk Management

The Risk Management Department reports functionally to the Risk Committee of the Board and administratively to the CEO. The primary objectives of the Risk Management Department are to develop an integrated risk management framework for the Bank, establish minimum risk management standards for the entire organization and instill a culture whereby all staff is individual owners of risks.

Key developments during the year included reviewing and assessing the Bank's risk management policy, processes and procedures; providing advice to strengthen the Bank's internal controls; formally identifying the key risks, to which the Bank is exposed as well as developing various initiatives to manage, monitor and minimize such risks. The department also commenced the development of a risk management and internal capital adequacy assessment framework which incorporates a capital allocation process to ensure that the Bank manages its internal capital in accordance with standards prescribed by Central Bank of Bahrain.

Internal Audit

The role of Internal Audit is to evaluate and provide assurance to the Management and Board of Directors of the Bank on the effectiveness of the control, risk management and governance processes, and that such processes designed and implemented by the Bank's management are adequate and functioning in the manner intended. In doing so, Internal Audit reviews the effectiveness and efficiency of the business processes and the compliance with policies, standards, procedures, and applicable laws and regulations.

Administratively, Internal Audit reports to the CEO but on all audit matters, reports to the Audit Committee of the Board. Internal Audit conducts its audits in accordance with the audit plan approved by the Audit Committee. The audit plan is developed using a risk-based methodology which also considers any risks identified by the Bank's Risk Management function, the Executive Management and external auditors. Regular reports on Internal Audit activities are presented to the Audit Committee.

The Internal Audit team also works closely with Compliance and Risk Management, and places increased emphasis on providing Executive Management with preventative advice and guidance.

Shari'ah Coordinator/Reviewer

VCBank Shari'ah Coordinator/Reviewer is proactively involved in all products and investments development and plays a vibrant role in communicating all transactions, structures and documentations of every business plan to the Shari'ah Supervisory Board in order to make sure that the bank's activities are under a direct oversight of the Shari'ah Supervisory Board. Furthermore the Shari'ah Coordinator/Reviewer plays a great role on a day to day basis in ensuring that all areas of the bank adhere to the Shari'ah Supervisory Board recommendation, advice and opinion.

Shareholder/Investor Communication & Awareness

The Board acknowledges the importance of regular communication with shareholders and investors via a number of means to promote greater understanding and dialogue with stakeholders through the Annual General Meeting, annual reports, circulars to shareholders and quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Bank's performance and operation.

Staff Training

In order to fully develop staff members' potential, the Bank offers a wide range of training program that help in equipping them self to meet future challenges and work requirements in the area of Compliance with the Bank internal policies and procedures and the regulatory requirements and the latest developments in the fight against money laundering. The continuous educational development is provided to staff through In-House Training, Online Training and Real life Case Simulations. New staff joining the Bank attends an induction program that provides them with a better understanding of Anti Money Laundering and Combating the Financing of Terrorism.

FINANCIALS

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REPORT OF THE SHARI'AH SUPERVISORY BOARD FOR YEAR ENDED

VENTURE CAPITAL BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shariah Supervisory Board for the year ended 31 December 2009

Praise be to Allah, and peace be upon our Messenger, his family companions and allies.

The Shariah Supervisory Board of Venture Capital Bank has reviewed all the business and investments of the Bank in its meetings held in 2009.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/01/2009 to 31/12/2009

It should be noted that it is the responsibility of the Bank's management to ensure that the Bank is working in compliance with Shariah principles, while the responsibility of the Shariah Supervisory Board is limited to give an independent opinion based on monitoring the Bank's operations and preparing the report to be submitted to you.

Through continuous reviewing and monitoring of the Bank's business, the Shariah Supervisory Board finds that all business, activities, investments and projects made by the Bank are compliant with the principles of Islamic Shariah.

The Shariah Supervisory Board, represented by its Chairman, has reviewed all investment brochures used by the Bank, and the funds it established. It has ratified that they are Islamic investments, publications and funds.

The Shariah Supervisory Board has also reviewed the financial statements, approved by the auditors for the said period, and decided that they are compliant with the principles of Islamic Shariah.

The Shariah Supervisory Board has calculated the amount of the Zakat payable on each share. The responsibility of payment of Zakat on the shares lies on the shareholders.

Accordingly, as the Shariah Supervisory Board issues its report to confirm the legitimacy of the business, investments, funds, and statements of Venture Capital Bank during this year, it commends the Almighty Allah for this success in the business, especially in these difficult financial conditions experienced by most countries of the world in their financial and economic sectors.

Finally, the Shariah Supervisory Board acknowledges the efforts of all employees of the Bank in facilitating the work of the Shariah Supervisory Board and appreciates their efforts, calling on Allah to help them to get more of His grace and generosity, for He is able to do so.

Peace be upon our master, Mohammad, his family and allies.

We praise to Allah the Lord of the worlds.

Abdulsattar Abu Ghodah	Nidham Bin Mohammed Saleh Yaqoobi Chairman, Shariah Supervisory Board	Issa Zaki

Venture Capital Bank Shari'ah Supervisory Board

Executed on Monday, the 30th of Rabi I, 1431 H, corresponding to the 15th day of March 2010

A. K.

22 MAR 2010

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THROUGH PARTNERSHIP COMES GROWTH - THROUGH EXPERIENCE COMES STRENGTH

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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Audit
5th floor
Chamber of Commerce Building
P.O. Box 710, Manama, Kingdom of Bahrain

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Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Venture Capital Bank BSC (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors of the Bank is 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 board of directors is also responsible for the Group'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 give a true and fair view of the financial position of the Group as at 31 December 2009, and of the result of its operations, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of zakah fund 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 give a true and fair view of the financial position of the Group as at 31 December 2009 and of its financial performance and 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
15 March 2010

KPMG Fakhro, a registered partnership under Bahrain law, is a member of KPMG International, a Swiss Cooperative

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009 USD' 000s

	Note	31 December 2009	31 December 2008
ASSETS			
Cash and balances with banks		14,287	1,093
Placements with financial institutions	3	50,789	31,718
Investment securities	4	129,259	116,068
Investments in associates and joint ventures	5	36,814	17,147
Assets held-for-sale	6	-	22,843
Investment property	7	62,884	8,442
Receivable from investment banking services		9,925	9,316
Short term funding to project companies	8	14,418	9,544
Other assets	9	23,618	22,253
Property and equipment	10	14,007	5,171
Total assets		**356,001**	243,595
LIABILITIES			
Financing payables	11	13,428	288
Payable on acquisition of investment property	7	41,737	-
Employee accruals		5,767	14,535
Other liabilities	12	9,272	3,572
Total liabilities		**70,204**	18,395
EQUITY			
Share capital	13	173,250	165,000
Share premium		13,533	13,533
Funds received towards capital increase	14	64,905	-
Unvested shares of employee share ownership plan		(15,000)	(15,000)
Statutory reserve		10,414	9,314
Investments fair value reserve		1,496	(85)
Employee share ownership plan reserve		4,211	3,073
Retained earnings		32,988	49,352
Total equity attributable to shareholders of the parent		285,797	225,187
Non-controlling interest	15	-	13
Total equity (page 42)		**285,797**	225,200
Total liabilities and equity		**356,001**	243,595
Restricted investment accounts (page 45)		**16,779**	4,615

The consolidated financial statements, which consist of pages 39 to 77, were approved by the Board of Directors on 15 March 2010 and signed on its behalf by:

Dr. Ghassan Al Sulaiman
Chairman

Abdullatif M. Janahi
Director and Chief Executive Officer

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009 USD' 000s

	Note	31 December 2009	31 December 2008
Income from investment banking services	16	24,619	67,523
Income from placements with financial institutions	22	594	1,077
Income from financing receivables	22	102	457
Income from investment securities	17	7,005	10,368
Income from sale of investment property		-	1,462
Share of (loss) / profit of associates and joint ventures	5	(2,234)	365
Other income		2,387	795
Total income		**32,473**	82,047
Staff cost	18	9,763	20,481
Travel and business development expenses	19	1,414	2,306
Impairment allowances	20	6,410	6,563
Finance expense	22	28	28
Depreciation	10	1,343	801
Other expenses	21	2,511	3,619
Total expenses		**21,469**	33,798
Profit for the year from continuing operations		**11,004**	48,249
Loss on assets held-for-sale	6	-	(1,208)
Profit for the year		11,004	47,041
Attributable to:			
Shareholders of the parent		11,013	47,621
Non-controlling interest		(9)	(580)
		11,004	47,041
Earnings per share (US cents)			
Basic	39	**6.99**	30.24
Diluted	39	6.85	28.20

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009 USD 000's

	31 December 2009	31 December 2008
Profit for the year	11,004	47,041
Other comprehensive income		
Changes in fair value of available-for-sale investments fair value reserve	1,581	(265)
Total comprehensive income for the year	**12,585**	46,776
Attributable to:		
Shareholders of the parent	12,594	47,356
Non-controlling interest	(9)	(580)
	12,585	46,776

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009 USD' 000s

	Attributable to the shareholders of the parent										
2009	Share capital	Share premium	Funds received towards capital increase	Unvested ESOP shares	Statutory reserve	Investments fair value reserve	ESOP reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 January 2009	165,000	13,533	-	(15,000)	9,314	(85)	3,073	49,352	225,187	13	**225,200**
Profit for the year	-	-	-	-	-	-	-	11,013	11,013	(9)	**11,004**
Changes in fair value of available-for-sale investments	-	-	-	-	-	1,496	-	-	1,496	-	**1,496**
Transfer to income statement on impairment	-	-	-	-	-	85	-	-	85	-	**85**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,581**	**-**	**11,013**	**12,594**	**(9)**	**12,585**
Transfer to statutory reserve	-	-	-	-	1,100	-	-	(1,100)	-	-	**-**
Dividends declared (2008)	-	-	-	-	-	-	-	(16,293)	(16,293)	-	**(16,293)**
Directors remuneration (2008)	-	-	-	-	-	-	-	(1,534)	(1,534)	-	**(1,534)**
Bonus shares issued (2008)	8,250	-	-	-	-	-	-	(8,250)	-	-	**-**
Capital increase in progress	-	-	64,905	-	-	-	-		64,905	-	**64,905**
Zakah contribution (2008)	-	-	-	-	-	-	-	(191)	(191)	-	**(191)**
ESOP plan vesting charge	-	-	-	-	-	-	1,138	-	1,138	-	**1,138**
Acquisition of non-controlling interest (note 15)	-	-	-	-	-	-	-	(9)	(9)	(4)	**(13)**
Balance at 31 December 2009	173,250	13,533	64,905	(15,000)	10,414	1,496	4,211	32,988	285,797	-	285,797

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009 (continued) USD' 000s

	Attributable to the shareholders of the parent									
2008	Share capital	Share premium	Unvested ESOP shares	Statutory reserve	Investments fair value reserve	ESOP reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 January 2008	165,000	13,533	(15,000)	4,552	180	1,800	31,887	201,952	663	**202,615**
Profit for the year	-	-	-	-	-	-	47,621	47,621	(580)	**47,041**
Fair value changes	-	-	-	-	(265)	-	-	(265)	-	**(265)**
Total comprehensive income	-	-	-	-	(265)	-	47,621	47,356	(580)	**46,776**
Transfer to statutory reserve	-	-	-	4,762	-	-	(4,762)	-	-	-
Dividends declared (2008)	-	-	-	-	-	-	(23,775)	(23,775)	-	**(23,775)**
Directors remuneration (2008)	-	-	-	-	-	-	(1,310)	(1,310)	-	**(1,310)**
ESOP plan vesting charge	-	-	-	-	-	1,273	-	1,273	-	**1,273**
Zakah contribution (2008)	-	-	-	-	-	-	(309)	(309)	-	**(309)**
Minority interest attributable to asset held-for-sale (note 6)	-	-	-	-	-	-	-	-	3,858	**3,858**
Deconsolidation of minority on partial sale of stake in a subsidiary	-	-	-	-	-	-	-	-	(3,928)	**(3,928)**
Balance at 31 December 2008	165,000	13,533	(15,000)	9,314	(85)	3,073	49,352	225,187	13	**225,200**

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009 USD' 000s

	31 December 2009	31 December 2008
OPERATING ACTIVITIES		
Murabaha profits received	594	1,077
Dividends received	486	1,158
Other receipts	897	510
Placement, management and advisory fees received	1,237	1,600
Investment banking fees received	22,537	92,892
Project costs recovered	8,234	-
Acquisition of assets held-for-sale	(712)	(22,516)
Purchase of trading securities	(3,555)	(62,553)
Sale of trading securities	3,811	10,332
Advances to acquire investments	(19,908)	(13,446)
Directors remuneration paid	(1,534)	(1,310)
Short term funding to project companies	(6,125)	-
Payments for staff cost	(19,038)	(13,473)
Payments for other expenses	(5,288)	(5,573)
Cash flows from operating activities	**(18,364)**	(11,302)
INVESTING ACTIVITIES		
Purchase of property and equipment	(293)	(2,845)
Cash flows from investing activities	**(293)**	(2,845)
FINANCING ACTIVITIES		
Funds received towards capital increase	57,099	-
Financing payables, net	(151)	(151)
Dividends paid	(5,836)	(22,575)
Zakah paid	(190)	(309)
Cash flows from financing activities	**50,922**	(23,035)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**32,265**	(37,182)
Cash and cash equivalents at beginning of the year	32,811	69,993
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**65,076**	32,811
Cash and cash equivalents include:		
Cash and balances with banks	14,287	1,093
Placements with financial institutions	50,789	31,718
	65,076	32,811

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2009 USD' 000s

2009	At 1 January 2009	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross income	Dividend paid	Administration expenses	Bank's fees as agent	At 31 December 2009
The GCC Pre-IPO Fund	4,615	-	(146)	(127)	129	-	-	-	**4,471**
VC Bank investment projects Mudarabah	-	12,000	-	-	331	-	-	(23)	**12,308**
	4,615	**12,000**	**(146)**	**(127)**	**460**	**-**	**-**	**(23)**	**16,779**
Representing:									
Investments in equities									4,276
Funds in short term murabaha									12,503
Total									16,779

2008	At 1 January 2008	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross income	Dividend paid	Administration expenses	Bank's fees as agent	At 31 December 2008
The GCC Pre-IPO Fund	5,110	-	(299)	(226)	30	-	-	-	4,615
Representing:									
Investments in equities									4,423
Funds in short term murabaha									192
									4,615

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 have specified amounts and have nominated the specific equities to participate in from a pool of GCC Pre-IPO equities and receive all returns less the Bank's fee of 20% over a 10% simple return.

The VC Bank Investment Projects Mudarabah (the "Mudarabah") provides liquidity financing to selected investment projects from the portfolio of projects promoted by the Bank. The Mudarabah earns a return of 7% less the Bank's share of profit as Mudarib of 7% there of which shall be distributed to investors on maturity of the account.

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH FUND

for the year ended 31 December 2009 USD' 000s

	2009	2008
Sources of zakah fund		
Contributions by the Bank	191	309
Total sources	**191**	309
Uses of zakah fund		
Contributions to charitable organisations	191	309
Total uses	**191**	309
Undistributed zakah fund at 31 December	-	-

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009

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 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 the consolidated financial statements, and have been consistently applied by Group entities, except for the changes resulting from amendments made to accounting standards (refer note 2(c)).

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, International Financial Reporting Standards ("IFRS") and requirements of Bahrain Commercial Companies Law 2001.

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 Group classifies its expenses by the nature of expense method.

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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results fairly. 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 32.

C. Standards, amendments and interpretations effective on or after 1 January 2009

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

IAS 1 (revised), 'Presentation of financial statements'

During the year, the Group adopted Revised IAS 1 "Presentation of Financial Statements" on its required application date of 1 January 2009. Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either 1) a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or 2) in an income statement and a separate statement of comprehensive income. The Group has opted to present separate statements – an income statement and a separate statement of comprehensive income.

The adoption of revised IAS 1 impacted the type and amount of disclosures made in the consolidated financial statements, but had no impact on the reported profits or the financial position of the Bank. Accordingly, a new primary statement of comprehensive income has been included in the consolidated financial statements and in accordance with the transitional requirements of the standard; the Bank has provided full comparative information.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Standards, amendments and interpretations effective on or after 1 January 2009 (continued)

IFRS 2, 'Share-based payment' – Vesting conditions and cancellations

The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. These amendments require retrospective application. Based on the Group's assessment, the impact of the amendment to IFRS 2 is not material to the consolidated financial statements.

Amendments to IFRS 7, 'Financial Instruments: Disclosures'

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group. These additional disclosures have been presented for the current financial reporting period and in line with the transitional provisions, comparative information has not been provided.

IFRS 8, 'Operating segments'

IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group primarily operates as an investment bank and its lines of business comprise venture capital, private equity and real estate. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

Improvements to IFRS

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Group and there have been no material changes to accounting policies as a result of these amendments.

D. Basis of consolidation

i. Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 35.

2 Significant accounting policies (continued)

D. Basis of consolidation (continued)

ii. Business combination

Accounting for acquisition of subsidiaries is governed under IFRS 3 'Business combinations', Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. For acquisitions meeting the definition of a business, the acquisition method of accounting is used. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the consolidated income statement. For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities. Financial assets and liabilities are recognised at their fair value at the acquisition date as measured in accordance with IAS 39 'Financial instruments: Recognition and measurement' and the remaining balance of the cost of purchasing the assets and liabilities is allocated to other individual non-financial assets and liabilities based on their relative fair values at the acquisition date.

iii. Non-controlling interest

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Non-controlling interest is recognised initially at their share of the identifiable assets, liabilities and contingent liabilities recognised in the purchase accounting, excluding goodwill. Profits or losses and changes in other comprehensive income attributable to non-controlling interests are reported separately in the consolidated income statement and statement of comprehensive income.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iv. Associates and joint ventures

Associates are those enterprises in which the Group holds, directly or indirectly, between 20% - 50% of the voting power and exercises 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 an 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 designated at fair value through profit or loss' in accordance with IAS 39 [refer note 2(g) (i)].

If the equity accounting method is chosen for an associate or a joint venture, the investments are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. 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.

v. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates and joint ventures are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates and joint ventures that are equity accounted have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Foreign currency transactions

i. Functional and presentation currency

Items included in the consolidated financial statements 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 Bank's functional and presentation currency.

ii. Transactions and balance

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 carried at their fair value, such as certain available-for-sale equity securities, are included in investments fair value reserve.

iii. Group companies

The Group does not have significant investments in foreign operations with functional currency different from the presentation currency of the Group. Majority of the Group entities functional currencies are either US dollars or currencies which are effectively pegged to the US Dollar, and hence, the translation of financial statements of the Group entities that have a functional currency different from the presentation currency do not result in exchange differences.

F. Financial assets and liabilities

i. Recognition and de-recognition

Financial assets of the Group comprise cash and balances with banks, placements with financial institutions, investment securities (other than associates and joint ventures that are equity accounted), and receivable from investment banking services, short-term financing to project companies and other receivables. Financial liabilities of the Group comprise financing liabilities and other payables. All financial assets (except investment securities) and financial liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.
A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).
The Group derecognises a financial asset 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. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

ii. Classification of financial assets and liabilities

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Except for investment securities (refer note 2 (g)), the Group classifies all other financial assets as loans and receivables. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

iii. Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or in certain cases carried at cost.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.
When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Financial assets and liabilities (continued)

iii. Measurement principles (continued)

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

G. Investment securities

The Group classifies its investment securities, excluding investment in subsidiaries and equity accounted associates and joint ventures (refer note 2 (d) (iv)), in the following categories: investment at fair value through profits or loss; held-to-maturity investments; and available-for-sale investments.

i. Classification

Investments carried at fair value through profit or loss are financial assets that are either held for trading or which upon initial recognition are designated by the Group as at fair value through profit or loss.
An investment 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 together and for which there is evidence of a recent actual pattern of short-term profit-taking. These include investments in quoted equities.
The Group designates investment securities as at fair value through profit or loss at inception only when it is managed, evaluated and reported on internally on a fair value basis. These include certain private equity investments [including investments in certain associates and joint ventures - refer note 2 (d) (iv)].
Held-to-maturity investments are investment securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. The Bank currently does not hold any held-to-maturity investments.
Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in certain quoted and unquoted equity securities.

ii. Initial 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. Transaction costs on investments carried at fair value through profit or loss are expensed in the profit or loss when incurred.

iii. Subsequent measurement

Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the consolidated statement of comprehensive income and presented in a separate fair value reserve within equity. When the available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in equity is transferred to the income statement through the statement of comprehensive income.
Held-to-maturity investments are carried at amortised cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances.

iv. Fair value measurement principles

Fair value for quoted investments is their market bid price. For other unquoted investments, fair value is determined either by reference to the price of the most recent transactions in the security or based on recognised internal valuation models.
For certain investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Investment securities (continued)

v. Impairment of investment securities

On each reporting date, the Group assesses whether there is objective evidence that investment securities not carried at fair value through profit or loss are impaired. Impairment is assessed on an individual basis for each investment security and is reviewed at least once a year. The Group does not perform a collective assessment of impairment of its investment securities as the risk and credit characteristics of each investment exposure is considered to be different.

In case of held-to-maturity securities carried at amortised cost, impairment is 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 account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

In the case of available-for-sale equity securities carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. In case of equity securities quoted in active markets, 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.

For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

H. Other financial assets carried at amortised cost

All other financial assets, except certain investment securities, are classified as loans and receivables and are carried 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 the respective financial asset.

I. Investment property

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties and are accounted for under the cost method net of accumulated depreciation. Investment property comprises freehold land and building. Land is not depreciated. Building is depreciated over its economic useful life of 20 years using the straight line method.

Properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If part of the property that is occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16 "Property, Plant and Equipment", and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40 "Investment Property". The portions that require allocation between self-occupied property and investment property are determined based on the relative size of the property measured in square meter.

Investment properties are measured initially at cost, including transaction costs. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

J. 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 (placements with financial institutions) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Assets held-for-sale

i. Classification

The Group classifies non-current assets or disposal groups as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held for sale and income and expense from its operations are presented as part of discontinued operation in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decision not to sell. The Group continues to classify non-current assets or disposal groups as held for sale where events or circumstances beyond the control of the Bank extend the period to complete the sale beyond twelve months and the Group remains committed to its plan to sell.

ii. Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments measured under IAS 39, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' are measured in accordance with their initial classification under IAS 39.

L. Property and equipment

Property and 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 4 to 20 years. Residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

M. Impairment of non-financial assets

The carrying amounts of the Group's assets (other than financial assets) are reviewed at date of each statement of financial position to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

N. Financing liabilities

Financing liabilities comprise facilities from financial institutions for acquisition of equipment and investment activities of the Group. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Finance expense is recognised in the income statement on a time-apportioned basis at the effective profit rate.

O. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable. The Group only issues financial guarantees to support its development projects (refer note 36).

P. Dividends and Board remuneration

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

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Q. Share capital and statutory reserve

Ordinary shares are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's income statement on the sale of treasury shares.

Statutory reserve

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

R. Revenue recognition

Income from investment banking services comprise income from investment advisory and structuring income, advisory fee, placement and arrangement fee and other fees arising from related activities.

Investment advisory and structuring income is recognised when the service is provided and income is earned. This is usually when the Bank has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Bank. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction.

Fee income is recognised when earned and the related services are performed and / or upon achieving required performance.

Income from placements with financial institutions is recognised on a time-apportioned basis over the period of the related contract.

Income from investments (**dividend income**) is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

S. Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

T. 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. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

U. Employee benefits

i. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Employees are also entitled to leaving indemnities payable based on length of service and final remuneration. Provision for this unfunded commitment, , which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the date of the statement of financial position. Any increase or decrease in the benefit obligation is recognised in the income statement.

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

iii. Share based payment transactions

The Group has established an employee 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 recognised 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 amount recognised as an expense is adjusted to reflect the number of share awards for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service conditions at the vesting date.

V. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

W. Segment reporting

The Group primarily operates as an investment bank and its lines of business comprise venture capital, private equity and real estate. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

3. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Gross short-term placements	50,827	31,726
Less: Deferred profits	(38)	(8)
	50,789	31,718

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

4. INVESTMENT SECURITIES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Investments at fair value through profit or loss		
- Quoted	1,351	4,646
- Unquoted	75,011	69,820
Available-for-sale investments		
- Quoted	6,074	5,543
- Unquoted	46,823	36,059
	129,259	116,068

i. Investments at fair value through profit or loss

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Held for trading - listed equities	1,351	4,646
Designated at fair value though profit or loss:		
- Joint ventures – unquoted	28,671	33,172
- Equity securities – unquoted	33,383	29,092
- Funds – unquoted	12,957	7,556
	76,362	74,466

4. INVESTMENT SECURITIES (continued)

i. Investments at fair value through profit or loss (continued)

During the year, the Bank has recognised net fair value loss amounting to USD 670 thousand (2008: 11,156 thousand) on re-measurement of investments designated at fair value through profit or loss. Of the total fair value changes recognised during the year, gains of USD 3,830 thousand (2008: USD 3,330) was determined based on recent transaction prices in the shares of the investee companies and a loss of USD 4,500 thousand (2008: gain of USD 7,826 thousand) determined using valuation techniques.

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 2009 (USD'000)	31 December 2008 (USD'000)
Total assets	104,622	118,676
Total liabilities	56,544	50,757
Total revenues	(5,371)	10,398
Total net (loss) / profit for the year	(10,322)	5,037

ii. Available-for-sale investment securities

Investments with a carrying value of USD 46,823 thousand (2008: USD 36,059 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 some of these companies and accordingly is unable to obtain reliable information to perform valuation of these investments. Further, some of the investments are either private equity investments managed by external investment managers or represent investments in real estate development projects / start-up entities promoted by the Group. The Group intends to exit these investments principally by means of sale to strategic buyers or at the time of sale of the underlying assets in these investments.

Movement in impairment allowance on unquoted equity securities is as follows:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
At 1 January	-	-
Addition during the year	2,950	-
At 31 December	**2,950**	-

5. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Associates	14,721	16,447
Joint ventures	22,093	700
	36,814	17,147

Movement on investments in associates and joint ventures under equity method is as follows:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
At 1 January	17,147	3,034
Acquisitions / additional investments during the year	459	8,613
Reclassification from asset held-for-sale (note 6)	22,843	-
Consolidation of a joint venture upon full acquisition (note 23)	(1,358)	-
Reclassified on partial sale of asset held-for-sale (note 6)	-	6,035
Distribution during year	-	(900)
Reclassification to available-for-sale investment on dilution	(43)	-
Share of (losses) / profits of associates and joint ventures, net	(2,234)	365
	36,814	17,147

5. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

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

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Total assets	100,840	54,762
Total liabilities	22,481	16,444
Total revenues	460	22
Total net profit for the year	6,469	(966)

6. ASSETS HELD-FOR-SALE

During the previous year, in its normal course of business, the Bank acquired 50% stake in a joint venture company for USD 22,843 thousand and was in the process of structuring and placing it with investors. Accordingly, the investment was classified as an asset held-for-sale. However, during the current year, due to changes in the plan to sell, the investment has been reclassified as an investment in associate – equity accounted.

During 2008, the Bank had made an additional investment in an associate company designated at fair value through profit or loss with an intention to hold for a short period as the intention was to sell down part of its stake immediately. The additional investment resulted in the Group having a controlling stake of 51.9% for a period of 9 months. Accordingly, the assets and liabilities of the subsidiary that were consolidated during the previous year were classified as 'held-for-sale' and income and expense from its operations were presented as part of discontinued operation in accordance with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*. Prior to 31 December 2008, the Group executed the sale transaction resulting in reduction in its stake below 50% thus leading to loss of control.

7. INVESTMENT PROPERTY

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Land carried at cost	9,130	8,442
Building	53,754	-
	62,884	8,442

Investment property includes land and building in Bahrain held for earning rental and capital appreciation purposes. The fair value of the land as at 31 December 2009 is approximately USD 15 million (2008: USD 30 million), and fair value of the building is USD 63.66 million determined based on a valuation by an independent external valuer.

On 24 December 2009, the Group acquired the VC Bank building through acquisition of 100% of the share capital of the Gulf Projects Company WLL. The VC Bank building is a multi storey office cum car park facility in the Diplomatic Area in Manama, Kingdom of Bahrain. The acquisition has been accounted as purchase of an asset. The acquisition resulted in the recognition of the building and associated assets and liabilities in the consolidated financial statements of the Group on that date. The portion of the building occupied by the Group has been classified as owner occupied property (refer note 10) and the balance has been classified under investment property.

The asset acquisition resulted in assuming financing liabilities of USD 13.26 million payable to a financial institution (refer note 11). The purchase consideration payable towards acquisition of the building amounting to USD 41.74 million is outstanding as at 31 December 2009 (refer note 24).

8. SHORT TERM FUNDING TO PROJECT COMPANIES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Gross funding	15,568	9,544
Less: Impairment allowance	(1,150)	-
	14,418	9,544

8. *SHORT TERM FUNDING TO PROJECT COMPANIES (continued)*

These receivables include temporary short-term funding provided to projects and investments promoted by the Bank. The financing facilities are generally interest-free and do not have specific terms of repayment, but are expected to be recovered in full in the course of project development and on realisation of cash flows from sale of the underlying assets and their operations.

9. OTHER ASSETS

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Receivable from sale of investments	-	3,655
Advances to acquire investments	22,633	17,451
Project costs recoverable	1,798	1,195
Other receivables	115	701
Less: Impairment allowance	(928)	(749)
	23,618	22,253

Movement in impairment allowance:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
At 1 January	749	576
Addition during the year	179	173
At 31 December	**928**	749

10. PROPERTY AND EQUIPMENT

(USD'000)

	Building	Computer and equipment	Furniture and fixtures	Motor vehicles	2009 Total	2008 Total
Cost						
At 1 January	-	971	4,771	534	**6,276**	3,431
Additions	9,914	219	49	-	**10,182**	2,845
Disposal	-	-	(3)	-	**(3)**	-
At 31 December	9,914	1,190	4,817	534	**16,455**	6,276
Depreciation						
At 1 January	-	249	630	226	**1,105**	304
Charge for the year	-	278	932	133	**1,343**	801
At 31 December	-	**527**	**1,562**	**359**	**2,448**	1,105
Net book value At 31 December	9,914	663	3,255	175	**14,007**	5,171

During the year, the Group acquired the VC Bank building (refer note 7) and the owner occupied floors of the building has been classified under property and equipment within the meaning of IAS 16.

11. FINANCING LIABILITY

This includes murabaha financing facility from a financial institution which bears a profit rate of 5.85% annually and matures in September 2011 and Ijarah financing of USD 13.26 million included as a result of an asset acquisition (refer note 7). The Ijarah financing is repayable in July 2011 and carries a profit rate of 8% per annum, payable quarterly in arrears.

12. OTHER LIABILITIES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Account payables	2,782	512
Payable towards acquisition of investment securities	3,613	-
Provisions and accruals	1,594	3,060
Dividends payable	1,283	-
	9,272	3,572

13. SHARE CAPITAL

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Authorised: 500,000,000 ordinary shares of USD 1 each	**500,000**	500,000
Issued and fully paid up: 173,250,000 shares of USD 1 each (2008: 165,000,000 shares of USD 1 each)	**173,250**	165,000

At the annual general meeting held on 4 March 2009, the shareholders approved:

- Issue of bonus shares of 5% on shares outstanding as at 31 December 2008 resulting in increase of paid-up capital from USD 165 million to USD 173.25 million;
- Cash dividends of 15% (USD 0.15 per share);
- Board remuneration of USD 1,310 thousand; and
- Appropriation to statutory reserve of USD 3,230 thousand.

14. FUNDS RECEIVED TOWARDS CAPITAL INCREASE

The shareholders in their extra-ordinary general meeting held on 4 March 2009 resolved to increase the Bank's paid up capital by USD 87.75 million through rights issue to existing shareholders of USD 60.75 million at a price of USD 1.20 per share and issue of shares to new investors of USD 27 million at a price of USD 1.60 per share. Further, the shareholders also approved allocation of additional 9.25 million shares at par towards the Bank's employee share ownership plan. The Bank collected subscriptions of USD 64.91 million up to 31 December 2009, and the Board of Directors has decided to close the capital increase at this amount. The legal process for the registration and issue of the new shares is currently in progress.

15. ACQUISITION OF NON-CONTROLLING INTEREST

On 6 December 2009, the Group acquired the remaining 10 percent in the Lounge Business Service Offices Limited ("the Lounge") from the non-controlling interest making it a fully owned subsidiary of the Bank. The acquisition was made at the book value at the beginning of the year. The loss on the date of acquisition has been recognised in equity.

16. INCOME FROM INVESTMENT BANKING SERVICES

	2009 (USD'000)	2008 (USD'000)
Investment advisory and structuring income	21,433	63,504
Investment management and advisory fee	3,096	2,309
Placement and arrangement fee	90	1,710
	24,619	67,523

17. INCOME FROM INVESTMENT SECURITIES

	2009 (USD'000)	2008 (USD'000)
Trading securities	642	(3,611)
Investments designated at fair value through profit or loss	2,301	12,308
Held-to-maturity	-	127
Available-for-sale investments	4,062	1,349
Other	-	195
	7,005	10,368

17. *INCOME FROM INVESTMENT SECURITIES (continued)*

Details of income by nature are as follows:

2009	**Trading**	**Designated at fair value**	**HTM**	**AFS**	**Others**	USD'000 **Total 2009**
Fair value gains	360	(670)	-	3,750	-	**3,440**
Profit on sale	156	1,141	-	-	-	**1,297**
Dividends	126	1,830	-	312	-	**2,268**
	642	**2,301**	**-**	**4,062**	**-**	**7,005**

2008	Trading	Designated at fair value	HTM	AFS	Others	USD'000 Total 2008
Fair value (losses) / gain	(3,774)	11,156	-	-	-	7,382
Profit on sale	31	918	-	557	195	1,701
Dividends	132	234	-	792	-	1,158
Profit income	-	-	127	-	-	127
	(3,611)	12,308	127	1,349	195	10,368

18. STAFF COST

	2009 (USD'000)	2008 (USD'000)
Salaries and benefits	8,974	19,757
Social insurance expenses	778	719
Other staff expenses	11	5
	9,763	20,481

19. TRAVEL AND BUSINESS DEVELOPMENT EXPENSES

	2009 (USD'000)	2008 (USD'000)
Travel and accommodation	906	1,637
Legal and professional	508	669
	1,414	2,306

20. IMPAIRMENT ALLOWANCES

	2009 (USD'000)	2008 (USD'000)
Available-for-sale investments	4,001	6,390
Advances to acquire investments	-	173
Investment banking fee receivable	1,080	-
Short term funding to project companies	1,150	-
Other assets	179	-
	6,410	6,563

21. OTHER EXPENSES

	2009 (USD'000)	2008 (USD'000)
Rent and office expenses	1,896	2,190
Publicity, conferences and promotion	203	835
Board and Shari'ah expenses	356	536
Other costs	56	58
	2,511	3,619

22. TOTAL FINANCE INCOME AND EXPENSE

	2009 (USD'000)	2008 (USD'000)
FINANCE INCOME		
Income from financing receivable	-	457
Short term funding to project companies	102	-
Income from placements with financial institutions	594	1,077
Income from held-to-maturity Sukuk	-	127
	696	1,661
FINANCE EXPENSE		
Financing expense	(28)	(28)
NET FINANCE INCOME	**668**	1,633

23. BUSINESS COMBINATION

The Group owned 50% of investment in MENA SME Fund Manager Limited, an entity set up to act as the General Partner (GP) of Mena SME Fund LP (the Fund), a fund which invests in private equity projects in the MENA region. The Group previously had an arrangement to jointly manage the Fund with another private equity fund manager. The investment was being equity accounted and classified as investment in a joint venture.

On 22 December 2009, the Group acquired the balance 50% of the share capital of Mena SME Fund Manager Limited under a broader asset purchase arrangement from the other shareholder. The acquisition resulted in the Group being assigned the current and future beneficial interest in the fee income receivable from managing the Fund. This resulted in recognition of USD 1,560 thousand of excess of fair value of net assets over the consideration paid, which has been recognised in the income statement under 'other income'.

24. SUBSEQUENT EVENTS

Subsequent to the year end, the Bank initiated a short term liquidity program to raise USD 55 million to finance the exit of investors of Gulf Projects Company WLL and acquisition of the VC Bank building (refer note 7). In order to facilitate the transaction the Bank incorporated Liquidity FinCo Limited (the "FinCo"), a Cayman Island company. The FinCo will issue short term deposit receipts with maturities ranging from 3 months to 12 months, which yield a fixed profit rate of 3% to 6.5% respectively over the maturity period. The payments under the liquidity program will be supported by the rental cash flows generated from the VC Bank building. The deposits shall be secured against the VC Bank building.

As of date of these consolidated financial statements, the FinCo has received binding commitments from investors for USD 55 million to participate in the liquidity program. The Bank is also planning to engage participation of other financial institutions and liquidity providers to support timely and periodic redemption of the short-term deposits as per the terms of the liquidity program. This is expected to substantially reduce the Bank's exposure to credit and liquidity risk arising from this liquidity program.

25. EMPLOYEE SHARE OWNERSHIP PLAN

On 1 October 2008, the Group set up an employee's 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 service period and settlement of the cost of the units. The cost to the Bank, representing the fair value of the units offered at each grant date, is determined by an independent firm of accountants using the Black-Scholes model, and is recognised as an expense in the consolidated income statement over the vesting period with corresponding increase in the ESOP reserve recognised as a separate component of the consolidated statement of changes in equity.

The shareholders have authorised issue of up to 25 million shares to the ESOP under this scheme. The Group has incorporated VC Bank ESOP SPC (ESOP Vehicle), a special purpose vehicle, to hold the shares for the benefits of the participating employees until they vest. The shares issued to the ESOP are treated as treasury shares until they unconditionally vest to the benefit of the employees.
As at 31 December 2009, 11.38 million, (2008: 14.63 million units) units which had been granted under the terms of the ESOP were outstanding. During the year 2009, the Bank did not grant any new units to its employees. The vesting charge for the current year net of forfeiture amounted to USD 1,138 thousand (2008: USD 1,273 thousand).

26. 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 investment banking services and management fees are from entities over which the Group exercises 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.
The significant related party balances and transactions included in these consolidated financial statements are as follows:

2009	Associates and joint ventures	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Cash and balances with banks	-	-	127	-	**127**
Placements with financial institutions	-	-	265	-	**265**
Investment securities	-	-	1,628	52,395	**54,023**
Investments in associates and joint ventures	77,276	-	-	-	**77,276**
Receivable from investment banking services	3,330	-	-	7,160	**10,490**
Short term funding to project companies	3,601	-	3,466	1,170	**8,237**
Other assets	14	-	-	28,141	**28,155**
Liabilities					
Employee accruals	-	1,670	-	-	**1,670**
Payable on acquisition of investment property	41,737	-	-	-	**41,737**
Payables	1,270	-	-	-	**1,270**
Income					
Income from investment banking services	10,160	-	-	-	**10,160**
Income from investment securities	100	-	-	-	**100**
Share of profit/ (loss) of associates and joint ventures accounted for using the equity method	(2,234)	-	-	-	**(2,234)**
Other income	626	-	-	-	**626**
Expenses (excluding compensation for key management personnel)					
Impairment allowance	400	-	-	-	**400**
Commitments and contingencies	-	-	-	-	**-**
Restricted investment accounts	12,308	-	-	-	**12,308**

26. RELATED PARTY TRANSACTIONS (continued)

2008	Associates and joint ventures	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Cash and balances with banks	-	-	85	-	85
Placements with financial institutions	-	-	351	-	351
Investment securities	-	-	-	61,642	61,642
Investments in associates and joint ventures	35,718	-	18,936	-	54,654
Assets held-for-sale	22,843	-	-	-	22,843
Receivable from investment banking services	295	-	4,647	3,726	8,668
Short term funding to project companies	103	-	570	5,720	6,393
Other assets	-	-	-	16,364	16,364
Liabilities					
Employee accruals	-	1,455	-	-	1,455
Income					
Income from investment banking services	680	-	-	-	680
Income from investment securities	7,826	-	-	-	7,826
Share of profit/ (loss) of associates and joint ventures accounted for using the equity method	365	-	-	-	365
Other income	484	-	-	-	484
Commitments and contingencies	-	-	-	-	-
Restricted investment accounts	-	-	-	-	-

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were:

Categories*	Number of Shares	Number of Directors
Less than 1%	3,574,167	3
1% up to less than 5%	6,628,539	2

* Expressed as a percentage of total outstanding shares of the Bank.

Details of material contracts involving directors' include:

	2009 (USD'000)	2008 (USD'000)
Directors' participation in investments promoted by the Group	13,975	13,056

The key management personnel compensation is as follows:

	2009 (USD'000)	2008 (USD'000)
Board remuneration	-	1,534
Board member fees	142	139
Share-based payments	549	831
Salaries and other short-term benefits	2,262	9,605

27. 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 2009 is US cents 0.1807 for every share held (31 December 2008: US cents 0.5360 for every share held). As per the Shari'ah Supervisory Board, the capital increase advance amount has been excluded from the determination of Zakah as it was only received towards the end of the year 2009. Investors participating in the capital increase must note this and be aware that the responsibility of calculating and paying the zakah due on them is their sole responsibility.

28. 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 year.

29. 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.

30. SOCIAL RESPONSIBILITY

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

31. 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 2009 (USD'000)	31 December 2008 (USD'000)
Proposed dividend – cash	-	16,500
Proposed dividend – bonus shares	18,977	8,250
Directors' remuneration	-	1,534
Zakah	79	191

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements

i. Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (g)].

Further, the Group classifies non-current assets or disposal groups as 'held for sale' if it's carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. In addition, the sale is expected to be completed within one year from the date of classification. The expected time of completion of sale and management's plan to sell is based on management assumptions in relation to the condition of the asset and its current performance and requires judgment. There is no certainty on the execution and completion of the sale transaction and any changes in the plan to sell may cause the classification of the disposal group to be changed and consequently the basis of measurement, presentation and disclosure in the consolidated financial statements.

32. *CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES (continued)*

ii. Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides nominee, corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. 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. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Key sources of estimation uncertainty

i. Fair value of investments

The Group determines the fair values of unquoted investments amounting to USD 75,011 thousand (2008: USD 69,820 thousand) 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.
Details of estimates and related sensitivity analysis are disclosed in note 38 (b).

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 and is assessed for each investment separately. In case of quoted equity securities, the Group considers a decline of more than 20% in the fair value below cost to be significant and considers a decline below cost which persists for more than 6 months as prolonged.
Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise of investments in long-term real estate development projects. In making a judgment of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

iii. Impairment of short-term funding to project companies

Each exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management evaluates among other factors, liquidity of the project, evidence of deterioration in the financial health of the project, impacts of delays in execution and the net realisable value of any underlying assets. Each asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009

33. MATURITY PROFILE

The table below shows the maturity profile of the Group's financial assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment and the Group's contractual maturity and amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 37 (c).

(USD '000)

2009	**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	14,287	-	-	-	-	**14,287**
Placements with financial institutions	50,789	-	-	-	-	**50,789**
Investment securities	-	-	1,027	42,634	85,598	**129,259**
Investments in associates and joint ventures	-	-	22,093	-	14,721	**36,814**
Investment property	-	-	-	-	62,884	**62,884**
Receivable from investment banking services	323	2,810	3,247	1,833	1,712	**9,925**
Short term funding to project companies	-	5,034	-	5,090	4,294	**14,418**
Other assets	-	22,172	126	905	415	**23,618**
Property and equipment	-	-	-	-	14,007	**14,007**
Total assets	**65,399**	**30,016**	**26,493**	**50,462**	**183,631**	**356,001**
Liabilities						
Islamic financing payables	13,262	47	48	71	-	13,428
Payable on acquisition of investment property	6,564	12,535	11,434	11,204	-	41,737
Employee accruals	500	1,486	-	-	3,781	5,767
Other liabilities	9,272	-	-	-	-	9,272
Total liabilities	**29,598**	**14,068**	**11,482**	**11,275**	**3,781**	**70,204**
Commitments and contingencies	-	-	-	21,278	16,103	**37,381**
Restricted investment account	195	-	12,308	4,276	-	**16,779**

2008	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	1,093	-	-	-	-	1,093
Placements with financial institutions	31,718	-	-	-	-	31,718
Investment securities	-	-	953	40,295	74,820	116,068
Investments in associates and joint ventures	-	-	-	-	17,147	17,147
Assets held-for-sale			22,843	-	-	22,843
Investment property	-	-	-	-	8,442	8,442
Receivable from investment banking services	484	6,962	-	1,870	-	9,316
Short term funding to project companies	-	9,544	-	-	-	9,544
Other assets	1,378	3,810	4,850	-	12,215	22,253
Property and equipment	-	-	-	-	5,171	5,171
Total assets	34,673	20,316	28,646	42,165	117,795	243,595
Liabilities						
Financing payables	-	52	52	184	-	288
Employee accruals	12,026	-	-	2,509	-	14,535
Other liabilities	3,572	-	-	-	-	3,572
Total liabilities	15,598	52	52	2,693	-	18,395
Commitments and contingencies	2,270	-	-	-	17,480	19,750
Restricted investment account	192	-	-	-	4,423	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009

34. CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS

A. Industry sector

2009	**Trading & Manufacturing**	**Banks & financial Institutions**	**Real estate**	**Oil and Gas**	**Health care**	**Technology**	**Shipping**	**Others**	**Total**
Assets									
Cash and balances with banks	-	14,287	-	-	-	-	-	-	**14,287**
Placements with financial institutions	-	50,789	-	-	-	-	-	-	**50,789**
Investment securities	12,805	991	57,556	20,027	2,650	2,073	17,255	15,902	**129,259**
Investment in associates and joint ventures	-	-	24,007	-	3,363	4,636	-	4,808	**36,814**
Investment property	-	-	62,884	-	-	-	-	-	**62,884**
Receivable from investment banking services	210	3,127	3,650	-	1,966	200	-	772	**9,925**
Short term funding to project companies	1,170	-	6,777	-	3,864	2,607	-	-	**14,418**
Other assets	171	285	463	5	562	473	-	21,659	**23,618**
Property and equipment	-	3,306	9,914	-	-	-	-	787	**14,007**
Total assets	**14,356**	**72,785**	**165,251**	**20,032**	**12,405**	**9,989**	**17,255**	**43,928**	**356,001**
Liabilities									
Financing payables	-	13,428	-	-	-	-	-	-	**13,428**
Payable on acquisition of investment property	-	-	-	-	-	-	-	41,737	**41,737**
Employee accruals	-	-	-	-	-	-	-	5,767	**5,767**
Other liabilities	497	3,300	-	-	-	-	313	5,162	**9,272**
Total liabilities	**497**	**16,728**	**-**	**-**	**-**	**-**	**313**	**52,666**	**70,204**
Commitments and contingencies	8,437	-	21,644	-	7,300	-	-	-	**37,381**
Restricted investment accounts	-	3,292	12,308	-	-	-	-	1,179	**16,779**

34. CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS (continued)

A. Industry sector (continued)

2008	Trading & Manufacturing	Banks & financial Institutions	Real estate	Oil and Gas	Health care	Technology	Shipping	Others	Total
Assets									
Cash and balances with banks	-	1,093	-	-	-	-	-	-	1,093
Placements with financial institutions	-	31,718	-	-	-	-	-	-	31,718
Investment securities	13,405	837	70,560	14,109	-	-	14,174	2,983	116,068
Investment in associates and joint ventures	-	-	1,732	700	3,722	6,035	-	4,958	17,147
Assets held-for-sale	-	-	22,843	-	-	-	-	-	22,843
Investment property	-	-	8,442	-	-	-	-	-	8,442
Receivable from investment banking services	339	-	2,947	-	4,647	295	525	563	9,316
Short term funding to project companies	5,720	-	3,472	-	352	-	-	-	9,544
Other assets	93	-	7,892	218	599	780	34	12,637	22,253
Property and equipment	-	4,945	-	-	-	-	226	-	5,171
Total assets	19,557	38,593	117,888	15,027	9,320	7,110	14,959	21,141	243,595
Liabilities									
Financing payables	-	288	-	-	-	-	-	-	288
Employee accruals	-	-	-	-	-	-	-	14,535	14,535
Other liabilities	-	-	-	-	-	-	-	3,572	3,572
Total liabilities	-	288	-	-	-	-	-	18,107	18,395
Commitments and contingencies	-	2,658	14,822	-	-	-	-	2,270	19,750
Restricted investment accounts	-	3,310	-	-	-	-	-	1,305	4,615

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34. CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS (continued)

B. Geographic region

2009	**GCC countries**	**Other MENA countries**	**Global**	**Cayman/ Americas**	**Total**
Assets					
Cash and balances with banks	14,202	85	-	-	14,287
Placement with financial institutions	50,523	266	-	-	50,789
Investment securities	82,221	30,811	16,227	-	129,259
Investment in associates and joint ventures	30,318	1,859	4,637	-	36,814
Investment property	62,884	-	-	-	62,884
Receivable from investment banking services	6,144	454	200	3,127	9,925
Short term funding to project companies	10,641	1,170	2,607	-	14,418
Other assets	23,143	463	-	12	23,618
Property and equipment	13,196	811	-	-	14,007
Total Assets	**293,272**	**35,919**	**23,671**	**3,139**	**356,001**
Liabilities					
Financing payable	13,428	-	-	-	13,428
Payable on acquisition of investment property	-	-	-	41,737	41,737
Employee accruals	5,767	-	-	-	5,767
Other liabilities	5,162	497	3,613	-	9,272
Total liabilities	**24,357**	**497**	**3,613**	**41,737**	**70,204**
Commitments and contingencies	28,943	8,438	-	-	**37,381**
Restricted investment accounts	16,779	-	-	-	**16,779**

2008	GCC countries	Other MENA countries	Global	Cayman/ Americas	Total
Assets					
Cash and balances with banks	1,093	-	-	-	1,093
Placement with financial institutions	31,718	-	-	-	31,718
Investment securities	82,397	20,571	13,000	100	116,068
Investment in associates and joint ventures	14,489	1,958	-	700	17,147
Assets held-for-sale	22,843	-	-	-	22,843
Investment property	8,442	-	-	-	8,442
Receivable from investment banking services	8,417	375	524	-	9,316
Short term funding to project companies	3,824	5,720	-	-	9,544
Other assets	21,803	198	34	218	22,253
Property and equipment	5,171	-	-	-	5,171
Total Assets	200,197	28,822	13,558	1,018	243,595
Liabilities					
Financing payable	288	-	-	-	288
Employee accruals	14,535	-	-	-	14,535
Other liabilities	3,204	368	-	-	3,572
Total liabilities	18,027	368	-	-	18,395
Commitments and contingencies	19,750	-	-	-	19,750
Restricted investment accounts	4,615	-	-	-	4,615

35. 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 31 December 2009, the Group had fiduciary assets under management of USD 672 million (2008: USD 650 million).

36. COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees for USD 16.10 million (2008: USD 17.48 million) in respect of its development projects, on which no losses are expected. The Group also had commitment to finance of USD 11.4 million (31 December 2008: Nil) and commitments to invest of USD 9.8 million (31 December 2008: USD 2.27 million).

37. 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 balances with banks, placements with financial institutions, financing receivables and certain other assets like receivables from investment banking services, structuring fee.

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 as at 31 December 2009. The Bank does not hold collateral against any of its exposures as at 31 December 2009.

Past due

At 31 December 2009, the Bank has receivable of investment banking fee, short-term funding to project companies and expenses recoverable amounting to USD 26.14 million (2008: USD 20.05 million). These receivables are generally interest-free and do not have specific terms of repayment, but are expected to be recovered in full in the course of project development and on realisation of cash flows from sale of the underlying assets and their operations. The Bank does not consider these as past due based on the expected cash flows of the project companies. For expected timelines of recovery of these balances refer note 33.

Impaired financial assets

Impaired financial assets are those for which the Bank determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the exposure. Impairment is assessed on an individual basis for each exposure.

Based on the estimates and recovery of these receivables, the Group has made an impairment provision of USD 2,409 thousand (2008: USD 173 thousand) against its receivable exposure.

Movement in impairment allowance:

(USD'000)

2009	**Receivable from investment banking services**	**Short-term funding to project companies**	**Other assets**	**Total**
At 1 January	-	-	749	**749**
Addition during the year	1,080	1,150	179	**2,409**
At 31 December	**1,080**	**1,150**	**928**	**3,158**

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for the year ended 31 December 2009

37. RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

A. Credit risk (continued)

(USD'000)

2008	Receivable from investment banking services	Short-term funding to project companies	Other assets	Total
At 1 January	-	-	576	576
Addition during the year	-	-	173	173
At 31 December	-	-	749	749

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 34.

C. Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Bank's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

2009	**Gross undiscounted cash flows** Up to 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Carrying amount**
Liabilities						
Islamic financing payables	13,262	47	48	71	-	13,428
Payable on acquisition of investment property	6,564	12,535	11,434	11,204	-	41,737
Employee accruals	500	1,486	-	-	3,781	5,767
Other liabilities	9,272	-	-	-	-	9,272
Total financial liabilities	**29,598**	**14,068**	**11,482**	**11,275**	**3,781**	**70,204**
Commitments and contingencies	-	-	-	21,278	16,103	**37,381**

2008	Gross undiscounted cash flows Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Carrying amount
Liabilities						
Islamic financing payables	-	52	52	184	-	288
Employee accruals	12,026	-	-	2,509	-	14,535
Other liabilities	3,572	-	-	-	-	3,572
Total financial liabilities	15,598	52	52	2,693	-	18,395
Commitments and contingencies	2,270	-	-	-	17,480	19,750

37. RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

D. Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on 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, financing receivables, Held-to-maturity securities and financing payable. The Group's exposure to profit rate risk is limited due the relatively short-term nature of these assets. Average profit rates on financial instruments were:

	2009	2008
Placements with financial institutions	1.26%	3.09%
Short-term funding to project companies	3.00%	3.00%
Financing payables	6.93%	5.85%

Sensitivity analysis

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	**2009**	2008
Placements with financial institutions	± 471	± 349
Short-term funding to project companies	± 34	± 152
Financing payables	± 137	± 5

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

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 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 2009 (USD'000)	31 December 2008 (USD'000)
Kuwaiti Dinars	3,171	3,338
Saudi Riyals *	38,433	5,751
UAE Dirhams *	11,557	-
Euro	12	18
Omani Riyals *	8,570	8,570
Jordanian Dinars *	124	-

* Pegged to US dollar

A 10 percent strengthening/ weakening of the USD at 31 December 2009 would have decreased/ increased the profit by USD 318 thousand (2008: USD 334 thousand). This analysis assumes that all other variables, in particular profit rates, remain constant. On other currencies pegged to USD the Bank expects no significant currency risk.

Other price risk

The Group's available-for-sale equity securities carried at cost are exposed to risk of changes in equity values. Refer note 32 for significant estimates and judgements in relation to impairment assessment of available-for-sale equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Finance and Investment Committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009

37. RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

D. Market risk (continued)

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 4 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 Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the bank. The Bank already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

F. Capital management

The Bank's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. The Bank is required to comply with the provisions of the Capital Adequacy Module of the CBB (based on the Basel II and IFSB frameworks) in respect of regulatory capital. 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.

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

USD'000

Capital adequacy	**31 December 2009**	31 December 2008
Total risk weighted assets	**647,781**	463,036
Tier 1 capital	328,690	215,635
Tier 2 capital	-	-
Total regulatory capital	**328,690**	215,635
Total regulatory capital expressed as a percentage of total risk weighted assets	**51%**	46.52%

The Bank has complied with all externally imposed capital requirements throughout the year

38. FAIR VALUE

A. Fair value of financial assets and liabilities

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 unquoted available-for-sale investments of USD 46,823 thousand (2008: USD 36,059 thousand) and investment in sukuk of USD Nil (2008: USD 7,800 thousand) that are carried at cost, the estimated fair values of the Group's other financial assets and liabilities are not significantly different from their book values.
The table below sets out the Group's classification of each class of financial assets and liabilities:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009

38. FAIR VALUE (continued)

2009	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	-	-	-	14,287	-	-	**14,287**
Placements with financial institutions	-	-	-	50,789	-	-	**50,789**
Investments securities	1,351	84,248	-	-	43,660	-	**129,259**
Receivable from investment banking services	-	-	-	9,925	-	-	**9,925**
Short term funding to project companies	-	-	-	14,418	-	-	**14,418**
Other assets	-	-	-	23,618	-	-	**23,618**
Total financial assets	**1,351**	**84,248**	**-**	**113,037**	**43,660**	**-**	**242,296**
Liabilities							
Financing payable	-	-	-	-	-	13,428	**13,428**
Payable on acquisition of investment property	-	-	-	-	-	41,737	**41,737**
Other liabilities	-	-	-	-	-	7,678	**7,678**
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**62,843**	**62,843**
Restricted investment accounts	-	-	-	12,503	4,276	-	**16,779**

2008	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	-	-	-	1,093	-	-	1,093
Placements with financial institutions	-	-	-	31,718	-	-	31,718
Investments securities	4,646	69,820	-	-	41,602	-	116,068
Receivable from investment banking services	-	-	-	9,316	-	-	9,316
Short term funding to project companies	-	-	-	9,544	-	-	9,544
Other assets	-	-	-	22,253	-	-	22,253
Total financial assets	4,646	69,820	-	73,924	41,602	-	189,992
Liabilities							
Financing payable	-	-	-	-	-	288	288
Other liabilities	-	-	-	-	-	512	512
Total financial liabilities	-	-	-	-	-	800	800
Restricted investment accounts	-	-	-	192	4,423	-	4,615

B. Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges.
- **Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes certain unquoted equity investments with significant unobservable components.

This hierarchy requires the use of observable market data when available. There have been no transfers between the levels of valuation in 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009

38. FAIR VALUE (continued)

D. Fair value hierarchy (continued)

(USD'000)

2009	Level 1	Level 2	Level 3	Total
Held for trading	1,351	-	-	**1,351**
Designated at fair value investments	-	-	75,011	**75,011**
Available-for-sale investments	6,074	-	-	**6,074**
	7,425	**-**	**75,011**	**82,436**

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

2009	USD' 000
Balance at 1 January	69,820
Total gains or losses:	
- In profit or loss	(670)
- In other comprehensive income	-
Purchases	8,848
Sales/ settlements	(2,987)
At 31 December	**75,011**

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion 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 between two to five years and then a terminal value has been estimated using a combination of value based on forward multiples and at a perpetual growth rate of up to 2-3% 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 10.75% – 21.7%. 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 Group has also made use of illiquidity and marketability discount where considered appropriate.

The potential income effect of 1% change, up or down, in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by USD 6,387 thousand or increase the fair values by USD 2,812 thousand respectively. The potential income effect of 0.5 times change, up or down, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by USD 4,372 thousand or reduce the fair values by USD 4,372 thousand respectively.

39. EARNINGS PER SHARE

Basic earnings per share

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

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Profit for the year attributable to shareholders of the parent	11,013	47,621
Weighted average number of equity shares (in 000's)	157,500	157,500
Basic earnings per share (in US cents)	**6.99**	30.24

39. *EARNINGS PER SHARE (continued)*

Diluted earnings per share

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

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Profit for the year attributable to shareholders of the parent	11,013	47,621
Weighted average number of shares - basic (in 000's)	157,500	157,500
Effect of ESOP shares (in 000's)	3,204	11,348
Weighted average number of shares – diluted (in 000's)	**160,704**	168,848
Diluted earnings per share (in US cents)	**6.85**	28.20

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

The following standards and interpretations have been issued by standard setters during 2009 and are mandatory for the Group's annual accounting periods beginning on 1 January 2010 or later periods and are expected to be relevant to the Group:

A. *International Financial Reporting Standards and interpretations issued by IASB*

- **IFRS 3, 'Business combinations'**

  Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, are expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

  The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010 and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- **IAS 27 Consolidated and Separate Financial Statements (amended 2008)**

  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

- **IFRIC 17, 'Distribution of non-cash assets to owners'**

  IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

40. *NEW / REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED (continued)*

- **IFRS 9 'Financial Instruments'**

  IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows: Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

  The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

- **Improvements to IFRSs**

  Improvements to IFRSs issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

B. *Financial Accounting Standards issued by AAOIFI*

- FAS 23 Consolidation (effective for annual periods beginning on or after 1 January 2010); and
- FAS 24 Investment in Associates (effective for annual periods beginning on or after 1 January 2010).

The requirements of these standards are largely in line with the current policies followed by the Group for accounting of subsidiaries and associates and the adoption of these standards are not expected to have any material impact on the consolidated financial statements. The Group had not early adopted any new or amended standards in 2009.

41. SUBSIDIARIES OF THE BANK

Material wholly owned operating subsidiaries of the Bank as at 31 December 2009 include:

Subsidiary	Domicile	Principal activities
Gulf Projects Company WLL (refer note 7)	Kingdom of Bahrain	Own and operate the VC Bank building.
The Lounge Service Offices Co. Limited (note 15)	Cayman Island	Renting and managing furnished and unfurnished office space in VC Bank building.
Lime Restaurant WLL	Kingdom of Bahrain	To hold right to use of retail outlets in the VC Bank building.
Mena SME Fund Manager Limited (note 23)	Cayman Island	Fund manager to Mena SME Fund LP.
VC Bank ESOP SPC	Kingdom of Bahrain	To hold employee share ownership plan shares on behalf of the employees of the Bank.

42. COMPARATIVES

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

BASEL 2
PILLAR 3 DISCLOSURE

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BASEL 2
PILLAR 3 DISCLOSURE

for the year ended 31 December 2009

1. Introduction

The Central Bank of Bahrain's (CBB) Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Chapter 1.3 of the CBB Rule Book, Volume II for Islamic Banks. These disclosures also reflect Basel II - Pillar 3 and Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks, and should be read in conjunction with the detailed Risk and Capital Management Disclosures made in the Bank's Annual Report for the year ended 31 December 2009.

These Pillar 3 disclosures provide qualitative and quantitative information on the Bank's risk exposures and risk management processes. The Bank makes these disclosures on a comprehensive basis comprising qualitative and quantitative information annually, and on a restricted basis at the half year reporting stage.

2. Capital Structure

2.1 Capital Base

The authorized share capital of VC Bank is 500 million shares of US$ 1 each. The Bank's initial paid up capital was US$ 66 million, which was increased in 2007 to US$ 150 million through a rights issue and a private placement to new strategic investors. In addition, a further 15 million shares of US$ 1 each were authorized by the shareholders for allocation to the Bank's Employee Share Ownership Plan ("ESOP"). During 2009, the Bank undertook a further capital increase, which has, subsequent to the year end, resulted in its issued capital being increased to US$ 250 million par value, comprising 250 million shares of US$ 1 each, including 24.85 million shares allotted to the ESOP following approval by the shareholders at the AGM held on 22 March 2010.
This capital increase has further bolstered the Bank's capital base with the objective of enabling it to:

a. Capitalize on the current market conditions to opportunistically pick up quality assets at low valuations;
b. Provide economies of scale and enhance underwriting capacity to secure sizeable deals;
c. Anchor its strategic position in the region and concurrently counter competitive pressures in the current uncertain market; and
d. Provide the Bank with a cushion against any unforeseen adverse market conditions in the future.

2.2 Notwithstanding these principal objectives, the capital increase has also introduced new strategic investors to give greater stability and financial muscle to the Bank, and position the Bank for an eventual IPO.

2.3 Group structure:

The Bank has the following operational subsidiaries, which are fully consolidated in its financial statements and for capital computation purposes.

Subsidiary	Country	Capital	Percentage interest
The Lounge Serviced Offices Co. WLL	Bahrain	BHD 20,000	100%
Gulf Projects Company WLL	Bahrain	BHD 1,000,000	100%
The Lime Restaurants Management & Catering Services Co. WLL	Bahrain	BHD 20,000	100%

2.4 Review of financial performance:

The Bank commenced operations in October 2005 with a paid up capital of US$ 66 m and has achieved good returns in the past four years as indicated below. The results for 2009 were affected by the recent market turmoil, as a consequence of which certain impairment provisions and fair value losses were recorded, as disclosed in the notes to the financial statements.

Particulars	2006	2007	2008	2009
Net profit (US$ m)	13.26	32.3	47.0	11.0
ROE (Return on Shareholders Equity)	20%	33%	26.6%	5.4%
Cost to income ratio	46%	41%	43%	66%
Staff cost to total income	25%	28%	25%	30%
Number of employees	26	50	79	73
Total investments to total assets	43%	36%	68%	70%
Leverage (total liabilities / total equity)	14%	10%	8%	25%
Retained earnings to paid up capital	6%	8%	22%	9%

As shown by the financial statements, income from investment banking services comprises the main contributor, representing approximately 85% of gross income for the year 2009 and 82% of gross income for the year 2008. With the growth in assets under management, the Bank expects to increase the proportion of recurring income from management fees going forward, to provide increased level of sustainable income.

The Bank intends to accelerate its growth by stepping-up investment deal flow and attracting high quality investor in-flows. The Bank's capital increase which has just been completed as explained in 2.1 above is an important constituent of this plan.

Capital Adequacy Management Program

2.5 VC Bank's capital adequacy management program ensures that the Bank not only complies with regulatory capital requirements, but also continues to maintain a strong robust capital base to support its growing lines of business.

2.6 To manage its capital, VC Bank employs a risk adjusted measure of capital adequacy (i.e. Capital Adequacy Ratio or "CAR") based on the local regulatory regime implemented by the CBB that is consistent with the Basel II guidelines issued by the Basel Committee on Banking Supervision's International Convergence of Capital Measurement and Capital Standards.

2.7 Beginning January 2008, CBB has required all Bahrain banking institutions to implement Pillar 1 of these Basel II guidelines that deals with the maintenance of a minimum level of capital calculated for three major components of risk exposures i.e. credit risk (including investment risks), operational risk and market risk.

2.8 VC Bank uses the Standardised Approach to quantify its credit and market risks weighted exposures and the Basic Indicator Approach to measure its operational risk weighted exposures.

a. Credit risk weighted exposures may be calculated in three different ways of varying degrees of sophistication, namely the Standardized Approach, Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach. VC Bank has adopted the Standardized Approach for credit risk measurement, which uses fixed risk weights for different categories of credit risk.

b. Market risk weighted exposures may be quantified using the Standardized Approach, which uses fixed capital charges for specific categories of market risk, or Internal Models Approach that must be subject to prior approval by CBB. The Bank uses the Standardized Approach for market risk measurement.

c. For operational risk, there are three different approaches - Basic Indicator Approach, Standardized Approach, and Advanced Measurement Approach. The Bank uses the Basic Indicator Approach, which uses the average of the past three-year's gross income as a basis for the calculation of capital charges for operational risk.

2.9 In determining its CAR, the Bank calculates its risk adjusted assets, which are then divided by regulatory eligible capital rather than the equity capital appearing in the Bank's balance sheet. Regulatory capital is composed of two elements:

a. Tier 1 Capital which is the nominal value of paid in capital, audited retained earnings and accumulated reserves arising from the appropriation of current and past years' income and/or retained earnings less any treasury stock, minority interests, or negative fair value reserves. Local regulations require that certain investments or exposures be deducted from Tier 1 capital.

b. Tier 2 Capital, which consists of the qualifying portion of subordinated loans and unrealised gains arising on fair valuation. Under the CBB regulations, the aggregate amount of Tier 2 capital eligible for inclusion in the CAR is limited to no more than 100% of Tier 1 Capital.

2.10 As the Bank has no operating branches outside the Kingdom of Bahrain, it is subject only to the capital requirements of the CBB, which currently requires all financial institutions in Bahrain to maintain a 12% minimum CAR and a 12.5% trigger CAR.

2.11 The Bank's capital adequacy position is reviewed and stress tested regularly for various scenarios given the nature of the Bank's investments in alternative assets. Reports on the Bank's capital adequacy are filed quarterly with the CBB.

2.12 During 2009, the Bank commenced the development and enhancement of its risk management and internal capital adequacy assessment framework. This framework includes a capital allocation process as well as a process description for scenario analysis of the Bank's strategy. It is envisaged that once the framework is finalized and implemented, quantitative details of capital allocated to each business line as well as a scenario analysis of the Bank's strategy will be provided.

BASEL 2
PILLAR 3 DISCLOSURE (Continued)
for the year ended 31 December 2009

2.13 As a further step in mitigating risks, the Bank follows a policy of diversification in its activities and seeks to minimize the risk exposure to particular geographical regions, counterparties, and instruments and types of business.

2.14 The quantitative details of the Bank's capital adequacy ratio are depicted in the following tables:

Table 1: Regulatory Eligible Capital

Details of Eligible Capital Base		USD' 000
	Tier 1	**Tier 2**
Share capital	173,250	
Less: Unvested shares of ESOP	(15,000)	
Share premium	13,533	
Statutory reserve	9,315	
Prior year retained earnings b/fwd	23,274	
Discount on unrealized gains reported in retained earnings (55%)	(2,932)	
Earnings of current year (audited)	11,004	
Discount on unrealized gains reported in current year income (55%)	(4,169)	
Minority interest of MENA SME fund 1 consolidated for capital adequacy purposes	54,047	
Less: Deductions		
Goodwill	(3,232)	
Unrealized losses in AFS reserve	-	
Other	(190)	
Total Tier 1 capital	258,901	
Advance for capital increase		64,905
ESOP equity reserve		4,211
Unrealized AFS fair value gains (45%)		673
Total Tier 2 capital		69,789
Excess amount over maximum permitted large exposure limit	-	
Net available capital	258,901	69,789
Total Eligible Capital (Tier 1 + Tier 2)		**328,690**

Table 2 – details of exposures

Details of Exposures and capital requirement			USD' 000
Credit risk:	Gross exposures	Risk weighted exposures	Capital charge
Exposures to banks	64,782	13,052	1,566
Exposures to corporates	108,571	108,571	13,029
Investments in listed equities in banking book	5,009	5,009	601
Investments in unlisted equities in banking book	135,493	203,239	24,389
Investments in real estate	103,248	206,496	24,779
Other exposures	5,098	5,098	612
Total credit risk exposure under standardized approach	**422,201**	**541,465**	**64,976**
Market risk:			
Trading equities position	1,351	2,703	324
Foreign exchange position	2,921	2,921	351
Total market risk under standardized approach	**4,273**	**5,624**	**675**
Operational risk under basic indicator approach (ref. below)		**100,692**	**12,083**
Total		**647,781**	**77,734**
Total eligible capital - (Tier 1 + Tier 2)		**328,690**	
Total eligible capital - Tier 1		**258,901**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**51%**	
Tier 1 Capital Adequacy Ratio		**40%**	

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PILLAR 3 DISCLOSURE (Continued)

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Capital requirement for Operational Risk (Basic Indicator Approach)			USD' 000
Credit Risk	**2008**	**2007**	**2006**
Gross income for prior three years	82,048	54,398	24,660
Average of past 3 years gross income	53,702		
Capital requirement for operational risk (15%)	8,055		
Risk weighted exposure for operational risk	**100,692**		

Total unrealized fair value gains / (losses):	**2009**	**2008**	**2007**	**2006**
Unrealized fair value gains recognized in income	3,080	9,800	3,626	-
Unrealized fair value gains recognized in equity	1,496	(85)	180	-

The maximum and minimum values of each category of market risk exposure during the year are detailed in the table below:

Table 2.1 – details of market risk weighted exposures

Particulars	**US$ '000** 31-Mar-09	**30-Jun-09**	**30-Sep-09**	**31-Dec-09**	**Maximum**	**Minimum**
Market risk exposures						
Listed equities held for trading	2,813	1,670	1,384	1,351	2,813	1,351
Foreign currency exposure	2,398	2,872	3,095	2,921	3,095	2,398
Market risk charge						
Listed equities held for trading	450	267	221	216	450	216
Foreign currency exposure	192	230	248	234	248	192
Total market risk charge	642	497	469	450	698	408
Market risk weighted exposure						
Listed equities held for trading	5,626	3,341	2,768	2,703	5,626	2,703
Foreign currency exposure	2,398	2,872	3,095	2,921	3,095	2,398
Total Market Risk Weighted Exposure	**8,024**	**6,213**	**5,863**	**5,624**	**8,721**	**5,101**

3. Risk Management

Risk Governance Structure

3.1 As an Islamic investment bank dealing predominantly in alternative assets, the Bank is exposed to various risks in the normal course of its business and these risks include:

a. Credit and counterparty credit risk
b. Market risk
c. Operational risk
d. Equity Risk in the Banking Book (Investment Risk)
e. Liquidity risk
f. Profit margin rate risk in the Banking Book
g. Displaced Commercial Risk (DCR)

3.2 An understanding of risk-taking and transparency in risk-taking are key elements in VC Bank's business strategy. The Bank maintains a prudent and disciplined approach towards risk taking, and embeds a structured risk management process as an integral part of its decision making practice. This risk management process is divided into three key components comprising the following:

a. Risk Identification and Measurement
   i. Procedures for the identification and quantification of risks
   ii. The use of quantitative models and qualitative approaches to assess and manage risks
b. Risk Control
   i. Clearly defined risk exposure limits

   ii. Criteria for risk acceptance based on risk and return as well as other factors
   iii. Portfolio diversification and, where possible, other risk mitigation techniques
   iv. Robust operating policies and procedures
   v. Appropriate Board Committee's authorization and approval for investment transactions
c. Risk Monitoring and Reporting
   i. Ongoing review of exposures and risks by Risk Management Department, including stress testing and frequent reporting
   ii. Periodic internal audits of the control environment

3.3 The Bank's Board of Directors through its Risk Committee (a sub committee of the Board of Directors) has the responsibility for ensuring the establishment and effective implementation of an integrated risk management framework for the Bank. Further, the Risk Management Department (a department which functionally reports to the Risk Committee) is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; as well as recommend directly to the Executive Management Committee any prevention and mitigation measures as it deems fit. In addition, the Internal Audit Department, which is independent of both operations and the Bank's investments units, also assists in the risk management process. In particular, the Internal Audit Department is charged with a periodic review of the effectiveness of the Bank's policies and internal controls, including those relating to the risk management process.

3.4 The Internal Audit Department of the Bank adopts a risk-based audit approach whereby the nature, timing and extent of the audits are determined with regard to the risk relevant to each business or support unit of the Bank. A risk assessment is carried out annually to determine the major risks faced by each business or support unit and accordingly, an annual audit plan is prepared by the Internal Audit Department and approved by the Board's Audit Committee. The annual plan envisages the coverage, amongst others, of the Risk Management and Compliance Departments.

Detailed operational risk assessments and tests of effectiveness of internal controls designed to mitigate risks (covering each of the risk components as mentioned above) are carried out in accordance with the annual audit plan. Furthermore, Internal Audit Department also intends to evaluate the adequacy of the Bank's capital management program later in 2010. A follow up audit to ascertain the status of implementation of observations previously made by internal or external audit is also part of the annual audit plan.

The key findings arising from the work performed by Internal Audit is reported to the Board Audit Committee and senior management of the Bank.

Credit and Counterparty Credit Risk Management (PD 1.3.22 + 1.3.26)

3.5 Credit risk is defined as the potential that a bank's borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

3.6 The Bank is not involved in the granting of credit facilities in the normal course of its business activities. Further, VC Bank is not engaged in retail business and therefore does not use credit "scoring" models.

3.7 The credit risk exposures faced by VC Bank are in respect of its own short term liquidity related to placements with other financial institutions, and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities and are generally transacted without contractual due dates, collateral or other credit risk mitigants. All such exposures are however reviewed periodically for recoverability and provision made where necessary having regard to the nature of the item and the assessment of collection. Due to the nature of the Bank's credit exposures, this is considered more appropriate than a collective impairment provision.

3.8 VC Bank uses the Standardized Approach under the Basel II framework for measuring its credit risk. As it does not use an internal credit "scoring" system, the Bank depends, where available on ratings from an External Credit Assessment Institution recognized by the CBB e.g. S&P, Fitch, Moody's and Capital Intelligence for its bank counterparty exposures. In the absence of such an external rating – e.g. in the case of an investee company, a detailed credit risk assessment of the obligor is performed by the investment team and independently reviewed by the Risk Management Department. In addition, the Bank does not have any exposure to a "highly leveraged institution".

3.9 All lines of counterparty credit limits are subject to annual reaffirmation by the Board of Directors. The limits are also reviewed more frequently as necessary to ensure consistency with the Bank's investment strategies and to take into account the latest market developments. Given the nature of the Bank's business, the Bank uses nominal balance sheet amounts including accrued interest and other receivables as its measure of exposure. Overall, the Bank's Management considers that its policies and procedures constitute a reasonable approach to managing the credit risk in the activities it is engaged in.

Securitisation

3.10 VC Bank does not generally participate in securitization activities in relation to credit synthesis; acting as sponsor, liquidity facility provider, credit enhancement facility provider, swap provider and has not securitised any of its assets and therefore has no recourse obligations under such transactions as defined by the Financial Stability Task Force. However, during 2009, the Bank structured and arranged the "Liquidity Program" to retire the shares of Venture Logistics 1 and 2 (representing the owning equity in Gulf Projects Co. WLL). This Program raised a total of US$ 55 million through the issuance Shari'ah compliant 1 year tenor liquidity certificates with early redemption options of 30 days, 90 days and 180 days with attractive yields, which has been more than fully subscribed by investors. The Bank is currently in negotiations with leading financial institutions to finalize liquidity providers to take up early redemptions which are not immediately taken up by replacement investors under the Program.

Off-Balance Sheet Items

3.11 The Bank's off-balance sheet items comprise

a. contingent exposure (USD16.1 million) associated with the issuance of guarantees for investment related funding made by financial institutions to the Bank's investment projects. Since these may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements;

b. commitments to finance and invest totaling USD 21.2 million, and

c. restricted investment accounts of USD 16.8 million (see notes to financial statements for details).

Concentration Risk

3.12 Concentration of risks arises when a number of obligors, counterparties or investees are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region.

3.13 The Bank has established limits based on geographic regions and industry sectors. The Bank's Large Exposure Policy details the Bank's exposure limits and is in compliance with the concentration limits laid down by the CBB.

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period:

a. Table 3: Distribution of Bank's Exposures by Geography

Geographic Sector	GCC Countries	Other MENA Countries	Global	Cayman / Americas	Total USD'000
Assets					
Cash and balances with banks	14,202	85	-	-	14,287
Placements with financial institutions	50,523	266	-	-	50,789
Investment securities	82,221	30,811	16,227	-	129,259
Inv. in associates and joint ventures	30,318	1,859	4,637	-	36,814
Investment property	62,884	-	-	-	62,884
Receivable from investment banking services	6,144	454	200	3,127	9,925
Shot-term financing to project companies	10,641	1,170	2,607	-	14,418
Other assete	23,143	463	-	12	23,618
Equipment	13,196	811	-	-	14,007
Total assets	**293,272**	**35,919**	**23,671**	**3,139**	**356,001**

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PILLAR 3 DISCLOSURE (Continued)
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Geographic Sector	GCC Countries	Other MENA Countries	Global	Cayman / Americas	Total USD'000
Off-balance sheet assets					
Restricted investment accounts	16,779	-	-	-	16,779
Contingent items	28,943	8,438	-	-	37,381
	338,994	**44,357**	**23,671**	**3,139**	**410,161**

Note: Allocation of the Bank's exposures is based on the asset's country of risk.

b. Table 4: Distribution of Bank's Exposures by Industry Sector

Industry sector	Trading & manufacturing	Banks & financial inst.	Real estate related	Oil and gas	Health care	Technology	Shipping	Others	Total USD'000
On-balance sheet									
Cash and balances with banks	-	14,287	-	-	-	-	-	-	14,287
Placements with financial institutions	-	50,789	-	-	-	-	-	-	50,789
Investment securities	12,805	991	57,556	20,027	2,650	2,073	17,255	15,902	129,259
Inv in associates and joint ventures	-	-	24,007	-	3,363	4,636	-	4,808	36,814
Investment property	-	-	62,884	-	-	-	-	-	62,884
Receivable from investment banking services	210	3,127	3,650	-	1,966	200	-	772	9,925
Short-term financing to project companies	1,170	-	6,777	-	3,864	2,607	-	-	14,418
Other assets	171	285	463	5	562	473	-	21,659	23,618
Equipment	-	3,306	9,914	-	-	-	-	787	14,007
Total on-balance sheet	**14,356**	**72,785**	**165,251**	**20,032**	**12,405**	**9,989**	**17,255**	**43,928**	**356,001**
Off-balance sheet exposures									
Restricted investment accounts	-	3,292	12,308	-	-	-	-	1,179	16,779
Contingent items	8,437	-	21,644	-	7,300	-	-	-	37,381
Total gross credit exposure	**22,793**	**76,077**	**199,203**	**20,032**	**19,705**	**9,989**	**17,255**	**45,107**	**410,161**
Percentage of gross exposure by sector	6%	19%	49%	5%	5%	2%	4%	11%	100%

c. Table 5: Exposure by Maturity

Credit exposure by maturity	Up to 3 months	3 To 6 months	6 months to 1 year	1 year to 3 years	Over 3 years	Total USD'000
Assets						
Cash and balances with banks	14,287	-	-	-	-	14,287
Placements with financial institutions	50,789	-	-	-	-	50,789
Investment securities	-	-	1,027	42,634	85,598	129,259
Inv in associates and joint ventures	-	-	22,093	-	14,721	36,814
Investment property	-	-	-	-	62,884	62,884
Receivable from investment banking services	323	2,810	3,247	1,833	1,712	9,925
Shot-term financing to project companies	-	5,034	-	5,090	4,294	14,418
Other assets	-	22,172	126	905	415	23,618
Equipment	-	-	-	-	14,007	14,007
Total assets	65,399	30,016	26,493	50,462	183,631	356,001
Off-balance sheet items						
Restricted investment accounts	195	-	12,308	4,276	-	16,779
Contingent items	-	-		21,278	16,103	37,381
	65,594	30,016	38,801	76,016	199,734	410,161

Note: There are no dues which are expected to be of longer duration than 5 years.

Related party transactions

Income statement	USD'000 Associates and joint ventures
Income from investment banking services	10,160
Income from investment securities	100
Share of profit/(loss) of associates and joint ventures	(2,234)
Other income	626
Impairment allowance	(400)
Total related party	8,252

USD'000

Balance sheet	Associates and joint ventures	Significant shareholders/ entities in which directors are interested	Assets under management including special purpose entities	Total
Cash and balances with banks	-	127	-	127
Placements with financial institutions	-	265	-	265
Investment securities	-	1,628	52,395	54,023
Investments in associates and joint ventures	77,276	-	-	77,276
Receivable from investment banking services	3,330	-	7,160	10,490
Short-term funding to project companies	3,601	3,466	1,170	8,237
Other assets	14	-	28,141	28,155
Total related party	84,221	5,486	88,866	178,573

Market Risk Management

3.15 Market risk is defined as the risk of losses in the Bank's on-balance sheet and off-balance sheet positions arising from movements in market prices. The risks subject to this requirement are:
a. Those pertaining to profit-rate related instruments and equities in the trading book; and
b. Foreign exchange risk and commodities risk throughout the Bank.

3.16 VC Bank's market risk exposures arise predominantly from its trading portfolio of listed equities and a small portfolio of foreign currency denominated assets that are not pegged to the USD. Management opines that the Bank's market risk is currently not a major source of risk since the Bank's business strategy does not envisage

taking on significant market risk. The Bank measures its market risk exposure using the Standardised Approach under the Basel II framework.

Operational Risk Management

3.17 Operational risk is defined as the risk of direct and indirect losses resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risks. Operational risk differs from other banking risks in that it is not directly taken in return for an expected reward but exists in the natural course of corporate activity, which in turn affects the risk management process.

3.18 The Bank is exposed to operational risk due to the complex nature of its alternative investment products and the intricacy of the documentary, legal and other regulatory requirements that surround such investment transactions. Operational risk emanates from all areas of the bank from the front office to the back office and support areas and, not just the operations department.

3.19 VC Bank uses the Basic Indicator Approach under the Basel II Framework for measuring its operational risk. Currently, the Bank conducts its business from a single location. Accordingly, the number of client relationships and volume of transactions at VC Bank are lower than at institutions having multi-location or retail operations.

3.20 Notwithstanding this, the Bank's operations are conducted according to well-defined process and procedures. These process and procedures include a broad system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. The Bank also engages in subsequent monitoring of accounting records, daily reconciliation of cash, bank and securities accounts and other checks to enable it to detect, on a timely basis, any erroneous or improper transactions which may have occurred.

3.21 The Bank is currently enhancing its operational risk management framework that will
a. help track operational loss events and potential exposures as well as report these on a regular basis; and
b. improve the Bank's loss mitigation process and hence, the overall operational risk management framework. In addition, the Bank is reviewing and updating its Business Continuity Plan to mitigate the risk of loss from business disruption due to unexpected events.

Legal Risks

3.22 Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly.

3.23 VC Bank's legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Bank uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Bank has designed and implemented a comprehensive set of policies and procedures. Adherence to the Bank's policies and procedures is reinforced through staff training as well as internal and external reviews. As on the reporting date, the Bank has no material legal contingencies including pending legal actions.

Shari'ah compliance

3.24 The Shari'ah Supervisory Board (SSB) 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. The Bank also has a dedicated internal Shari'ah reviewer who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'ah standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'ah rules and principles.

Equity Risk In The Banking Book (Investment Risk)

3.25 VC Bank invests predominantly in three major segments of alternative assets, namely venture capital, private equity and real estate with the main objective to generate consistent superior returns with reasonable risks from high quality, rigorously investigated, efficiently structured and well managed investments. The intent of such investments is a later sale at a profit to strategic investors either through a private placement offering or trade sale.

3.26 The Bank uses the Standardised Approach under the Basel II Framework for measuring its investment risks, which is considered a part of its "Banking Book". VC Bank manages its investment risks at the specific investment level through an in depth pre-entry due diligence process based on an established set of guidelines, criteria and parameters, as well as active ongoing consulting-based monitoring by investment teams. The Bank also seeks to diversify its investments, not only geographically and sectorally, but across various revenue stages of investments as well.

3.27 Notwithstanding this, the Risk Management Department independently reviews and provides inputs on areas of risk in potential investments at an early stage of the due diligence process. Working in close co-operation with the respective investment teams, these independent risk reviews support the investment decision making process through both a qualitative assessment and quantitative analysis.

Impairment Provisions

3.28 VC Bank follows a prudent policy of regularly reviewing all assets for impairment. Impairment is recognized and charged to the income statement when circumstances indicate that the recoverability of the asset is in doubt or the investment is not expected to perform as expected.

3.29 The impairment provisions recorded is summarized in the table below:

Particulars (USD '000)	Impairment booked in 2009	Impairment booked in prior years	Total impairment recognized	Carrying value
Listed securities in the GCC classified as available for sale (AFS)	941	8,973	9,914	4,256
Investment Projects of VC Bank	5,469	749	6,218	13,020
Total	6,410	9,722	16,132	17,276

Unrealised Fair Value Gains

3.30 The Bank's investments which are designated at fair value through income are re-valued at every half calendar year, and the gains / (losses) recognized in the income statement in accordance with the relevant Internal Financial Reporting Standards. The valuations are performed by the Bank's investment divisions using appropriate internal valuation models with relevant market inputs and assumptions. These valuations are then independently reviewed by the Risk Management Department and the external auditors, and presented to the Board's Finance and Investment Committee for approval.

Particulars (USD '000)	2009	2008	2007	Total
Private equity investments	3,830	3,300	3,108	10,238
Real estate investments	(750)	6,500	-	5,750
Venture capital investments	-	-	518	518
Total unrealized fair value gains	3,080	9,800	3,626	16,506

Liquidity Risk Management

3.31 Liquidity risk is defined as the risk that the Bank may have insufficient funds to meet its obligations as they fall due i.e. risk of being unable to satisfy claims without impairment of its financial capital.

3.32 Other than the Liquidity Program totaling USD 55 million which was conceptualized during 2009 to fund the liabilities associated with the acquisition of an investment property, and issued subsequently in 2010, VC Bank does not currently have any borrowings which may expose it to significant funding liquidity risk. The Bank funds its assets primarily through internal accruals and shareholders equity. (See Note 24 to Financial Statements).

3.33 Notwithstanding this, regular forecasts are prepared by the Bank's Treasury Department in consultation with the business and finance functions of the Bank. Management considers that VC Bank is not exposed to any significant funding liquidity risk.

The Bank has enjoyed a strong liquidity position during the year. Its liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 95% at 31 Dec 2009.

Liquidity ratio:	31-Dec-09 USD' 000	31-Dec-08 USD' 000	31-Dec-07 USD' 000
Cash at bank	14,287	1,093	170
Placements at bank	50,789	31,718	69,823
Marketable securities	1,351	4,646	1,396
Total liquid assets	66,427	37,547	71,389
Liabilities	70,204	18,395	19,392
Liquidity ratio	95%	204%	368%

Profit Margin Rate Risk Management in the Banking Book

3.34 As a financial intermediary, VC Bank may encounter profit margin risks that arise from timing differences in the maturity and repricing of the Bank's assets and liabilities. While such repricing mismatches are fundamental to the business of banking, these can expose a bank's income and underlying economic value to unanticipated fluctuations as profit margins vary. This however, is not a major source of risk for the Bank.

3.35 The table below depicts a profit margin sensitivity analysis in the Bank's banking book.

Position @ 31 December 2009 Repricing Period	USD' 000 Rate Sensitive Assets	Rate Sensitive Liabilities	Gap	Cumulative Gap	Impact of 200 bp Change
1 day	-	-	-	-	-
> 1 day to 3 months	50,789	8,190	42,599	42,599	852
> 3 months to 6 months	-	6,580	(6,580)	36,019	(132)
> 6 months to 12 months	-	5,390	(5,390)	30,629	(108)
> 1 year to 5 years	-	35,006	(35,006)	(4,377)	(700)
> 5 years	-	-	-	(4,377)	-

3.36 Applying Basel II's requirement of quantifying the impact on the value of net profit margin income for a benchmark change of 200 basis points in profit rates, the following are noted:

a. The Bank's net profit margin income for the repricing period of >1 day to 3 months would potentially decrease by USD 887 thousand if profit margin rate decreases by 200 basis points.

b. The Bank's net profit margin income for the repricing periods of > 3 months as indicated above would potentially increase as shown in the table above if profit margin rate increases by 200 basis points.

Restricted investment accounts (RIA) and Displaced Commercial Risk (DCR)

3.37 VC Bank's exposure to Displaced Commercial Risk is limited to its Restricted Investment Accounts (RIA) which comprises the following:

i. The GCC Pre IPO Fund, which was set up in 2006 to invest in the shares of unlisted GCC companies in the pre-IPO stage. The total size of the fund is relatively small with funds under investment of approximately USD 4.5 million. The Bank manages the fund as Mudarib, in exchange for a fee of 20% of returns over a 10% simple return.

ii. The VC Bank Investment Projects Mudarabah, which was set up in 2009 to provide liquidity financing to selected investment projects of VC Bank. The Mudarabah comprises an investment of USD 12 million on which it earns a return of 7% less the Bank's share of profit as Mudarib of 7% thereof, which is distributed to investors on maturity.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The performance of the RIA's are detailed in page 13 of the audited financial statements.