VENTURE CAPITAL BANK

Annual Report 2008

THE VENTURE CAPITAL INVESTMENT BANK CONCEPT PIONEERED BY VENTURE CAPITAL BANK (VCBANK) IN THE GCC AND MENA REGION IS THE FIRST INITIATIVE OF ITS KIND THAT IS PRESENTED AND FORMULATED IN AN INVESTMENT BANKING CONTEXT. BY INCORPORATING VENTURE CAPITAL INVESTMENT ACTIVITIES IN A SHARI'AH COMPLIANT INVESTMENT BANKING FORMAT, VCBANK IS ADDING A NEW DIMENSION TO THE REGIONAL AND GLOBAL ISLAMIC INVESTMENT BANKING INDUSTRY THE VENTURE CAPITAL INVESTMENT BANK CONCEPT PIONEERED BY VENTURE CAPITAL BANK (VCBANK) IN THE GCC AND MENA REGION IS THE FIRST INITIATIVE OF ITS KIND THAT IS PRESENTED AND FORMULATED IN AN INVESTMENT BANKING CONTEXT. BY INCORPORATING VENTURE CAPITAL INVESTMENT ACTIVITIES IN A SHARI'AH COMPLIANT INVESTMENT BANKING FORMAT, VCBANK IS ADDING A NEW DIMENSION TO THE REGIONAL AND GLOBAL ISLAMIC INVESTMENT BANKING INDUSTRY THE VENTURE CAPITAL INVESTMENT BANK CONCEPT PIONEERED BY VENTURE CAPITAL BANK (VCBANK) IN THE GCC AND MENA REGION IS THE FIRST INITIATIVE OF ITS KIND THAT IS PRESENTED AND FORMULATED IN AN INVESTMENT BANKING CONTEXT. BY INCORPORATING VENTURE CAPITAL INVESTMENT ACTIVITIES IN A SHARI'AH COMPLIANT INVESTMENT BANKING FORMAT, VCBANK IS ADDING A NEW DIMENSION TO THE REGIONAL AND GLOBAL ISLAMIC INVESTMENT BANKING INDUSTRY THE VENTURE CAPITAL INVESTMENT BANK CONCEPT PIONEERED BY VENTURE CAPITAL BANK (VCBANK) IN THE GCC AND MENA REGION IS THE FIRST INITIATIVE OF ITS KIND THAT IS PRESENTED AND FORMULATED IN AN INVESTMENT BANKING CONTEXT. BY INCORPORATING VENTURE CAPITAL INVESTMENT ACTIVITIES IN A SHARI'AH COMPLIANT INVESTMENT BANKING FORMAT, VCBANK IS ADDING A NEW DIMENSION TO THE REGIONAL AND GLOBAL ISLAMIC INVESTMENT BANKING INDUSTRY THE VENTURE CAPITAL INVESTMENT BANK CONCEPT PIONEERED BY VENTURE CAPITAL BANK (VCBANK) IN THE GCC AND MENA REGION IS THE FIRST INITIATIVE OF ITS KIND THAT IS PRESENTED AND FORMULATED IN AN INVESTMENT BANKING CONTEXT. BY INCORPORATING VENTURE CAPITAL INVESTMENT ACTIVITIES IN A SHARI'AH COMPLIANT INVESTMENT BANKING FORMAT, VCBANK

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بسم الله الرحمن الرحيم

"وقل اعملوا فسيرى الله عملكم
ورسوله والمؤمنون"

صدق الله العظيم

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VENTURE CAPITAL BANK

Adding a new dimension to Islamic investment banking

The Venture Capital Investment Bank Concept Pioneered By Venture Capital Bank (VCBank) in the GCC and MENA region is the first initiative of its kind that is presented and formulated in an investment banking context.

By incorporating venture capital investment activities in a Shari'ah compliant investment banking format, VCBank is adding a new dimension to the regional and global Islamic investment banking industry.

VISION, MISSION AND VALUES

VISION

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

MISSION

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

VALUES

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

PROFILE OF 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 165 million, the Bank benefits from the financial backing and support of a selected group of regional shareholders, an experienced team of industry professionals, and a close-knit network of strategic partners, business associates and allies.

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

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

2008 AT A GLANCE

USD 120 million Lemissoler Maritime Company, formed with the objective of owning and operating a fleet of specialised commercial vessels.

USD 15 million Venture Capital Fund – Bahrain in partnership with Bahrain Development Bank & Tamkeen (Labour Fund), and strategic investors.

USD 64 million Labour and Staff Accommodation project in Jebel Ali Industrial Area, UAE, offering quality accommodation and supporting amenities.

USD 17 million German Orthopedic Hospital established in Bahrain with leading German medical partners for specialist treatment and rehabilitation.

Difaaf, a luxury waterfront master-planned residential development on Reef Island, Bahrain, with extensive community facilities.

The Lounge Serviced Offices Company, introducing a new concept in serviced offices.

USD 73 million Great Harbour marina project at Hidd, Bahrain, an up-market mixed use development with residential towers and retail elements.

Operations & Support Group strengthened; new Treasury and Operations departments established, and continued investment in enhancing Information Technology infrastructure.

Corporate Governance and Risk Management framework strengthened and number of staff increased by 60%, with all key positions filled.

FINANCIAL HIGHLIGHTS

Total Income

2008	82
2007	54
2006	25

USD 82 Million

Net Profit

2008	47
2007	32
2006	13

USD 47 Million

Total Assets

2008	244
2007	222
2006	91

USD 244 Million

Total Shareholders' Equity

2008	225
2007	202
2006	80

USD 225 Million

Return on Equity

2008	27%
2007	33%
2006	20%

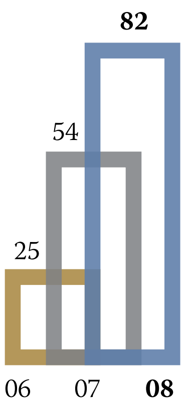
27%

Dividend Distribution

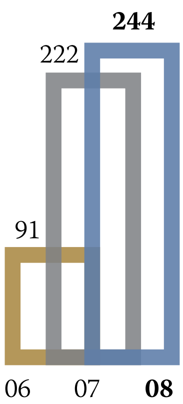
2008	15%
2007	15%
2006	12.5%

15%

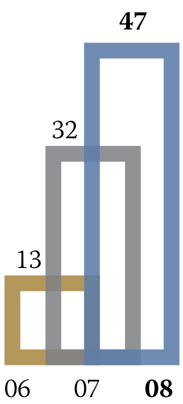
Total Income



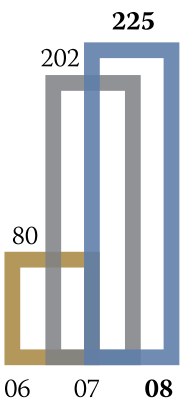
Total Assets



Net Profit



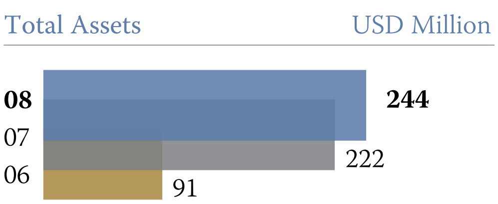
Total Shareholders' Equity

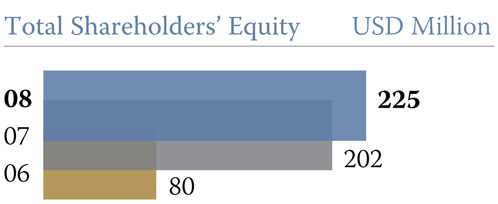


CHAIRMAN'S STATEMENT

27%
Return on Equity

Dr. Ghassan Ahmed Al Sulaiman
Chairman





In the Name of Allah, the Most Beneficent, the Most Merciful. Prayer 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 third annual report of Venture Capital Bank (VCBank) for the period ended 31 December 2008. I am delighted to report that this proved to be yet another blessed and highly successful year of operations for the Bank, highlighted by record financial results, new projects and investments, and a continued strengthening of our institutional capability.

VCBank posted a net profit of USD 47 million and achieved a return on equity of 27% for 2008, representing a third year of record-breaking performance. This constitutes an extraordinary performance for a newly established bank, which exceeds all expectations for such a young financial institution. These results further strengthen VCBank's status as the first Islamic investment bank specialising in venture capital investments in small and medium businesses (SMEs) in the MENA region.

During this period, VCBank launched new innovative projects and investment offerings that serve to illustrate the Bank's differentiated business model, which has helped to shield us from the worst of the current global financial crisis. Focused on the MENA region, our strategy involves targetting attractive private equity opportunities; supporting fundamentally-sound and well-managed small-to medium enterprises (SMEs); and initiating selected real estate projects to provide investors with sustainable value and long-term returns.

However, given the current global financial crisis, and the potential impact on the GCC and MENA markets, we recognise that we cannot afford to be complacent. Accordingly, we have taken positive steps to ensure the continued growth and profitability of our Bank.

VCBank posted a net profit of USD 47 million and achieved a return on equity of 27% for 2008, representing a third year of record-breaking performance.

During 2008, the Board of Directors and the Executive Management participated in a strategic workshop and brainstorming session, which addressed critical issues such as global best practices, corporate governance, risk monitoring and mitigation, competitive awareness, and most significantly, solutions for addressing the challenges posed by the ongoing global financial crisis and regional market turmoil.

To support our growing business activities, we continued to build the institutional capability of the Bank in 2008. Key activities include strengthening our framework of corporate governance, risk management and internal controls; enhancing our IT infrastructure; and expanding our team of professionals with several new management appointments.

The Board of Directors is recommending the following appropriations out of the 2008 net profit for the approval of our shareholders:

- USD 4.7 million representing 10% of the net profit to be transferred to the Statutory Reserve in accordance with the Bahrain Commercial Companies Law.
- USD 16.5 million representing 10% of the issued capital as a cash dividend, and USD 8.25 million representing 5% of the issued capital as a bonus share dividend to the shareholders.
- USD 1.5 million representing approximately 3.26% of the net profit as Directors' remuneration.

In addition, to further strengthen the Bank's balance sheet and provide funding for new business opportunities in 2009, the Board will be recommending an increase of USD 85 million in VCBank's paid-up capital, inclusive of the Employee's Share Ownership scheme, thus increasing our total issued capital to USD 250 million. The Board is also working with the Management on the mechanisms for a liquidity programme for shareholders, which will comprise a regular valuation of shares, with easier and faster liquidation.

I extend my sincere appreciation to His Majesty King of Bahrain, His Highness the Prime Minister, and His Highness the Crown Prince, for their wise leadership and reform programme, and their encouragement for the Islamic banking industry. My thanks are also due to the Central Bank of Bahrain and other Government institutions for their professional advice and assistance during the year.

I would also like to express my gratitude to our shareholders, clients and business partners for their loyalty and encouragement; to our Shari'ah Supervisory Board for their guidance and supervision; and to the Bank's management and staff for their highly valued dedication and professionalism. Together, our stakeholders have contributed to the third and most successful year of operations for Venture Capital Bank.

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

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

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

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

Abdulfatah Mohammed Rafei Marafie
Deputy Chairman,State of Kuwait

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

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

Chairman: Mozon Holding Company.

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

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

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

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

Chairman: Gulf Projects Company; Lemissoler Maritime Company; World Development Company; Venture Capital Fund Bahrain, the Great Harbour Project; Al Jazira Plastic Company and OASIS Middle East Holding Company.

Director: Challenger Oil Drilling Company, Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO), GLOREI in Oman (and Chairman of its Investment Committee), ASAS Company in Saudi Arabia, Mozon Holding Company in Morocco and Omran Al Bahrain Company

Ali Mousa A l Mousa
Board Member, State of Kuwait

Board Committees: Chairman of Risk Committee.

Chairman & Managing Director: Securities Group Company.

Ex. Planning Minister: State of Kuwait.

Ex. Deputy Governor: Central Bank of Kuwait.

Marwan Ahmad Al Ghurair
Board Member, United Arab Emirates

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

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

Saleh Mohammed Al Shanfari
Board Member, Sultanate of Oman

Board Committees: Member of Finance & Investment Committee.

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

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

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.

Nedhal Saleh Al Aujan
Board Member, Kingdom of Bahrain

Board Committees: Chairman of Audit Committee.

Chief Executive Officer: Bahrain Development Bank (BDB).

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

Mohammed Bin Sulaiman Abanumay
Board Member, Kingdom of Saudi Arabia

Board Committees: Member of Finance & Investment Committee.

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

Salman Mohammed Hassan Al Jishi
Board Member, Kingdom of Saudi Arabia

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

Proprietor: Salman Group of Companies.

Vice Chairman: Al Shifae Medical Syringes Manufacturing Company.

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

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

Sulaiman Haider Al Haider
Board Member, State of Qatar

Board Committees: Member of Audit Committee.

Chairman: Sulaiman & Brothers.

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

Bader Grmallah Al Zahrani
Board Member, Kingdom of Saudi Arabia

Board Committees: Member of Risk Committee.

Chairman: Etab Company.

Managing Director: Zahran Group.

Manager, Operations: Zahran Operations and Maintenance Company .

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

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

Christopher Brown
Board Member, United States of America

Board Committees: Member of Risk Committee.

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

SHARI'AH SUPERVISORY BOARD

Shari'ah Supervisory Board Team (from left to right)

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah, Shaikh Nidham Mohammed Saleh Yaqooby & Dr. Essa Zaki Essa

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.

REPORT OF THE CHIEF EXECUTIVE OFFICER

47%

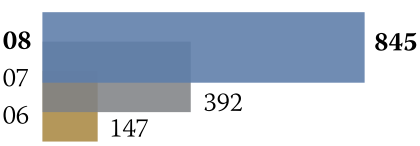
Growth in Net Profit

Abdullatif Mohammed Janahi
Board Member & Chief Executive Officer

Net Profit

USD 47 Million

Assets-Under-Management USD Million



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

I am delighted to report that Venture Capital Bank enjoyed an excellent third year of operations in 2008, with a strong performance across all areas of our activities that exceeded expectations. As a result, we have successfully demonstrated the viability of our investment strategy and business model. This performance will, God willing, form a solid base for the ongoing success of VCBank during the challenging market conditions that face us.

The Bank posted record-breaking financial results during 2008. Net profit grew by 47% to USD 47 million compared to USD 32.3 million in 2007, resulting in a return on equity 27%. Total income for the year was USD 82 million (2007: USD 54.4 million. Total assets at the end of 2008 stood at USD 243 million (2007: USD 222 million) while total shareholders' equity before allocation was USD 224 million (2007: USD 202 million).

The Bank's capital adequacy ratio of 47% remains significantly higher than the minimum requirements of the Central Bank of Bahrain. I would also like to stress that the Bank has a very strong balance sheet, is not leveraged, and enjoys healthy levels of liquidity.

A smart and flexible organisational structure is one of the most critical success factors for a financial institution. Accordingly, in 2008, we reinforced our internal structure with the aim of increasing impact, promoting innovation, and facilitating growth. Building on our impressive business achievements to date, VCBank successfully executed new innovative projects in the MENA region during 2008. These comprise Venture Capital Fund - Bahrain, German Orthopedic Hospital and a number of development projects in the service and real estate sectors. These diverse investment offerings are fully detailed in the Review of Investment Portfolio section of this annual report.

VCBank posted record-breaking financial results during 2008. Net profit grew by 47% resulting in a return on equity of 27%

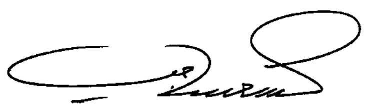
During 2008, we continued to enhance the institutional capability of the Bank in order to support the growth and development of our business activities. The success of our ongoing recruitment of high calibre professionals has resulted in the strengthening of key critical areas such as Treasury, Compliance, Risk Management, Internal Audit and Operations, while the Bank's overall team now numbers 79 people. We remain committed to providing our staff with the relevant training and development to advance their careers and to help them realise their full potential.

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

Against the backdrop of current and future challenging market conditions, highlighted by unprecedented uncertainty and lack of clarity, I remain confident that our notable financial, business and organisational developments will enable the Bank to continue to protect the interests of all stakeholders, and advance our ambitious strategic and business goals.

Once again, the united contribution of all members of the Bank's team has resulted in excellent results for VCBank for 2008. This continued success would not have been possible without the support of our Chairman and Board of Directors, the confidence of our shareholders, the trust of our clients and business partners, and the loyalty of our management and staff.

In conclusion, I would like to thank all our stakeholders for their invaluable contributions during 2008. With God's blessing, I look forward to working with you to achieve even greater success in 2009 and beyond.



Abdullatif Mohammed Janahi
Board Member and Chief Executive Officer

EXECUTIVE MANAGEMENT

Abdullatif Mohammed Janahi
Board Member and
Chief Executive Officer

The originator of the VCBank initiative and one of its key founders, Mr. Janahi served as the Executive Director of the Incorporating Committee of the Bank. He is the Chairman 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 also a Director of Challenger Oil Drilling Company, Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO), GLOREI in Oman (and Chairman of its Investment Committee), ASAS Company in Saudi Arabia, Mozon Holding Company in Morocco and Omran Al Bahrain. Previously, he 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 the UK, and is a Fellow of the Chartered Institute of Management Accountants in the UK.

Dr. Khalid Abdulla Ateeq
Deputy CEO
Operations & Support

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

Sharif Ebrahim Monfaradi
Chief Investment Officer
Private Equity & Financial Advisory

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

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

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.

Khalid Habib Abdul Karim
Chief Investment Officer
Real Estate

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

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

Masood Ahmed Al-Bastaki
Chief Placement Officer

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)

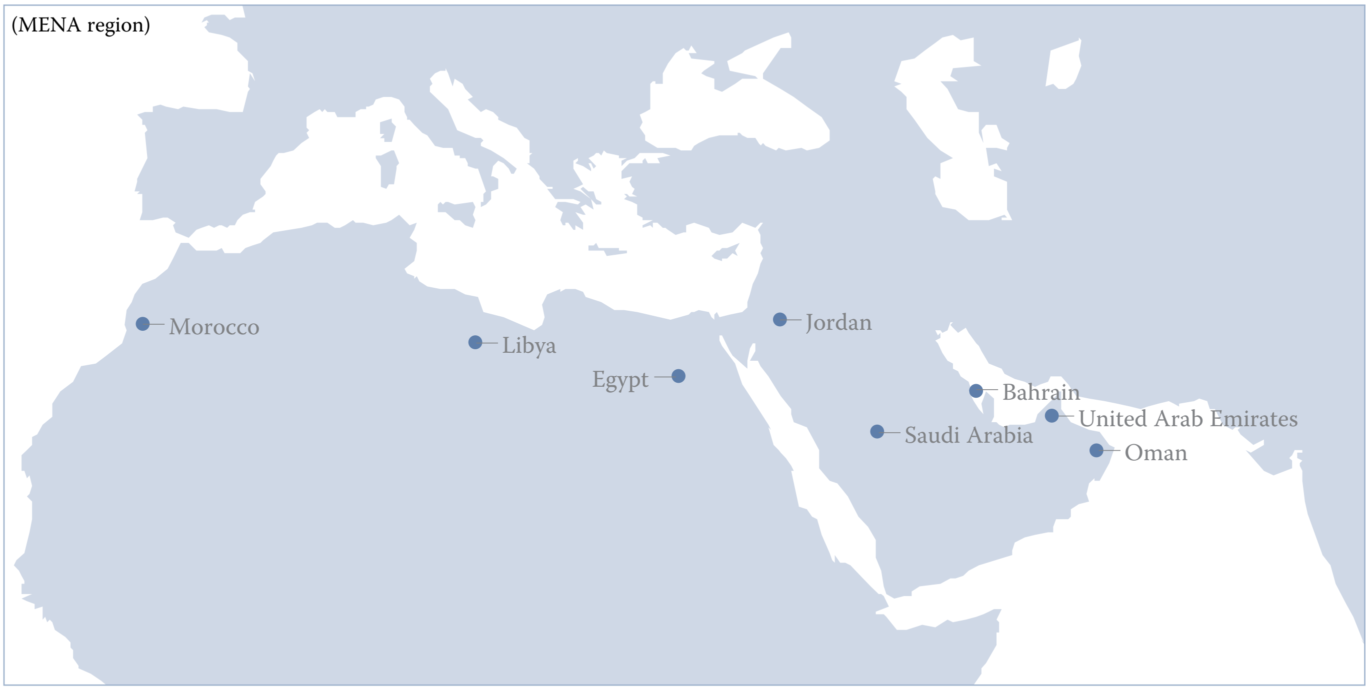
Khalid Habib Abdul Karim, Dr. Ahmed Al-Jawhary, Dr. Khalid Abdulla Ateeq,
Abdullatif Mohammed Janahi (CEO), Masood Ahmed Al-Bastaki & Sharif Ebrahim Monfaradi

INVESTMENT PORTFOLIO

The Bank's initial innovative investment products, projects and deals, which were successfully executed in 2006 and 2007, made excellent progress during 2008.

The year 2008 also witnessed the successful placement and execution of several projects in various sectors.

GEOGRAPHIC ALLOCATION



Venture Capital & Business Development

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.

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Private Equity & Financial Advisory

VCBank is uniquely positioned to source and invest in undervalued / under-funded companies across multiple industry sectors that are seeking access to capital and additional technical and operational support to facilitate growth and expansion.

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Real Estate

Over the past several years, real estate investments in the MENA region had increasingly appealed to investors. VCBank had recognised the role real estate plays in regional economies and followed a differentiated approach where it attempted to focus on niche markets with strong fundamentals such as low income housing, and end-user based products.

Continued page 28

VENTURE CAPITAL & BUSINESS DEVELOPMENT

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 under-invested niche asset class, but also enables them to play a positive role in the channelling of funds towards investment activities that stimulate real economic growth and further the development of regional economies.

Venture Capital & Business Development Team

(From left to right)

Saeed Haji
Mariam Baqer
Dr. Ahmed Al Jawhary (Chief Investment Officer- Venture Capital & Business Development)
Elham Al Koohiji
Abhishek Mukharjee

1. Venture Capital Fund Bahrain
2. German Orthopedic Hospital
3. The Lounge Serviced Offices
4. House of Development

INVESTMENT REVIEW: VENTURE CAPITAL & BUSINESS DEVELOPMENT

NEW INVESTMENTS IN 2008

Venture Capital Fund Bahrain
Offering Size: USD 15 million
Country: Kingdom of Bahrain
Nature of Investment: Venture Capital
Year: 2008

A new growth engine for small and medium enterprises (SMEs) – the USD 15 million Venture Capital Fund Bahrain was launched during 2008. This initiative is a partnership between VCBank, the Bahrain Development Bank, Tamkeen (formerly the Labour Fund of the Kingdom of Bahrain) and strategic investors in an investment fund structured and managed by VCBank. The Fund will respond to the needs of SMEs in the Kingdom of Bahrain, who will be able to benefit from Shari'ah compliant venture capital injection of between USD 250,000 and USD 3 million.

The first in a series of funds to target Bahrain and other promising MENA countries, the Venture Capital Fund Bahrain will scout for unique and innovative venture capital opportunities that are backed by committed entrepreneurs and dedicated management teams. It will provide the 'smart capital' needed to ensure the SMEs sustainability in a competitive environment, improve their business profitability, and drive their growth and expansion.

German Orthopedic Hospital
Offering Size: USD 17 million
Country: Kingdom of Bahrain
Nature of Investment: Venture Capital - Medical Services
Year: 2008

VCBank has made excellent progress in implementing the establishment of the German Orthopedic Hospital in Bahrain, which is designed to meet the growing demand for private specialist orthopedic healthcare in the GCC region. This dedicated centre of medical excellence will fill a large existing gap in the healthcare market by offering first-class orthopedic and rehabilitation medical services at German standards by German surgeons and medical professionals. The new hospital is planned to become operational during the second half of 2009.

The German Orthopedic Hospital will initially focus on surgical and conservative orthopedics, sports medicine including physiological diagnostics for professionals, internal medicine and pain therapy. It will target patients from Bahrain and the region, who flock to Germany every year for the diagnosis, treatment and rehabilitation of orthopedic-related illnesses. The Hospital, through its resident German surgeons and medical professionals, will offer treatment at the same high standards that are to be found in leading German hospitals but in a more practical setting and at a significantly lower cost.

The Lounge Serviced Offices Company
Country: Kingdom of Bahrain
Nature of Investment: Venture Capital - Services
Year: 2008

VCBank has initiated and launched a new concept in the provision of professionally-managed serviced office space. This will be provided by The Lounge Serviced Offices Company (The Lounge) in which the Bank is a founding shareholder with a 90% stake. Launched during the second quarter of 2008, the Company's maiden business centre, situated on the sixth floor of the Venture Capital Bank Building in Bahrain's Diplomatic Area, has already achieved a significant occupancy rate.

Occupying a total space of 1,200 m^2, The Lounge provides more than 50 offices, which differ in size and fit-out. In addition to its strategic location, which is a mere walking distance away from many of Bahrain's key ministries and leading financial institutions, The Lounge offers a number of facilities and unique advantages to its tenants.

PROGRESS OF EXISTING INVESTMENTS

Global Omani Development & Investment Company (GLOREI)
Offering Size: USD 113 million
Country: Sultanate of Oman
Nature of Investment: Business Development - Investment
Year: 2007

Established in 2007, with a paid-up capital of USD 113 million, GLOREI is designed to take advantage of the growing activity in Oman's various economic sectors and benefit from its numerous untapped business opportunities. Key developments in 2008 include formal licensing of the Company, the establishment of a Board of Directors, the appointment of the Chief Executive Officer and securing a small portfolio of assets.

Saudi Venture Capital Investment Company (SVCIC)
Offering Size: USD 100 million
Country: Kingdom of Saudi Arabia
Nature of Investment: Business Development - Investment
Year: 2007

Launched in 2007 and currently under formation, this USD 100 million investment company aims to capitalise on the significant potential of investment banking activities in the Kingdom of Saudi Arabia focusing primarily on the underserved small and medium enterprises sector.

A licence application was submitted to the Capital Markets Authority (CMA) in August 2008, and VCBank is working closely with the CMA to satisfy any additional information requirements that they have in order to expedite their review process. VCBank has received a favourable response from the CMA, who has indicated that the licensing approval process should be completed within six months of the application date.

Mozon Investment Holding Company
Country: Kingdom of Morocco
Nature of Investment: Business Development - Investment
Year: 2007

This USD 20 million Company was established by VCBank alongside key institutional investors from Kuwait in 2007 to capture the many lucrative investment opportunities available to Arab and foreign investors in the Kingdom of Morocco. Key identified sectors include industry, services, real estate, financial services and investment. During 2008, the Company was formally licensed, a Board of Directors was established and the Executive Management team appointed. Mozon has already identified a number of attractive projects that will offer attractive returns to investors.

Venture Estates / Asas Realty Company
Offering Size: USD 40 million
Country: Kingdom of Saudi Arabia
Nature of Investment: Business Development - Real Estate
Year: 2006

Venture Estates is a well-governed investment structure that holds a 40% stake in Asas Realty Company, which is based in the Eastern Province of the Kingdom of Saudi Arabia, and focuses on non-speculative real estate projects in the Kingdom. In 2008, the Company successfully managed to put in place the ingredients for a “land bank” that can be tapped into as and when viable and rewarding projects are conceived. The Company is currently screening and negotiating several residential and mixed-use projects in Saudi Arabia, with a number of sites having been identified therefor.

Gulf Projects Company
Offering Size: USD 27 million
Country: Kingdom of Bahrain
Nature of Investment: Venture Capital - Logistical Assets
Year: 2006

VCBank’s investment in Gulf Projects Company (GPC) was based on the Bank’s venture capital approach of creating substantial return and value through turning a concession into an operational asset. The first operational asset of GPC was Venture Capital Bank Building, combining retail outlets, office space and multi-storey car parking in the Diplomatic Area of Manama, Kingdom of Bahrain, which is now fully let and operational. To date, the targeted return on investment has been exceeded, with the payment of quarterly cash dividends starting in September 2007.

House of Development (HoD)
Offering Size: USD 5 million
Country: Kingdom of Saudi Arabia
Nature of Investment: Business Development - IT
Year: 2006

VCBank acquired a controlling stake in this Saudi-based IT applications solutions provider in 2006 to help it implement its expansion plans, that included establishing an office in New York through which to expand its marketing activities in the USA.

Due to the economic slowdown in the US, the Company has recently shifted its focus to the MENA region. HoD has developed a unique electronic certification and authentication (EC&A) methodology using cryptography and barcode technologies, which can be used to develop Internet-based document certification and authentication products for a range of industries. The Middle East market offers good potential for the growth and expansion of the Company’s activities.

PRIVATE EQUITY & FINANCIAL ADVISORY

VCBank is uniquely positioned to source and invest in undervalued / under-funded companies across multiple industry sectors that are seeking access to capital and additional technical and operational support to facilitate growth and expansion. VCBank then takes an active role in ensuring the growth and success of each portfolio company through a hands-on management approach and effective cooperation at every level. While the GCC and MENA regions constitute its primary markets, VCBank will also invest in opportunities outside these regions, where and when an opportunity exists, to utilise the expertise and technologies of portfolio companies to add value and drive advancement in its primary markets of focus. In addition, VCBank offers clients comprehensive solutions to commercial and financial issues that ensure they can effectively analyse and respond to the opportunities and challenges which entrepreneurial companies consistently face.

Private Equity & Financial Advisory Team

(from left to right)

Jose Martin
Mohamed Sohail Malik
Sharif Monfaradi (Chief Investment Officer- Private Equity & Financial Advisory)
Faisal Al Abbasi
Sarah Mohamed Saleh
Mahmood Zainal

1. Lemissoler Maritime Company
2. Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO)
3. ITWorx Limited
4. Challenger Limited

INVESTMENT REVIEW: PRIVATE EQUITY & FINANCIAL ADVISORY

NEW INVESTMENTS IN 2008

Lemissoler Maritime Company
Offering Size: USD 120 million
Country: Kingdom of Bahrain
Sector: Shipping
Year: 2008

In 2008, VCBank successfully arranged a USD 120 million private placement in Lemissoler Maritime Company which was formed with the objective of owning and operating a fleet of specialised commercial vessels. The Company has performed well since inception, with the initial fleet of five paper-carrying vessels exceeding its budget. Key developments during 2008 include the acquisition of another specialised paper-carrying vessel that was leased to Caribbean Forest Carriers for seven years; and the acquisition of three sister 2800 TEU container vessels chartered to Evergreen for five years.

Although the shipping industry has witnessed severe downturn especially with the decline in the Baltic dry index and spot rates, the Company has not been affected due to its strategy of acquiring vessels under long term charter agreements with blue chip companies and the prudent vessel acquisition strategy implemented by the Board of Directors. As a result, the Company is progressing very well in achieving its objectives and is on target to pay the promised dividends to investors for the year 2008.

PROGRESS OF EXISTING INVESTMENTS

Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO)
Offering Size: USD 24.85 million
Country: Hashemite Kingdom of Jordan
Sector: Chemical Fertilizers
Year: 2007

The proceeds of a USD 24.85 million private placement offering in 2007 together with the investment by VCBank and MENA SMEs Fund is being used to fund JAFCCO's business growth plan, which comprises the expansion of existing facilities with the development of a new state-of-the-art industrial complex, specialising in the manufacturing of chemical fertilizers and other kinds of chemicals that are currently imported into the MENA region.

During 2008, JAFCCO achieved exceptional results, mainly due to the outstanding performance of the existing plant with revenue and EBITDA higher than 2007 by 92% and 170% respectively. At the same time, work on the expansion project progressed well, and is currently ahead of schedule, with completion expected in early 2010.

ITWorx Limited
Offering Size: USD 8 million
Country: Egypt
Sector: Software Development
Year: 2007

The MENA Small & Medium Enterprises Fund 1 acquired a 30% stake in ITWorx in 2007. With development centres in Egypt, and sales and marketing offices in Saudi Arabia, UAE and USA, the Company is the largest software development company in Egypt in terms of revenue, developing and maintaining software for a large and diversified customer base. In 2008, ITWorx continued to perform well and on budget.

Historically, the Company has derived the majority of its revenues and profits from US clients. However, it has recently shifted its focus to the MENA region in order to minimise impact from the economic slowdown in the USA.

Challenger Limited
Offering Size: USD 42 million
Country: Great Socialist People's Libyan Arab Jamahiriya
Sector: Oil Drilling
Year: 2006

In 2006, the MENA Small & Medium Enterprises Fund 1 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.

Challenger's results for 2008 represent historic highs, with revenues rising by over 60% and EBITDA growing more than 70%, due to the signing of a number of new contracts, and the increasing demand for drilling rigs in Libya as a result of the contractual obligations of Exploration and Production (E&P) companies under the Exploration and Production Sharing Agreements (EPSA).

MENA Small & Medium Enterprise Fund 1
Offering Size: USD 80 million
Country: Middle East & North Africa Region
Sector: Investment Funds
Year: 2006

This USD 80 million Fund, established in 2006, and whose portfolio includes Challenger Limited, JAFCCO and ITWorx Limited, has performed extremely well since inception. At the end of 2008, the Fund's Net Asset Value (NAV) per share stood at USD 65, an increase of USD 15 per share or 30% from the initial NAV.

This NAV growth was partially attributable to the acquisition of a 25% stake in Challenger Limited by Bronco Drilling Company at a significant value than the Fund's cost, and a partial exit in JAFCCO of 7% to Arab Mining Company. Distributions totalling USD 6.2 million were made to investors during the year.

REAL ESTATE

Over the past several years, real estate investments in the MENA region has increasingly appealed to investors.

VCBank recognises the role real estate plays in regional economies and follows a differentiated approach where it focuses on niche markets with strong fundamentals such as low income housing, and end-user based products. Through the use of this approach, the Bank also strives to manage the inherent risks associated with its real estate products by applying minimal amounts of leverage.

VCBank, through its proven fundamental and value based investment philosophy, plans to capitalize on the current market situation whilst continuing to maintain its balanced and diversified strategy by offering superior risk adjusted returns to its client base.

Real Estate Team

(from left to right)

Eman Abdulrahman
Saad Al Khan
Ahmed Al Abbasi
Khalid Abdul Karim
(Chief Investment Officer - Real Estate)
Abdulla Nooruddin
Saleh Bagaeen

1. Jebel Ali Labour Accommodation
2. Jeddah Central District Regeneration
3. World Development Company
4. Difaaf – Reef Island

INVESTMENT REVIEW: REAL ESTATE

NEW INVESTMENTS IN 2008

Jebel Ali Labour Accommodation
Offering Size: USD 64 million
Country: United Arab Emirates
Nature of Investment: Labour Accommodation
Year: 2008

Jebel Ali Development Company W.L.L. has been formed to develop three strategically located labour accommodation complexes within the Jebel Ali Industrial Area in the United Arab Emirates (UAE). This AED 400 million (USD 109 million) project will provide high quality accommodation and supporting amenities for over 4,000 workers. The target completion date for the project is set for end of April 2010.

This project differentiates itself by concentrating on a segment of the real estate market with high demand - low supply characteristics, thereby enabling investors to further diversify their realty sector investments.

Jebel Ali is situated 35 kilometres southwest of the city of Dubai and is part of the Emirate of Dubai in the UAE. Its port of Mina Jebel Ali has the world's largest man-made harbour with 67 berths and an extensive dry-dock capability. Jebel Ali is the biggest port in the Middle East and is home to the eighth largest seaport in the world.

Al Maktoum International Airport, currently under construction in Jebel Ali, will be the world's largest passenger and cargo hub. Jebel Ali Free Zone, the only free zone in the world to be located between two such major logistics enablers, combined with air and sea ports, has positioned Jebel Ali strategically on the UAE and regional map.

Difaaf – Reef Island
Offering Size: USD 65 million
Country: Kingdom of Bahrain
Nature of Investment: Residential
Year: 2008

Reef Venture Holding Company W.L.L., was established to develop 'Difaaf', a high-end luxury residential development valued at USD 200 million, which is located on Reef Island in Bahrain. Between its two concaving towers, Difaaf comprises a total of 425 apartments ranging from 1-3 bedrooms and penthouses with each apartment providing stunning views of the sea and the city.

Reef Venture Holding Company W.L.L. is 100% owned by Difaaf Development Limited which was a USD 65 million private placement offering allowing VCBank and its investors to jointly participate in the development project.

Despite the current unfavourable market conditions for real estate, 15% of the entire Project has been sold since the launch of the Project in October 2008. Piling works on the Project is near completion and the Board of Directors of Reef Venture Holding Company W.L.L. have taken a conscious decision to postpone the appointment of a contractor to take advantage of ongoing significant reduction in construction costs to the benefit of investors and buyers.

Reef Island is considered as one of the most exclusive and luxurious, residential real estate projects in the Kingdom of Bahrain, targeted at GCC and international investors / end-users seeking high end residences.

Great Harbour – Hidd
Offering Size: USD 73 million
Country: Kingdom of Bahrain
Nature of Investment: Mixed-use Development
Year: 2008

Established by VCBank, alongside two other strategic investors, Great Harbour W.L.L. has acquired a unique seafront plot of land with excellent development potential, in Hidd, Kingdom of Bahrain.

Through the successful placement of Great Harbour Limited, VCBank alongside its investors indirectly own approximately 56.8% stake in Great Harbour W.L.L. The plot is earmarked for a mixed-use development, comprising both residential and retail elements.

In light of recent developments in the real estate market in the region, the Board of Great Harbour W.L.L. is now considering a development that will primarily be targeting the mid-income segment in the Kingdom of Bahrain.

The Great Harbour plot, measuring 35,039 m^2, is situated adjacent to the new Shaikh Khalifa Bin Salman causeway that links Hidd to Manama. Moreover, the plot is uniquely positioned, enjoying sea views on both sides.

Hidd is a new area that has recently undergone major land reclamation as part of the Master Plan issued by the Ministry of Municipalities, and is situated in a prime location just minutes away from Bahrain International Airport and Central Manama.

PROGRESS OF EXISTING INVESTMENTS

World Development Company
Offering Size: USD 36 million
Country: United Arab Emirates
Nature of Investment: Residential / leisure
Year: 2007

World Development Company Limited (WDCL) is a 50:50 joint venture between VCBank, investors, and Arabian Holdings International Limited. Incorporated as a British Virgin Islands company, Arabian Holdings International Limited is wholly owned by Bright Start, a privately held Dubai-based investment firm. The objective of the investment is to undertake a luxury residential /leisure real estate development within the iconic 'The World' master plan in the Emirate of Dubai in the United Arab Emirates. The 900,000 ft^2 (approximately) island is part of the land mass more commonly known as "Russia". Achievements to date include the appointment of all consultants, completion of reclamation, design approvals from the master developer (with complimenting comments) and the execution of a successful sales strategy whereby 20% of the Project has been pre-sold.

Jeddah Central District Regeneration
Country: Kingdom of Saudi Arabia
Nature of Investment: Regeneration
Year: 2006

This challenging project involves the regeneration of Al Balad District, the central district of Jeddah and the Historical Area, covering an area of over 5 million m^2, which faces serious problems of decaying properties and outdated amenities.

VCBank is a member of a Consortium that has developed the master plan and built the economic model for the project in close coordination with Jeddah Municipality. The master plan has been endorsed by the Custodian of the Two Holy Mosques, King Abdullah Bin Abdul Aziz Al Saud.

VCBank believes that this is one of the most unique regeneration projects in the region that will modernise the Central District of Jeddah whilst maintaining a wealth of historical properties. As a result, significant value has been created to the Consortium that will stem from the revenue streams arising primarily from the management of the project during the course of the project implementation.

Omran Al Bahrain
Country: Kingdom of Bahrain
Nature of Investment: Development Company
Year: 2006

Omran Al Bahrain is a 50:50 joint venture company between VCBank and a consortium of Kuwaiti institutional investors led by Al-Tijaria Real Estate Company in Kuwait.

The Company primarily seeks to identify potential developments, while building on its strength to be a service provider in a number of areas within the real estate sector including technical advisory and development consultancy.

In addition to the Rainbow Towers Development project in Umm Al Quwain, UAE, the Company has identified a number of other potential real estate projects in Bahrain.

During 2008, the Company's capital was increased to USD 53 million (BD 20 million), to fuel the growth potential of the company.

The Company has undertaken investments in a number of strategic plots in the Kingdom of Bahrain for development.

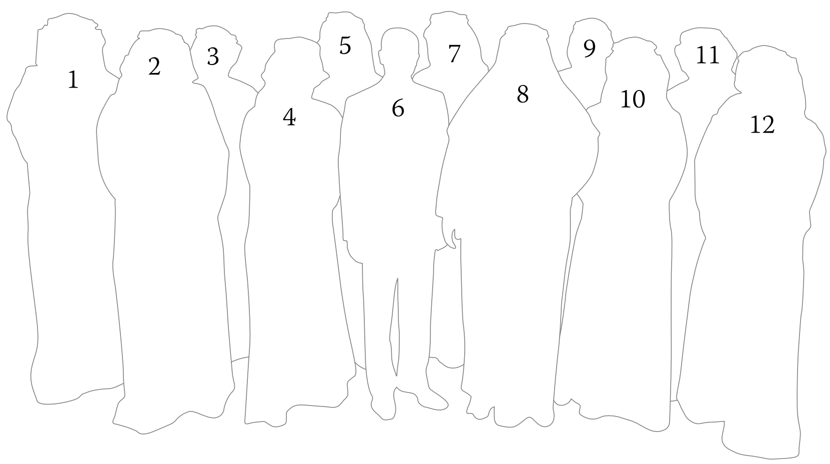
INVESTMENT PLACEMENT

In a short space of time, the Bank's Investment Placement team has earned a highly favourable reputation in the market for its technical ability, quality and speed as well as professionalism. It has also successfully established a regional network of prominent institutional and high net worth individual clients.

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. These include funds, and a variety of stand-alone projects and deals covering diverse industry sectors and geographies, many of which were the first of their kind to be brought to our market.

The team's network of client relationships covers Bahrain, Saudi Arabia (all provinces), Kuwait, UAE (all Emirates), Qatar and Oman, and comprises large corporates, financial institutions 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.

In just three years, the Investment Placement team, which has now grown to 17 placement professionals and dedicated support staff, has successfully placed all the investment offerings. For a young bank that does not have a long-established track record, this constitutes an exceptional performance.



Investment Placement Team

1. Jehad Qamber 2. Abdulrahim Al Saeedi 3. Bassam Haji 4. Saud Al Hamar 5. Adel Sharif
6. Hadi Al Hussaini 7. Khalid Abdulghani 8. Masood Al Bastaki (Chief Placement Officer) 9. Feras Al Jishi
10. Mohamed Abdulla 11. Ali Al Alawi 12. Mohamed Al Shaikh

OPERATIONS & SUPPORT

During 2008, the Bank's Operations & Support division was enhanced. The division now comprises six specialist departments: Treasury, Financial Control, Operations, Human Resources & Support, Information Technology and Corporate Communications.

Treasury

The Bank's new Treasury department was established in June 2008, and quickly became fully operational, supported by the installation of SWIFT and Bloomberg systems. 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. The excellent three-year track record of VCBank has enabled the team to develop good inter-bank lines with a number of leading Islamic financial institutions. Apart from a small portfolio of available-for-sales securities in listed equities, and limited trading in listed equities, the Bank places its excess liquidity through money market placements with reputable Shari'ah compliant banks. This conservative approach, supported by its differentiated business model, diversified investment strategy, strong liquidity, and no leveraging, means that Venture Capital Bank is in a very healthy state, and well positioned to withstand the current global financial turmoil and to efficiently manage the additional funding from the capital increase process.

Operations

The Bank's new Operations Department was established in 2008 as well, and has a key role to play in establishing cross-functional working relationships between Financial Control, Treasury and Investment Administration. The Operations team provides critical back-office support, covering the areas of transactions processing and settlement through SWIFT, reconciliations, telex transfers, management of Nostro accounts and investment accounts management.

Human Resources & Support

In 2008, the Human Resources & Support team was expanded in order to meet the growth in the Bank's staff and the expansion of its business activities. 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.

Key Human Resources developments during the year include a successful recruitment drive to fill all key positions, the development of a succession planning and career development plan, introduction of a new performance appraisal system supported by staff competencies, training and development plans, job descriptions, and review and enhancement of all HR policies and processes and procedures. On the Administration side, the move to the Bank's new Headquarters at Venture Capital Bank Building was successfully accomplished.

Information Technology

During 2008, the Bank's IT team was expanded to meet the requirements of the growing number of staff and support the expansion of VCBank's business activities. A key achievement was that no disruption of IT services occurred during the relocation to the new Headquarters. Other developments include 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 Disaster Recovery Site was established, which will be initially off-line, then progressing to on-line in 2009. In addition, a GAP Analysis was conducted with the Business and Support functions to assess satisfaction with current services, and also to identify future IT requirements across the Bank.

Financial Control

During the initial start-up phase of VCBank, the Financial Control department was responsible for a number of additional critical functions, including Operations, Compliance and Anti-Money Laundering Reporting. Following the expansion of the Bank's Operations & Support division during 2008, these activities were transferred to other departments. This will enable the Financial Control team to focus on its core activities, which 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

During 2008, VCBank's Corporate Communications team was enhanced by the addition of experienced communications, public relations and marketing professionals to further improve the Bank's communications with all stakeholders. Notable developments during the year include strengthening relationships with regional and international media; revamping the Bank's quarterly newsletter – VCOMM – to clients and investors; and reviewing VCBank's corporate social responsibility programme, which the team is responsible for implementing.

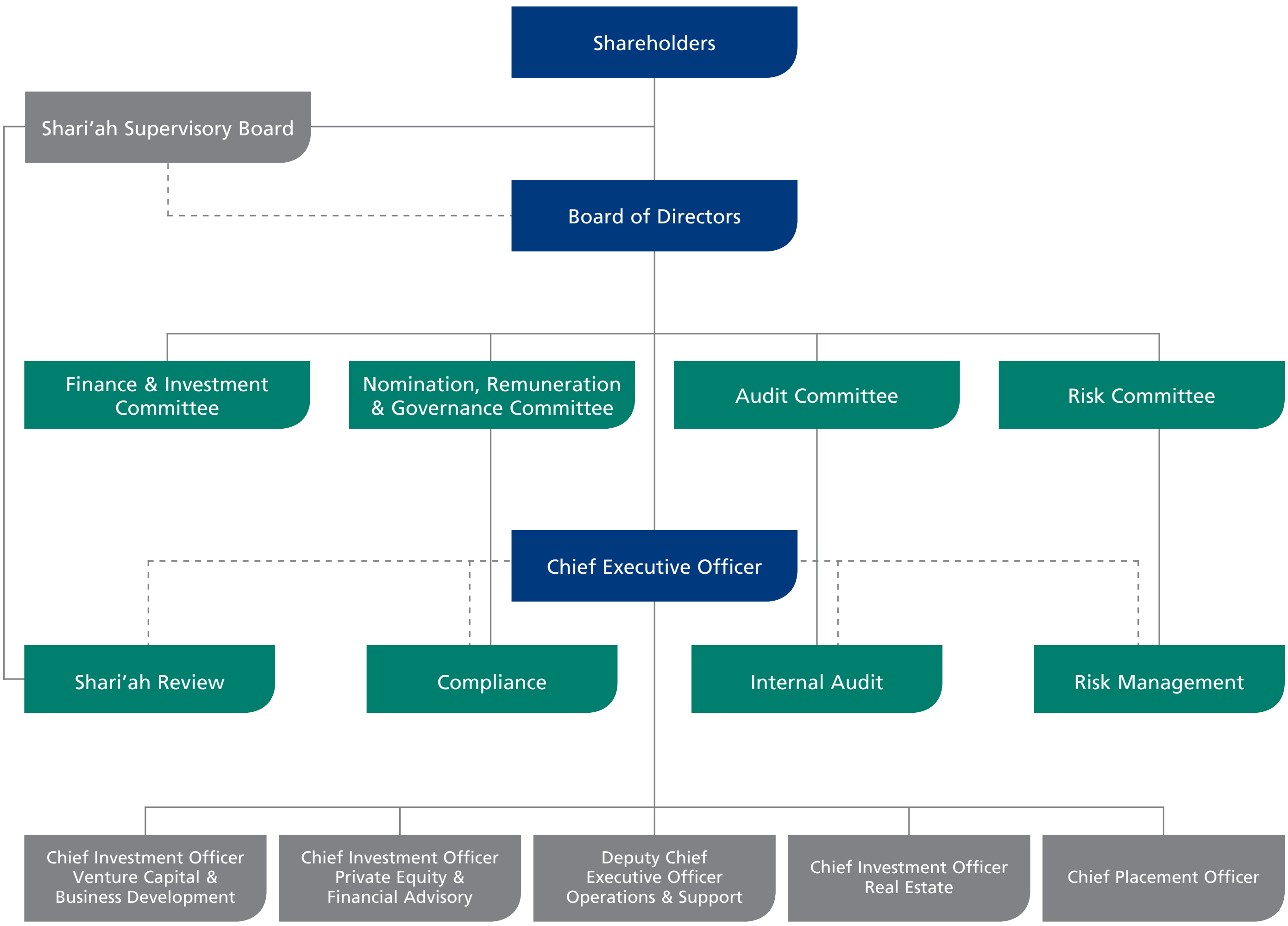
Operations & Support Team (from left to right)

Hassan Murad, Santosh Jacob Karipat, Hisham Abu Alfateh, Najwa Mohanna, Abdulla Kandi, Dr. Khalid Ateeq (Deputy CEO - Operations & Support), Ahmed Sultan & May Marzouq

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.

Corporate Governance Structure



Board of Directors
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 independant non-executive members except for the CEO.

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

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

Nomination, Remuneration & Governance Committee
The Nomination, Remuneration & Governance Committee oversees matters related to the nomination of new directors, assessment of the Board and its committees and directors, and the remuneration of directors and senior management, in addition to overseeing the Bank's compliance with laws and regulations.

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

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 Mohammed Janahi
5. Salman Mohammed Hassan Al Jishi

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 Haider Al Haider
3. Giles Catchpole (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. Bader Grmallah Al Zahrani
3. Christopher Brown
4. Muneer Al Shehri (non-board member)

Executive Management Committee
The Executive Management Committee is responsible for overseeing day-to-day operations of the Bank, monitoring the performance of business lines and departments in relation to strategy, policies, targets and limits, in addition to asset and liability management in coordination with the Finance and Investment Committee.

Members
1. Abdullatif Mohammed Janahi – Chairman
2. Dr. Khalid Abdulla Ateeq
3. Sharif Ebrahim Monfaradi
4. Dr. Ahmed Al Jawhary
5. Khalid Habib Abdul Kareem
6. Masood Ahmed Al Bastaki

CORPORATE GOVERNANCE Continued

Compliance

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 organisation.

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 Nominations, Remunerations & Governance Committee and administratively to the CEO ensuring the Bank's Compliance objectives are achieved.

The Compliance Department oversees the Bank's compliance programme 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 Central Bank of Bahrain (CBB), the Ministry of Industry and Commerce or any other applicable laws or regulations. It also monitors that the behaviour in the organisation meets the Bank's ethical standards and assists senior management in educating staff and increasing awareness on compliance issues across the whole organisation. 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.

Risk Management

Risk Management reports directly to the Risk Committee of the Board and administratively to the CEO. Key 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 organisation, and install a culture whereby all staff are individual owners of risk. Key developments during the year include 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 VCBank is exposed and developing various initiatives to manage, monitor and minimise such risks.

Internal Audit

Internal Audit reports directly to the Audit Committee of the Board and administratively to the CEO. This function was originally outsourced, but due to the growth in the Bank's staff, and the expansion of its business activities, the Board considered that an in-house capability would be more effective for VCBank. Initiatives during the year include a thorough review of the Bank's existing internal processes and procedures, the adoption of a risk based audit approach, and advising management on enhancements to the Bank's internal controls framework. The Internal Audit team will work closely with Compliance and Risk Management, and place increased emphasis on providing Executive Management with preventative advice and guidance.

Compliance, Risk Management & Internal Audit Team
(from left to right)

Khalid Al Madani, Kubra Ali, Tat Thong & Vivek Shenoy

FINANCIAL SECTION

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REPORT OF THE SHARI'AH SUPERVISORY BOARD

VENTURE CAPITAL BANK

Report of the Shariah Supervisory Board for year ended 31 December 2008

In The Name of Allah, The Most Merciful, The Most Compassionate

The Shari'ah Supervisory Board ("the Board") of Venture Capital Bank ("the Bank") convened on Saturday 5th Safar 1430H, corresponding to 31 January 2009 to review the Bank's activities and investments.

The Board discussed with the Bank's management the financial statements and the income statement for the year ended 31 December 2008.

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

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

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

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

(Signed)
Nidham Bin Mohammed Saleh Yaqoobi
Chairman, Shari'ah Supervisory Board

Venture Capital Bank Shari'ah Supervisory Board

(Signed)
Dr. Abdulsattar Abu-Ghodah

(Signed)
Dr. Issa Zaki

A. K.
3 1 JAN 2009

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THROUGH PARTNERSHIP COMES GROWTH - THROUGH EXPERIENCE COMES STRENGTH

REPORT OF THE AUDITORS

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements set out in pages 42 to 71 of Venture Capital Bank BSC (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity and 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of charity and 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2008 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
4 February 2009

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	31 December 2008 USD' 000	31 December 2007 USD' 000
ASSETS			
Cash and balances with banks		1,093	170
Placements with financial institutions	3	31,718	69,823
Islamic financing receivables	4	5,720	6,084
Investment securities	5	116,068	69,376
Investments in associates and joint ventures	6	16,946	3,034
Assets held-for-sale	7	23,044	-
Investment property	8	8,442	9,380
Receivable from investment banking services		9,316	34,509
Other assets	9	26,077	26,503
Equipment	10	5,171	3,127
Total assets		243,595	222,006
LIABILITIES			
Islamic financing payables	11	288	8,674
Employee accruals		14,535	8,821
Other liabilities		3,572	1,896
Total liabilities		18,395	19,391
EQUITY			
Share capital	12	165,000	165,000
Share premium		13,533	13,533
Unvested shares of employee share ownership plan		(15,000)	(15,000)
Statutory reserve		9,314	4,552
Investments fair value reserve		(85)	180
Employee share ownership plan reserve		3,073	1,800
Retained earnings		49,352	31,887
Total equity attributable to shareholders of the parent		225,187	201,952
Minority interest		13	663
Total equity (page 44)		225,200	202,615
Total liabilities and equity		243,595	222,006
Off-balance sheet items			
Restricted investment accounts (page 46)		4,615	5,110

The consolidated financial statements, which consist of pages 42 to 71, were approved by the Board of Directors on 4 February 2009 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 36 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	31 December 2008 USD' 000	31 December 2007 USD' 000
Income from investment banking services	13	67,523	39,143
Income from placements with financial institutions		1,077	2,073
Income from Islamic financing		457	2,735
Income from investment securities	14	10,368	9,179
Income from sale of investment property		1,462	-
Income from investment in associates and joint ventures		365	900
Other income		795	368
Total income		82,047	54,398
Staff cost	15	20,481	15,245
Travel and business development expenses	16	2,306	2,432
Impairment allowances	17	6,563	1,708
Finance expense		28	459
Other expenses	18	4,420	2,218
Total expenses		33,798	22,062
Profit for the year from continuing operations		48,249	32,336
Loss on assets held-for-sale	7	(1,208)	-
Profit for the year		47,041	32,336
Attributable to:			
Shareholders of the parent		47,621	32,301
Minority interest		(580)	35
		47,041	32,336
Earnings per share (US cents)			
Basic	33	31.75	39.10
Diluted	33	30.60	37.78

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	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**	**Minority 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
Fair value changes	-	-	-	-	(265)	-	-	(265)	-	(265)
Net expense recognised directly in equity	-	-	-	-	(265)	-	-	(265)	-	(265)
Profit for the year	-	-	-	-	-	-	47,621	47,621	(580)	47,041
Total recognised income and expense	**-**	**-**	**-**	**-**	**(265)**	**-**	**47,621**	**47,356**	**(580)**	**46,776**
Transfer to statutory reserve	-	-	-	4,762	-	-	(4,762)	-	-	-
Dividends declared (2007)	-	-	-	-	-	-	(23,775)	(23,775)	-	(23,775)
Directors remuneration (2007)	-	-	-	-	-	-	(1,310)	(1,310)	-	(1,310)
Employee share ownership plan vesting charge (ESOP)	-	-	-	-	-	1,273	-	1,273	-	1,273
Zakah contribution (2007)	-	-	-	-	-	-	(309)	(309)	-	(309)
Minority interest attributable to asset held-for-sale (note 7)	-	-	-	-	-	-	-	-	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**

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

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

	31 December 2008 USD' 000	31 December 2007 USD' 000
OPERATING ACTIVITIES		
Murabaha profits received	1,077	2,073
Dividends received	1,158	352
Other income received	795	229
Profits received from Islamic financing receivables	457	2,735
Islamic financing assets, net	(742)	1,956
Placement, management and advisory fees received	1,600	-
Investment banking fees received	92,892	8,324
Purchase of investment securities	(62,553)	(46,475)
Purchase of investment property	-	(93)
Acquisition of assets held-for-sale	(22,516)	-
Sale of investment securities	10,332	27,796
Advances to acquire investments	(13,446)	(8,943)
Directors remuneration paid	(1,310)	(835)
Payments for staff cost	(13,473)	(6,353)
Payments for other expenses	(5,573)	(4,207)
Cash flows from operating activities	(11,302)	(23,441)
INVESTING ACTIVITIES		
Purchase of equipment	(2,845)	(3,121)
Cash flows from investing activities	(2,845)	(3,121)
FINANCING ACTIVITIES		
Proceeds from issue of additional ordinary shares	-	93,881
Minority interest	-	13
Islamic financing payables, net	(151)	392
Dividends paid	(22,575)	(4,875)
Zakah paid	(309)	-
Cash flows from financing activities	(23,035)	89,411
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(37,182)	62,849
Cash and cash equivalents at beginning of the year	69,993	7,144
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	32,811	69,993
Cash and cash equivalents per the balance sheet		
Cash and balances with banks	1,093	170
Placements with financial institutions	31,718	69,823
	32,811	69,993

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2008	Balance 1 Jan 2008	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross income	Dividend paid	Administration expenses	Bank's fees as agent	Balance 31 Dec 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

2007	Balance 1 Jan 2008	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross income	Dividend paid	Administration expenses	Bank's fees as agent	Balance 31 Dec 2007
The GCC Pre-IPO Fund	7,324	-	(1,807)	(459)	52	-	-	-	5,110
Representing:									
Investments in equities									4,927
Funds in short term murabaha									183
									5,110

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

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 USD' 000	2007 USD' 000
Sources of charity and Zakah fund		
Contributions by the Bank	309	-
Total sources	**309**	-
Uses of charity fund and Zakah fund		
Contributions to charitable organisations	309	-
Total uses	**309**	-
Excess of sources over uses	-	-
Undistributed charity and Zakah fund at 1 January	-	-
Undistributed charity and Zakah fund at 31 December	-	-

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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 consolidated financial statements, and have been consistently applied by Group entities.

(a) Statement of compliance

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

(b) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 27.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates and joint ventures

Associates are those enterprises in which the Group hold, directly or indirectly, more than 20% 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 at fair value through profit or loss' in accordance with IAS 39 [refer note 2(d) (i)].

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

(iii) Transactions eliminated on consolidation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) Group companies
The other Group companies functional currencies are either denominated in 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.

(e) Financial assets and liabilities

(i) Recognition and derecognition
The Group initially recognises placements with financial institutions, Islamic financing assets, receivables, Islamic financing liabilities and payables on the date at which they are originated. All other financial assets and liabilities 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), including transaction costs that are directly attributable to its acquisition or issue.

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) Measurement principles
Financial assets 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.

Amortised cost measurement

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.

(f) Islamic financing receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment securities

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

(i) 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.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or part of a portfolio of identified financial instruments that are managed 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 a financial asset 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 and investments in associates and joint ventures (see note 2(c)(ii)).

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated as carried at fair value through profit or loss or as available-for-sale. These include investments in Islamic Sukuks.

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 quoted and unquoted equity securities.

(ii) 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. Investments carried at fair value through profit or loss are initially recognised at fair value, and transaction cost are expensed in the profit or loss. Investment securities are subsequently accounted for depending on their classification as either fair value through profit or loss, held-to-maturity or available-for-sale.

(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. Held-to-maturity investments are measured 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) Gains and losses on subsequent measurement

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 a separate fair value reserve in equity and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement.

(v) 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 shares 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 of certain available-for-sale investments and investments in associates and joint ventures designated at fair value through the profit or loss.

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

(vi) Impairment of investment securities

The Group assesses at each balance sheet date whether there is objective evidence that an investment security is impaired.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(h) Investment property

Investment property include properties held to earn rentals or capital appreciation or both and are accounted for under the cost method.

(i) Cash and cash equivalents

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

(j) 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 Bank 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 Bank 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 International Accounting Standard ('IAS') 39 'Financial Instruments: Recognition and Measurement', 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 carried at fair value in accordance with IAS 39.

(k) Equipment

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

(l) Impairment of other assets

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

(m) Financing liabilities

Financing liabilities comprise facilities from financial institutions to finance acquisition of equipment and investment activities of the Bank. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method.

(n) Dividends and Board remuneration

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition

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. The assessment of whether economic benefits from a transaction will flow to the Bank is determined when legally binding commitments have been obtained from external investors for a substantial investment in the transaction. Income is then recognised on a pro-rata basis to the extent of such firm commitments received at the reporting date.

Fee income from investment banking services is recognised when earned and the related services are performed.

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

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

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

(p) 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.

(q) 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.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, 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 balance sheet date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

(iii) Share based payment transactions

The Group has established an employees share ownership plan (ESOP) under which employees are entitled to purchase units in the ESOP on a deferred payment basis. Each unit carries the rights to benefits of ownership of one share upon completion of a 5 year lock-in period. The cost to the Group, representing the fair value of the units offered, is determined by an independent firm of accountants using the Black-Scholes model, and is 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.

(r) Statutory reserve

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

(s) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2008 USD' 000	31 December 2007 USD' 000
Gross commodity murabaha	31,726	70,074
Less: Deferred profits	(8)	(251)
	31,718	69,823

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

4. ISLAMIC FINANCING RECEIVABLES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Gross murabaha financing	5,806	6,875
Less: Deferred profits	(86)	(791)
	5,720	6,084

Islamic financing receivables mainly comprise short-term financing provided to projects promoted by the Bank.

5. INVESTMENT SECURITIES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investments at fair value through profit or loss	74,466	35,932
Held-to-maturity investments	-	7,800
Available-for-sale investments	41,602	25,644
	116,068	69,376

(i) Investments at fair value through profit or loss

	31 December 2008 USD' 000	31 December 2007 USD' 000
Held for trading - listed equities	4,646	1,396
Designated at fair value though profit or loss:		
Associates - unquoted	-	4,940
Joint ventures - unquoted	33,172	13,278
Equity securities - unquoted	29,092	8,218
Funds - unquoted	7,556	8,100
	74,466	35,932

During the year, the Bank has recognised fair value gains amounting to USD 11,156 thousand (2007: USD 3,626 thousand) on re-measurement of investments designated at fair value through profit or loss. Of the total fair value changes recognised on investments designated at fair value through profit or loss during the year, USD 3,330 thousand (2007: USD 3,108 thousand) was determined based on recent transaction prices in the shares of the investee companies and USD 7,826 thousand (2007: USD 518 thousand) determined using valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

5. INVESTMENT SECURITIES (continued)

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 2008 USD' 000	31 December 2007 USD' 000
Total assets	118,676	31,278
Total liabilities	50,757	1,005
Total revenues	10,398	981
Total net profit / (loss) for the year	**5,037**	(1,027)

(ii) Held-to-maturity securities

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investment in Sukuk	-	7,800
	-	7,800

(iii) Available-for-sale investment securities

	31 December 2008 USD' 000	31 December 2007 USD' 000
Equity securities - quoted	5,277	11,448
Equity securities - unquoted	36,325	14,196
	41,602	25,644

Investments with a carrying value of USD 36,325 thousand (2007: USD 14,196 thousand) in unquoted equities are stated at cost less impairment in the absence of a reliable measure of fair value. The Bank has insignificant shareholding in these companies and accordingly is unable to obtain reliable information to perform valuation of these investments. Such investments are either private equity investments managed by external investment managers or represent investments in projects promoted by the Group. The Group intends to exit these investments principally by means of sale to strategic buyers or through initial public offerings.

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Associates	16,246	2,134
Joint ventures	700	900
	16,946	3,034

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

	31 December 2008 USD' 000	31 December 2007 USD' 000
At 1 January	3,034	-
Acquisitions during the year	8,613	2,134
Reclassified on partial sale of asset held-for-sale (note 7)	5,834	-
Disposals during the year	(900)	-
Share of profits of associates and joint ventures, net	365	900
	16,946	3,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

USD' 000

6. 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 2008 USD' 000	31 December 2007 USD' 000
Total assets	54,762	12,671
Total liabilities	16,444	226
Total revenues	22	1,922
Total net profit for the year	(966)	1,576

7. ASSETS HELD-FOR-SALE

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investment in a joint venture	23,044	-
	23,044	-

During the year, in its normal course of business, the Bank acquired 50% stake in a joint venture company and is in the process of structuring and placing it with investors.

Further, during the year, the Bank 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 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 the year end, the Group executed the sale transaction resulting in reduction in its stake below 50% thus leading to loss of control. The investment has now been classified as investment in associate - equity accounted and the assets and liabilities held-for-sale have been deconsolidated from the financial statements of the Bank.

8. INVESTMENT PROPERTY

Investment property includes land in Bahrain held for investment purposes. The fair value of the property at 31 December 2008 is approximately USD 30 million (2007: USD 20.6 million), determined based on a valuation by an independent external valuer.

9. OTHER ASSETS

	31 December 2008 USD' 000	31 December 2007 USD' 000
Receivable from sale of investments	3,655	6,650
Advances to acquire investments	16,702	8,964
Receivable on redemption of HTM investment	-	8,424
Project costs recoverable	4,950	1,980
Other receivables	770	485
	26,077	26,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

10. EQUIPMENT

	Computers and equipment	Furniture and fixtures	Motor vehicles	2008 Total (USD' 000)	2007 Total (USD' 000)
Cost					
At 1 January	299	2,626	506	3,431	310
Additions	672	2,145	28	2,845	3,121
At 31 December	971	4,771	534	6,276	3,431
Depreciation					
At 1 January	96	115	93	304	112
Charge for the period	154	515	132	801	192
At 31 December	250	630	225	1,105	304
Net book value At 31 December	721	4,141	309	5,171	3,127

11. ISLAMIC FINANCING LIABILITY

This includes Murabaha financing facility from a financial institution which bears a profit rate of 4.70% annually and matures in September 2011.

12. SHARE CAPITAL

	31 December 2008 USD' 000	31 December 2007 USD' 000
Authorised: 500,000,000 ordinary shares of USD 1 each	500,000	500,000
Issued and fully paid up: 165,000,000 shares of USD 1 each (2007: 165,000,000 shares of USD 1 each)	165,000	165,000

13. INCOME FROM INVESTMENT BANKING SERVICES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investment advisory and structuring income	63,504	38,147
Investment management and advisory fee	2,309	346
Placement and arrangement fee	1,710	650
	67,523	39,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

14. INCOME FROM INVESTMENT SECURITIES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Trading securities	(3,611)	446
Investments designated at fair value through profit or loss	12,308	7,690
Held-to-maturity (HTM)	127	935
Available-for-sale investments (AFS)	1,349	108
Income on sale of controlling stake in a subsidiary	195	-
	10,368	9,179

Details of income by nature are as follows:

2008	Trading	Designated at fair value	HTM	AFS	Others	USD' 000 Total 2008
Fair value gains/ (losses)	(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

2007	Trading	Designated at fair value	HTM	AFS	Others	USD' 000 Total 2007
Fair value gain	347	3,626	-	108	-	4,081
Profit on sale	53	4,005	-	-	-	4,058
Dividends	46	59	-	-	-	105
Profit income	-	-	935	-	-	935
	446	7,690	935	108	-	9,179

15. STAFF COST

	31 December 2008 USD' 000	31 December 2007 USD' 000
Salaries and benefits	19,757	14,831
Social insurance expenses	719	397
Other staff expenses	5	17
	20,481	15,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

16. TRAVEL AND BUSINESS DEVELOPMENT EXPENSES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Travel and accommodation	1,637	1,207
Legal and professional	669	1,225
	2,306	2,432

17. IMPAIRMENT ALLOWANCES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Available-for-sale investments	6,390	1,708
Advances to acquire investments	173	-
	6,563	1,708

18. OTHER EXPENSES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Rent and office expenses	2,190	1,013
Publicity, conferences and promotion	835	497
Board and Shari'ah expenses	536	348
Depreciation	801	192
Other costs	58	168
	4,420	2,218

19. TOTAL FINANACE INCOME AND EXPENSE

	31 December 2008 USD' 000	31 December 2007 USD' 000
TOTAL FINANCE INCOME		
Income from Islamic financing	457	2,735
Income from placements with financial institutions	1,077	2,073
Income from held-to-maturity Sukuks	127	935
	1,661	5,743
TOTAL FINANCE EXPENSE		
Islamic financing expense	(28)	(459)
NET FINANCE INCOME	1,633	5,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

20. EMPLOYEE SHARE OWNERSHIP PLAN

On 1 October 2007, the Group set up an employees share ownership plan (ESOP) under which employees are offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. Each unit represents the rights to the benefits of one equity share in the Bank and the purchase price of these units is to be paid in instalments over a 5 year vesting period upon which the employee will be allotted shares underlying these units. The units carry the rights to the full value of the underlying shares including dividends conditional on completion of the 5 year service period and settlement of the cost of the units. The cost to the Bank, representing the fair value of the units offered, is determined by an independent firm of accountants using the Black-Scholes model, and is 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 15 million shares (maximum) under this scheme. The Group has incorporated VCBank ESOP SPC (ESOP Vehicle), a special purpose vehicle, to hold the shares for the benefits of the participating employees until they vest. The shares were issued to the ESOP vehicle in 2007 and are treated as treasury shares of the Bank until they unconditionally vest to the benefit of the employees.

Until 2007, 8.5 million units had been granted under the terms of the ESOP. During the year, the Bank has granted an additional 6.13 million units to its employees under the terms of the ESOP. The fair value charge of the units granted amounted to USD 2.91 million, of which USD 0.44 million has been charged to consolidated income statement during the year and included in staff costs. The cumulative vesting expense for the year, net of reversals due to forfeitures, amounted to USD 1.27 million. The amount of vesting expense recognised is adjusted to reflect the actual number of share grants that vest.

The model inputs used to determine the fair value of the units granted in 2008 were: the fair value of share on grant date of USD 1.60 per share, the exercise price of USD 1.12 per share, expected volatility of 17.56%, dividend yield (expected dividends) nil and a risk free rate of 2.53%. The expected volatility was determined based on the volatility of a listed comparator.

21. RELATED PARTY TRANSACTIONS

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

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

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

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

	31 December 2008 USD' 000	31 December 2007 USD' 000
Assets		
Investments at fair value through profit or loss	33,945	16,256
Investment in associates	21,959	7,075
Investment in joint ventures	23,762	1,957

	31 December 2008 USD' 000	31 December 2007 USD' 000
Income		
Placement and investment management fees	908	-
Income from Islamic financing	457	2,735
Income from investment banking	8,316	-
Income from securities	8,022	-
Share of profit from associates and joint ventures	365	900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

21. RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2008 USD' 000	31 December 2007 USD' 000
Board remuneration	1,534	1,310
Board member fees	139	106
Salaries and other short-term benefits	10,436	7,473

22. ZAKAH

The Bank is not required to collect or pay Zakah on behalf of its shareholders or restricted investment accounts holders under its Articles of Association, but nevertheless makes contributions to Zakah on retained earnings and reserves based on the recommendations of the Bank's Shari'ah Supervisory Board (SSB). The amount's contributed in this regard are disclosed in the statement of sources and uses of Zakah and charity fund. 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 SSB. Zakah payable by the shareholders in respect of each share for the year ended 31 December 2008 is US cents 0.5360 for every share held (31 December 2007: US cents 1.9461 for every share held).

23. EARNINGS PROHIBITED BY SHARI'AH

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

24. 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.

25. SOCIAL RESPONSIBILITY

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

26. 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 2008 USD' 000	31 December 2007 USD' 000
Proposed dividend - cash	16,500	23,775
Proposed dividend - bonus shares	8,250	-
Directors' remuneration	1,534	1,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group makes estimates and assumptions that effect 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 (f)].

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.

(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 estimating uncertainty

(i) Fair value of investments

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

The future cash flows have been estimated by the management, based on information and 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 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% - 17.50%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company.

The potential income effect of 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 4,292 thousand or increase the fair values by USD 4,209 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 1,908 thousand or reduce the fair values by USD 2,741 thousand respectively.

(ii) Impairment on available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment 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 a 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

28. MATURITY PROFILE

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

2008	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total USD' 000
Assets						
Cash and balances with banks	1,093	-	-	-	-	**1,093**
Placements with financial institutions	31,718	-	-	-	-	**31,718**
Islamic financing receivables	-	5,720	-	-	-	**5,720**
Investment securities	-	-	953	40,295	74,820	**116,068**
Investments in associates and joint ventures	-	-	-	-	16,946	**16,946**
Assets held-for-sale	-	-	23,044	-	-	**23,044**
Investment property	-	-	-	-	8,442	**8,442**
Receivable from investment banking services	484	6,962	-	1,870	-	**9,316**
Other assets	1,378	3,810	4,850	-	16,039	**26,077**
Equipment	-	-	-	-	5,171	**5,171**
Total assets	**34,673**	**16,492**	**28,847**	**42,165**	**121,418**	**243,595**
Liabilities						
Islamic financing payables	-	-	-	288	-	**288**
Employee accruals	12,026	-	-	2,509	-	**14,535**
Other liabilities	3,572	-	-	-	-	**3,572**
Total liabilities	**15,598**	**-**	**-**	**2,797**	**-**	**18,395**
Off-balance sheet items						
Restricted investment account	192	-	-	-	4,423	**4,615**

2007	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total USD' 000
Assets						
Cash and balances with banks	170	-	-	-	-	170
Placements with financial institutions	69,823	-	-	-	-	69,823
Islamic financing receivables	2,546	3,538	-	-	-	6,084
Investment securities	7,800	-	3,305	18,735	39,536	69,376
Investments in associates and joint ventures	-	-	-	-	3,034	3,034
Investment property	-	-	-	9,380	-	9,380
Receivable from investment banking services	-	34,509	-	-	-	34,509
Other assets	9,785	6,400	10,318	-	-	26,503
Equipment	-	-	-	-	3,127	3,127
Total assets	90,124	44,447	13,623	28,115	45,697	222,006
Liabilities						
Islamic financing payables	8,263	-	-	-	411	8,674
Employee accruals	8,821	-	-	-	-	8,821
Other liabilities	1,896	-	-	-	-	1,896
Total liabilities	18,980	-	-	-	411	19,391
Off-balance sheet items						
Restricted investment account	182	-	-	-	4,928	5,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

(a) Industry sector

2008	Trading & Manufacturing	Banks & Financial Institutions	Real Estate	Oil & Gas	Health Care	Technology	Shipping	Others	Total USD' 000
Assets									
Cash and balances with banks	-	1,093	-	-	-	-	-	-	1,093
Placements with financial institutions	-	31,718	-	-	-	-	-	-	31,718
Islamic financing receivables	5,720	-	-	-	-	-	-	-	5,720
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	5,834	-	4,958	16,946
Assets held-for-sale	-	-	23,044	-	-	-	-	-	23,044
Investment property	-	-	8,442	-	-	-	-	-	8,442
Receivable from investment banking services	339	-	2,947	-	4,647	295	525	563	9,316
Other assets	93	-	11,364	218	951	780	34	12,637	26,077
Equipment	-	-	-	-	-	-	-	5,171	5,171
Total assets	**19,557**	**33,648**	**118,089**	**15,027**	**9,320**	**6,909**	**14,733**	**26,312**	**243,595**
Liabilities									
Islamic financing payables	-	288	-	-	-	-	-	-	288
Employee accruals	-	-	-	-	-	-	-	14,535	14,535
Other liabilities	-	-	-	-	-	-	-	3,572	3,572
Total liabilities	**-**	**288**	**-**	**-**	**-**	**-**	**-**	**18,107**	**18,395**
Off balance sheet assets									
Restricted investment accounts	-	3,310	1,305	-	-	-	-	-	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

USD' 000

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

(a) Industry sector (continued)

2007	Trading & Manufacturing	Banks & Financial Institutions	Real Estate	Oil & Gas	Health Care	Technology	Shipping	Others	Total USD' 000
Assets									
Cash and balances with banks	-	170	-	-	-	-	-	-	170
Placements with financial institutions	-	69,823	-	-	-	-	-	-	69,823
Islamic financing receivables	-	-	2,546	-	-	-	-	3,538	6,084
Investment securities	1,209	8,721	23,052	9,913	-	4,941	3,305	18,235	69,376
Investment in associates and joint ventures	-	-	134	-	-	-	-	2,900	3,034
Investment property	-	-	9,380	-	-	-	-	-	9,380
Receivable from investment banking services	9,552	-	24,857	-	-	100	-	-	34,509
Other assets	-	-	-	-	-	6,550	14,358	5,595	26,503
Equipment	-	-	-	-	-	-	-	3,127	3,127
Total assets	10,761	78,714	59,969	9,913	-	11,591	17,663	33,395	222,006
Liabilities									
Islamic financing payables	-	8,674	-	-		-	-	-	8,674
Employee accruals	-	-	-	-	-	-	-	8,821	8,821
Other liabilities	-	-	-	-		-	-	1,896	1,896
Total liabilities	-	8,674	-	-	-	-	-	10,717	19,391
Off balance sheet assets									
Restricted investment accounts	-	3,280	1,830	-	-	-	-	-	5,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

USD' 000

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

(b) Geographic region

2008	GCC Countries	Other MENA Countries	Global	Cayman/ Americas	Total USD' 000
Assets					
Cash and balances with banks	1,093	-	-	-	1,093
Placement with financial institutions	31,718	-	-	-	31,718
Islamic financing receivables	-	5,720	-	-	5,720
Investment securities	82,397	20,571	13,000	100	116,068
Investment in associates and joint ventures	14,288	1,958	-	700	16,946
Assets held-for-sale	23,044	-	-	-	23,044
Investment property	8,442	-	-	-	8,442
Receivable from investment banking services	8,417	375	524	-	9,316
Other assets	25,627	198	34	218	26,077
Equipment	5,171	-	-	-	5,171
Total assets	**200,197**	**28,822**	**13,558**	**1,018**	**243,595**
Liabilities					
Islamic financing payable	288	-	-	-	288
Employee accruals	14,535	-	-	-	14,535
Other liabilities	3,204	368	-	-	3,572
Total liabilities	**18,027**	**368**	**-**	**-**	**18,395**
Off balance sheet assets					
Restricted investment accounts	4,615	-	-	-	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

(b) Geographic region (continued)

2007	GCC Countries	Other MENA Countries	Global	Cayman/ Americas	Total USD' 000
Assets					
Cash and balances with banks	170	-	-	-	170
Placement with financial institutions	69,823	-	-	-	69,823
Islamic financing receivables	6,084	-	-	-	6,084
Investment securities	56,037	5,239	-	8,100	69,376
Investment in associates and joint ventures	134	2,000	-	900	3,034
Investment property	9,380	-	-	-	9,380
Receivable from investment banking services	24,957	9552	-	-	34,509
Other assets	7,260	13,067	5,934	242	26,503
Equipment	3,127	-	-	-	3,127
Total Assets	176,972	29,858	5,934	9,242	222,006
Liabilities					
Islamic financing payable	8,674	-	-	-	8,674
Employee accruals	8,821	-	-	-	8,821
Other liabilities	1,896	-	-	-	1,896
Total liabilities	19,391	-	-	-	19,391
Off balance sheet assets					
Restricted investment accounts	5,110	-	-	-	5,110

30. FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group acting as the custodian of the assets and or making decisions on behalf of such entities in a fiduciary capacity. Assets that are held in such capacity are not included in these consolidated financial statements. At the balance sheet date, the Group had fiduciary assets under management of USD 650 million (2007: USD 181 million.)

31. COMMITMENTS AND CONTINGENCIES

The Group has issued letter of guarantee for USD 17.48 million (2007: USD 2.66 million) in respect of its development projects, on which no losses are expected. Also, at 31 December 2008, the Group had commitments to make investments totalling USD 2.27 million (2007: USD 27.17 million).

Operating lease commitments

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

Payable	31 December 2008 USD' 000	31 December 2007 USD' 000
Within one year	1,040	858
Two to five years	2,394	3,433
	3,434	4,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

The Group has put in place policies and procedures for managing credit risks to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counter party 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 2008. The Bank does not hold collateral against any of its exposures as at 31 December 2008. The Bank does not have significant receivables which are past due.

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. The gross carrying value of available-for-sale investments that are impaired is USD 12,250 thousand (2007: USD 8,143 thousand) and the cumulative impairment allowance recognised is USD 8,972 thousand (2007: USD 7,264 thousand).

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 29.

c) Liquidity risk

Liquidity risk is defined as the risk that the Group will not have funds to meet liabilities as they fall due. The 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 maturity profile of assets and liabilities is set out in note 28.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

32. RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

Profit rate risk

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

	2008	2007
Placements with financial institutions	3.09%	5.00%
Islamic financing receivables	3.00%	15.00%
Held-to-maturity securities	-	7.20%
Islamic financing payables	4.70%	5.85%

Currency risk

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

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

	31 December 2008 USD' 000	31 December 2007 USD' 000
Kuwaiti Dinars	3,338	4,783
Saudi Riyals	5,751	13,326
UAE Dirhams	-	28,759
Euro	18	-

A 10% strengthening/weakening of the USD against the Kuwaiti Dinars at 31 December 2008 would have decreased/ increased the profit by USD 334 thousand (2007: USD 478 thousand). This analysis assumes that all other variables, in particular profit rates, remain constant.
Saudi Riyals and UAE Dirhams are pegged to USD and there is no significant currency risk arising from these two currencies.

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 27 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.

Equity price risk

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

e) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The 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 Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to risk-weighted assets. The Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

32. RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

f) Capital management (continued)

With effect from 1 January 2008 the Bank is required to comply with the provisions of the revised Capital Adequacy Module of the CBB (revised based on the Basel II framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit risk and basic indicator approach to measure operational risk management under the revised framework. There has been no significant change in the amount of available regulatory capital under the two norms. Further, as the Bank has not migrated to advanced approach for computation of risk weighted assets and it has not claimed any of the benefits under permissible credit risk mitigation, there is no significant change in the measurement of risk weighted assets for credit risk.

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

Capital adequacy	31 December 2008 USD' 000	31 December 2007 USD' 000
Total risk weighted assets	463,494	229,430
Tier 1 capital	174,149	165,517
Tier 2 capital	41,485	32,481
Total regulatory capital	215,634	197,998
Total regulatory capital expressed as a percentage of total risk weighted assets	47%	86%

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

33. FAIR VALUE

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than certain unquoted available-for-sale investments of USD 36,325 thousand (2007: USD 14,196 thousand) and investment in Sukuk of Nil (2007: 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 (USD' 000):

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
Islamic financing receivables	-	-	-	5,720	-	-	5,720
Investments securities	4,646	69,820	-	-	41,602	-	116,068
Receivable from investment banking services	-	-	-	9,316	-	-	9,316
Other assets	-	-	-	26,077	-	-	26,077
Total financial assets	**4,646**	**69,820**	**-**	**73,924**	**41,602**	**-**	**189,992**
Liabilities							
Islamic financing payable	-	-	-	-	-	288	288
Other liabilities	-	-	-	-	-	3,572	3,572
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**3,860**	**3,860**
Off-balance sheet items							
Restricted investment accounts	-	-	-	192	4,423	-	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

33. FAIR VALUE (continued)

2007	Trading	Designated at fair values	Held-to-maturity	Loans and receivables	Available -for-sale	Other amortised cost	Total carrying amount
Assets							
Cash and balances with banks	-	-	-	170	-	-	170
Placements with financial institutions	-	-	-	69,283	-	-	69,283
Islamic financing receivables	-	-	-	6,084	-	-	6,084
Investments securities	1,396	34,536	7,800	-	25,644	-	69,376
Receivable from investment banking services	-	-	-	34,509	-	-	34,509
Other assets	-	-	-	26,503	-	-	26,503
Total financial assets	1,396	34,536	7,800	136,549	25,644	-	205,925
Liabilities							
Islamic financing payable	-	-	-	-	-	8,674	8,674
Other liabilities	-	-	-	-	-	1,896	1,896
Total financial liabilities	-	-	-	-	-	10,570	10,570
Off-balance sheet items							
Restricted investment accounts	-	-	-	183	4,927	-	5,110

34. EARNINGS PER SHARE

Basic earning 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 period ended 31 December as follows:

	31 December 2008 USD' 000	31 December 2007 USD' 000
Profit for the year attributable to shareholders of the parent	47,621	32,301
Weighted average number of equity shares (in 000's)	150,000	82,602
Basic earnings per share (in US cents)	31.75	39.10

Diluted earning 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 2008 USD' 000	31 December 2007 USD' 000
Profit for the year attributable to shareholders of the parent	47,621	32,301
Weighted average number of shares - basic (in 000's)	150,000	82,602
Effect of ESOP shares (in 000's)	5,641	2,885
Weighted average number of shares - diluted (in 000's)	155,641	85,487
Diluted earnings per share (in US cents)	30.60	37.78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

A number of new relevant standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and therefore have not been applied in preparing these consolidated financial statements:

- IAS 1 Presentation of financial statements (effective for annual period beginning on or after 1 January 2009);
- IAS 23, Borrowing costs (effective for annual period beginning on or after 1 January 2009);
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (effective for annual period beginning on or after 1 January 2009; and
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual period beginning on or after 1 January 2009)

The adoption of these standards and interpretations and certain other amendments to existing standards with varied effective dates made by International Accounting Standards Board as part of its first annual improvements project are not expected to have any material impact on the financial statements.

36. COMPARATIVES

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

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BASEL 2
PILLAR 3 DISCLOSURE

AS AT 31 DEC 08

1. Capital Structure

Capital Base

1.1 The authorized share capital of VCBank is 500 million shares of USD 1 each. During 2007, the Bank increased its paid up capital from the initial capital of USD 66 million to USD 150 million comprising 150 million shares of USD 1 each through a rights issue and a private placement to new strategic investors. In addition, 15 million shares of USD 1 each have been authorized by the shareholders for allocation to the Bank's Employee Share Ownership Plan ("ESOP").

1.2 In early 2009, VCBank plans to increase its issued capital from USD 165 million to USD 250 million par value. This capital increase will bolster the Bank's capital base to enable it to:

a. Capitalize on the current market conditions to opportunistically and swiftly 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;
d. Provide the Bank with a cushion against any unforeseen adverse market conditions in the future.

1.3 Notwithstanding these principal objectives, the capital increase is also anticipated to introduce new strategic investors who will give greater stability and financial muscle to the Bank, and position the Bank for an eventual IPO.

1.4 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	90%
The Lime Restaurants Management & Catering Services Co. WLL	Bahrain	BHD 20,000	100%

1.5 Review of financial performance:
The Bank commenced operations in October 2005 with a paid up capital of USD 66 million, and has registered significant returns in the past three years as indicated below.

Particulars	2006	2007	2008
Net profit (USD m)	13.26	32.3	47.0
ROE (Return on average equity)	20%	33%	27%
Cost to Income ratio	46%	41%	43%
Staff cost to total income	25%	28%	25%
Number of employees	26	50	79
Total investments to total assets	43%	36%	69%
Leverage (total liabilities / total equity)	14%	10%	8%
Retained earnings to paid up capital	6%	8%	22%

As shown by the financial statements, investment advisory and structuring income comprise the main contributor to net profit, representing approximately 75% of gross income over the past three years. 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. Increasing the Bank's capital as explained in 1.2 above is an important constituent of its plan.

Capital Adequacy Management Program

1.6 VCBank'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.

1.7 To manage its capital, VCBank 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.

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1.8 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.

1.9 VCBank 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. VCBank 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 gross income as a basis for the calculation of capital charges for operational risk.

1.10 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 equity 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.

1.11 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.

1.12 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.

1.13 Currently, the Bank is revising its business strategy and refining its capital management program, including the development of a formal Internal Capital Adequacy Assessment Program (ICAAP). This process, including Board ratification of both the strategy and ICAAP, is targeted for completion this year.

1.14 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.

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

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Table 1: Regulatory Eligible Capital

Details of eligible capital base	USD '000
Tier 1 Capital	
Share capital	165,000
Less: Unvested shares of ESOP	(15,000)
Share premium	13,533
Statutory reserve	9,314
Prior year retained earnings b/fwd	6,802
Retained earnings of current year	31,704
Minority interest	13
Less: deductions	
Goodwill	(3,430)
Unrealized losses in AFS reserve	(85)
Other	(309)
Total Tier 1 capital	207,542
Tier 2 Capital	
ESOP equity reserve	3,073
Unrealized fair value gains (45%)	5,020
Total Tier 2 capital	8,093
Total Eligible Capital (Tier 1 + Tier 2)	215,635

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Table 2 – details of exposures

Details of exposures and capital requirement (USD '000)	Gross exposures	Risk weighted exposures	Capital charge
Credit risk:			
Exposures to banks	32,811	6,650	798
Exposures to corporates	40,920	40,920	4,910
Investments in listed equities in banking book	5,277	5,277	633
Investments in unlisted equities in banking book	72,597	108,896	13,067
Investments in real estate	83,115	166,230	19,948
Other exposures	22,494	22,494	2,699
Total credit risk exposure under standardized approach	257,213	350,466	42,056
Market risk:			
Trading equities position	4,646	9,292	1,115
Foreign exchange position	3,045	3,045	365
Total market risk under standardized approach	7,691	12,337	1,480
Operational risk under Basic Indicator Approach (ref. below)		100,692	8,055
Total		463,494	51,592
Total eligible capital - (Tier 1 + Tier 2)		215,635	
Total eligible capital - Tier 1		207,542	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		47%	
Tier 1 Capital Adequacy Ratio		45%	

Capital requirement for Operational Risk (Basic Indicator Approach) (USD '000)	2006	2007	2008
Gross income for year	24,660	54,398	82,048
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

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 (USD '000)

Particulars	31-Mar-08	30-Jun-08	30-Sep-08	31-Dec-08	Maximum	Minimum
Market risk exposures						
Listed equities held for trading	3,185	3,499	3,872	4,646	4,646	3,185
Foreign currency exposure	5,889	6,421	4,870	3,045	6,421	3,045
Market risk weighted exposure						
Listed equities held for trading	6,370	6,999	7,744	9,292	9,292	6,370
Foreign currency exposure	5,889	6,421	4,870	3,045	6,421	3,045
Total market risk weighted exposure	12,259	13,420	12,614	12,337		

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2. Risk Management

Risk Governance Structure

2.1 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 Counter party 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)

2.2 An understanding of risk-taking and transparency in risk-taking are key elements in VCBank'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

2.3 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 reporting 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 also independent of both operations and the Bank's investments units, also assists in the risk management process. In particular, Internal Audit is charged with a periodic review of the effectiveness of VCBank's policies and internal controls, including those relating to the risk management process.

2.4 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 in 2 above) are carried out in accordance with the annual audit plan. Furthermore, Internal Audit also intends to evaluate the adequacy of the Bank's capital management program, particularly the ICAAP, once such program is formally introduced later in 2009. A follow up audit to ascertain the status of implementation of observations previously made by internal or external audit is also planned during 2009.

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

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Credit and Counter party Credit Risk Management (PD 1.3.22 + 1.3.26)

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

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

2.7 The credit risk exposures faced by VCBank 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.

2.8 VCBank uses the Standardised 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 recognised by the CBB e.g. S&P, Fitch, Moody's and Capital Intelligence for its banks' counter party 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 "highly leveraged institution

2.9 All lines of counter party 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

2.10 VCBank does not participate in securitisation 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.

Off-Balance Sheet Items

2.11 The Bank's off-balance sheet items comprise

a. a small contingent exposure (USD17.5 mil) associated with the issuance of short term letters of credit and 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; and

b. restricted investment accounts of USD4.6 million (See financial statements for details.

Concentration Risk

2.12 Concentration of risks arises when a number of obligors, counter parties 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.

2.13 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.

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2.14 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	1,093	0	0	0	1,093
Placement with financial institutions	31,718	0	0	0	31,718
Islamic financing receivables	0	5,720	0	0	5,720
Investment securities	82,397	20,571	13,000	100	116,068
Investments in associates and joint ventures	14,288	1,958	0	700	16,946
Assets held for sale	23,044				23,044
Investment property	8,442	0	0	0	8,442
Receivable from investment banking services	8,417	375	525	0	9,316
Other assets	25,627	198	34	218	26,077
Equipment	5,171	0	0	0	5,171
Total Assets	200,197	28,822	13,559	1,018	243,595
Off balance sheet assets					
Restricted investment accounts	4,615				4,615
Contingent items	17,477		0		17,477
	222,289	28,822	13,559	1,018	265,687
Percentage exposure by geographic sector	84%	11%	5%	0.4%	100%

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

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

Industry sector	Trading & Manufacturing	Banks & financial institutions	Real estate related	Oil and Gas	Health Care	Technology	Shipping	Others	Total USD'000
On balance sheet									
Cash and balances with banks	-	1,093	-	-	-	-	-	-	1,093
Placements with financial institutions	-	31,718	-	-	-	-	-	-	31,718
Islamic financing receivables	5,720	-	-	-	-	-	-	-	5,720
Investment securities	13,405	837	54,012	14,109	-	-	14,174	19,531	116,068
Investments associates and joint ventures	-	-	1,732	700	3,722	5,834	-	4,958	16,945
Assets held for sale	-	-	23,044	-	-	-	-	-	23,044
Investment property	-	-	8,442	-	-	-	-	-	8,442
Receivable from investment banking services	339	-	2,947	-	4,647	295	525	563	9,316
Other assets	93	-	11,364	218	951	780	34	12,637	26,077
Equipment	-	-	-	-	-	-	-	5,171	5,171
Total on balance sheet	19,557	33,648	101,541	15,027	9,320	6,909	14,733	42,859	243,595
Off balance sheet exposures									
Restricted investment accounts	-	3,310	1,305	-	-	-	-	-	4,615
Contingent items	2,764	-	14,713	-	-	-	-	-	17,477
Total gross credit exposure	22,321	36,958	117,559	15,027	9,320	6,909	14,733	42,859	265,687
Percentage of gross exposure by sector	8%	14%	44%	6%	4%	3%	6%	16%	100%

Note: The classifications of sectoral exposure differs from that in note 29(a) to the financial statements in respect of certain investment securities, for internal management reporting purposes, where investments totalling USD 16,548 are classified as other than real estate due to their underlying business nature.

c. Table 5: Exposure by Maturity

Credit exposure by Maturity	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total USD'000
Assets						
Cash and balances with banks	1,093	-	-	-	-	1,093
Placements with financial institutions	31,718	-	-	-	-	31,718
Islamic financing receivables	-	5,720	-	-	-	5,720
Investment securities	-	-	953	40,295	74,820	116,068
Investments in associates and joint ventures	-	-	-	-	16,946	16,946
Assets held for sale	-	-	23,044	-	-	23,044
Investment property	-	-	-	-	8,442	8,442
Receivable from investment banking services	484	6,962	-	1,870	-	9,316
Other assets	1,378	3,810	4,850	-	16,039	26,077
Equipment	-	-	-	-	5,171	5,171
Total assets	34,673	16,492	28,847	42,165	121,418	243,595
Off-balance sheet items						
Restricted investment accounts	192	-	-	-	4,423	4,615
Contingent items	-	-	-	17,478	-	17,478
	34,865	16,492	28,847	59,643	125,841	265,688

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

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Market Risk Management

2.15 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.

2.16 VCBank'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

2.17 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.

2.18 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.

2.19 VCBank 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 VCBank are lower than at institutions having multi-location or retail operations.

2.20 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, at a timely basis, any erroneous or improper transactions which may have occurred.

2.21 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 has a Business Continuity Plan to mitigate the risk of loss from business disruption due to unexpected events.

Legal Risks

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

2.23 VCBank'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

2.24 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)

2.25 VCBank 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.

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2.26 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". VCBank 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.

2.27 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

2.28 VCBank 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.

2.29 The details of the impairment provisions made in the year 2008 is depicted in the table below:

Particulars (USD'000)	Impairment booked in 2008	Impairment booked in prior years	Total impairment recognized	Carrying value
Listed AFS securities in the GCC	6,390	2,583	8,973	5,276
Investment projects of VCBank	173	576	749	-
Total	6,563	3,159	9,722	5,276

Unrealised Fair Value Gains

2.30 The Bank's investments which are designated at fair value through income are re-valued at every half calendar year and the gains / (losses) are recognized in the income statement in accordance with the relevant Internal Financial Reporting Standards. The valuations are performed by the Bank's investment functions 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, presented to the Board's Finance and Investment Committee for approval.

Particulars (USD'000)	2008	2007	Total
Private Equity investments	3,300	3,108	6,408
Real Estate investments	7,826	-	7,826
Venture Capital investments	-	518	518
Total unrealized fair value gains	11,126	3,626	14,752

Liquidity Risk Management

2.31 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.

2.32 VCBank does not currently have any borrowings or other commitments which may expose it to significant funding liquidity risk; as the Bank funds its assets through internal accruals and shareholders equity. See Note 28 to Financial Statements.

2.33 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 VCBank 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 204% at 31 Dec 2008. and 368% at 31 Dec 2007.

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Liquidity ratio (USD'000)	2008	2007
Cash at bank	1,093	170
Placements at Bank	31,718	69,823
Marketable securities	4,646	1,396
Total liquid assets	37,457	71,389
Liabilities	18,396	19,392
Liquidity ratio	204%	368%

Profit Margin Rate Risk Management in the Banking Book

2.34 As a financial intermediary, VCBank 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.

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

Position @ 31Dec 2008 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	32,810.8	-	32,810.8	32,810.8	656.2
> 3 months to 6 months	-	-	-	32,810.8	-
> 6 months to 12 months	-	-	-	32,810.8	-
> 1 year to 5 years	-	-	-	32,810.8	-
> 5 years	-	288.2	(288.2)	32,522.6	5.8

2.36 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 USD656k if profit margin rate decreases by 200 basis points.

b. The Bank's net profit margin income for the repricing period of >5 years would potentially decrease by USD6k if profit margin rate increases by 200 basis points.

Restricted Investments Accounts (RIA) and Displaced Commercial Risk (DCR)

2.37 VCBank's exposure to Displaced Commercial Risk is limited to its GCC Pre IPO Fund, which is a Restricted Investment Account (RIA) set up to invest in the shares of unlisted GCC companies in the pre-IPO stage. The total size of the fund is relatively small, as the total investors fund under investment is only USD 5.14 million. The Bank manages the fund as mudarib, in exchange for a fee of 20% of returns over a 10% simple return. 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 fund is detailed in the consolidated statement of changes in restricted investment accounts of the audited financial statements.

Each RIA product goes through the normal investment process within the Bank. RIA is not a general product of the Bank and there is currently only one RIA which is the GCC Pre IPO Fund. For details on the investments and assets for RIA, please refer to the RIA statement in the financial statements and for the Bank's accounting policy on RIA, please refer to note 2(p) to the financial statements. As shown by the financial statements, the GCC Pre IPO Fund has been affected by the poor performance of the GCC equity markets in the past year, due to which the value of the Fund's investments has declined by approximately USD 685k. However, it is expected that the Fund's investments, which are in fundamentally sound and well managed companies, will recover going forward.