Annual Report 2010

FIVE PROGRESSIVE YEARS

VENTURE
CAPITAL
BANK

VENTURE CAPITAL BANK B.S.C.(C)
Venture Capital Bank Building

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Kingdom of Bahrain

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Licensed as an Islamic Wholesale Bank by the CBB


بسم الله الرحمن الرحيم
وما توفيقي إلا بالله
عليه توكلت وإليه أنيب
صدق الله العظيم

CONTENTS

GROWTH (AVERAGE)

72%
Assets under Management

33%
Shareholders' Equity

30%
Total Assets

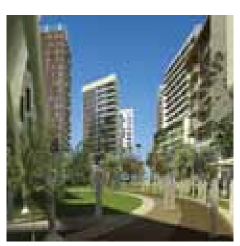
2010
Total Equity: US$ 240 Million
AUM : US$ 714 Million
Total Income: US$ 16 Million

2009
Total Equity: US$ 286 Million
AUM : US$ 672 Million
Total Income: US$ 32 Million

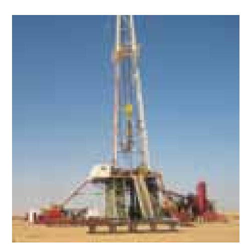
2008
Total Equity: US$ 225 Million
AUM : US$ 650 Million
Total Income: US$ 82 Million

2007
Total Equity: US$ 203 Million
AUM : US$ 181 Million
Total Income: US$ 54 Million

2006
Total Equity: US$ 80 Million
AUM : US$ 47 Million
Total Income: US$ 25 Million


Saudi Venture Capital Investment Company


Gulf Projects Company (GPC)


Challenger Limited


Lemissoler Maritime Company


Jebel Ali Labour Accommodation


German Orthopaedic Hospital

INVESTMENTS

Focused on the MENA region, VCB's strategy primarily involves targeting attractive private equity opportunities, and supporting fundamentally-sound and well-managed small-to-medium enterprises (SMEs) in order to provide investors with sustainable value and long-term returns. The Bank also invests in differentiated and demand-led real estate projects.

During its first five years of operations, VCBank has provided clients with a number of innovative investments, many of them the first of their kind in the region. These include the VCB Liquidity Programme, the Venture Capital Fund, and the MENA SME Fund; the German Orthopaedic Hospital and Royal Maternity Hospital; Challenger Limited, JAFCCO and Lemissoler Maritime Company; and Jebel Ali Labour Accommodation.

The most successful investment exits to date were executed by Gulf Projects Company, which is the owner and operator of VCBank Building in Bahrain. The first exit provided a 139% ROI with an IIR of 35% over 3 years; the second provided an 82% ROI with an IIR of 27% over 2 years.

OPERATIONS & SUPPORT

VCBank has put in place a robust and responsive Operations and Support function, which has evolved in line with the growth in the Bank's business activities and number of staff. From just 5 employees in October 2005, when VCBank commenced operations, the headcount had risen to 50 at the end of 2007. The move to the new purpose-built head office – Venture Capital Bank Building in the Diplomatic Area of Manama, Bahrain – provided the space and facilities for staff numbers to grow to meet the demands of the fast-growing business, especially in the critical area of back office operations. At the end of 2008, the headcount had risen to 90.

In 2008, the Operations & Support Group was enhanced and expanded, with the introduction of a dedicated Operations department and a new Treasury team. The Group also includes Financial Control, Human Resources, Shareholder & Investor Relations, Information Technology and Corporate Communications. Also during the year, the Bank's corporate governance structure was strengthened. This now comprises Internal Audit, Compliance, Risk Management, and Shari'ah Coordination & Review.

VENTURE CAPITAL BANK (VCBANK) IS THE FIRST ISLAMIC INVESTMENT BANK IN THE GCC AND MENA TO SPECIALISE IN VENTURE CAPITAL INVESTMENT OPPORTUNITIES. IN 2010, THE BANK COMPLETED ITS FIRST FIVE YEARS OF OPERATIONS.

5 PROGRESSIVE YEARS

Incorporated in the Kingdom of Bahrain in October 2005, VCBank operates under an Islamic wholesale investment banking licence from the Central Bank of Bahrain. With an authorised capital of US$ 500 million and paid-up capital of US$ 250 million, the Bank benefits from the financial backing and support of a prominent 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 array of superior services and unique investment opportunities across a number of promising assets 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.

STRONGLY CAPITALISED AT US$ 250 MILLION, WITH LIQUID ASSETS OF US$ 14 MILLION, AND CURRENTLY UNLEVERAGED, VCBANK IS A FINANCIALLY STRONG AND SOLID INSTITUTION, WITH A PROFITABLE AND GROWING VENTURE CAPITAL AND PRIVATE EQUITY PORTFOLIO, AND ASSETS UNDER MANAGEMENT MORE THAN 1 BILLION US$.

New Investments

- Acquired 12% stake in Qatar Engineering & Construction Company (QCON), a leading EPC contracting company in Qatar.
- One Bahrain, a sharia- Compliant hospitality and residential project, located on the prestigious Reef Island development off the North coast of Manama

Existing Investments

- Saudi Venture Capital Investment Company incorporated in Saudi Arabia.
- Second successive year of dividend distribution (9%) by Lemissoler Maritime Company.
- Execution of two high-value exits by Gulf Projects Company for VCB Building in Bahrain.
- Launched first-of-its-kind German Orthopaedic Hospital in Bahrain.
- Four of the five new production lines of JAFCCO's expansion project were commissioned.
- Construction of Jebel Ali Labour Accommodation project on track for completion in 2011.
- All drilling rigs of Challenger Limited were leased and operational at the end of the year.

Operations & Support

- VCB provided HR, IT and Communications consultancy to new portfolio companies.
- The Bank maintained headcount and filled vacancies from within the organisation.
- VCB signed agreement with Tamkeen for career progression training of junior staff.
- New information security process implemented.
- Planning of new Disaster Recovery Site finalised for implementation in 2011.
- Testing of new CRM system successfully completed.
- Treasury established new lines with Islamic financial institutions outside Bahrain.
- Enhancing the Bank's Corporate governance and risk management framework, with particular emphasis on compliance with the changing regulatory rules and requirements.
- Provide consultancy services by the Bank's human resources, information technology and corporate communications teams of VCBank portfolio companies.

CHAIRMAN'S STATEMENT

Dr. Ghassan Ahmed Al Sulaiman
Chairman

STRONGLY CAPITALISED AT US$ 250 MILLION, WITH LIQUID ASSETS OF US$ 14 MILLION, AND CURRENTLY UNLEVERAGED, VCBANK IS A FINANCIALLY STRONG AND SOLID INSTITUTION, WITH A PROFITABLE AND GROWING VENTURE CAPITAL AND PRIVATE EQUITY PORTFOLIO, AND ASSETS UNDER MANAGEMENT OF US$ 714 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 COMPANIONS AND RELATIVES.

On behalf of the Board of Directors, it is my privilege to present the fifth annual report of Venture Capital Bank (VCBank) for the year ended 31 December 2010. Given the aftermath of the global financial crisis – and its ongoing impact on the MENA region – this has proved to be a very difficult year for the industry and our Bank.

Key challenges included a continued lack of liquidity, heightened risk aversion by investors, and a depressed real estate sector. As a result, it became very difficult to secure funding; investors took a 'wait-and-see' approach to new investments; and real estate asset values continued to decline, with many projects being cancelled or put on hold.

Despite such challenging market conditions, I am pleased to report that VCBank achieved strong operational growth in 2010. We launched and placed a number of new investment offerings and maintained a reasonable growth in our venture capital and private equity portfolios, while adopting a prudent and professional approach to managing our real estate portfolio.

These achievements illustrate the validity of the Bank's differentiated business model and investment strategy. Focused on the MENA region, our strategy primarily involves targetting attractive private equity opportunities, and supporting fundamentally-sound and well-managed small-to medium enterprises (SMEs), in order to provide investors with sustainable value and long-term returns.

To support our future strategic progress and business development, we continued to build the institutional capability of the Bank in 2010. We maintained our investment in human capital and information technology, and further streamlined our back office operating processes.

However, as with other banks, we have not been immune to the on-going market turmoil, and consequently, the Board took a decision to book very conservative provisions in order to protect the balance sheet and protect the investment portfolio of all potential impairments. As a result, we have reported impairment provisions totalling US$ 31 million in 2010, in addition to recognising a fair value loss of US$ 15.1 million on a real estate project designated at fair value through profit or loss, due to the current market circumstances. Consequently, the Bank recorded a net loss of US$ 47 million for 2010 compared with a profit of US$ 11 million in 2009.

I would like to stress that this loss should not be interpreted as a negative reflection of the Bank's financial position or capabilities. Strongly capitalised at US$ 250 million, with liquid assets of US$ 14 million, and currently unleveraged, VCBank is a financially strong and solid institution, with a profitable and growing venture capital and private equity portfolio, and assets under management of US$ 714 million.

During our first five years of operations, VCBank has grown rapidly, recording a compound annual growth rate of 30 per cent for total assets, 33 per cent for shareholders' equity, and 72 per cent for assets under management.

On behalf of the Board of Directors, I extend my sincere appreciation to His Majesty the 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. With their continued support and hard work, and the guidance and blessings of Allah most Beneficent, I look forward to recovery and greater success during the coming years.

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

Dr. Ghassan Ahmed Al-Sulaiman
Chairman

BOARD OF DIRECTORS

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

2. Abdulfatah MohammedRafei Marafie
Deputy Chairman
State of Kuwait

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

4. Ali Mousa Al Mousa
Board Member
State of Kuwait

5. Marwan Ahmad Al Ghurair
Board Member
United Arab Emirates

6. Saleh Mohammed Al Shanfari
Board Member
Sultanate of Oman

7. Nedhal Saleh Al Aujan
Board Member
Kingdom of Bahrain

8. Mohammed Bin Sulaiman Abanumay
Board Member,
Kingdom of Saudi Arabia

9. Ibrahim Hamad Al Babtain
Board Member,
Kingdom of Saudi Arabia

10. Ajlan Abdulaziz Al Ajlan
Board Member
Kingdom of Saudi Arabia

11. Sulaiman Ibrahim Al Hudaithi
Board Member
Kingdom of Saudi Arabia

12. Abdulhadi Treheeb Al Shahwani
Board Member
State of Qatar

Shaikh Nidham Mohammed Saleh Yaqooby
Chairman

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

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Member

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

Dr. Essa Zaki Essa
Member

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

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

REPORT OF THE CHIEF EXECUTIVE OFFICER

Abdullatif Mohammed Janahi
Board Member and Chief Executive Officer

IN YET ANOTHER EXTREMELY CHALLENGING ENVIRONMENT, VCBANK ACHIEVED STRONG OPERATIONAL GROWTH IN 2010

DURING OUR FIRST FIVE YEARS OF OPERATIONS, VCBANK HAS MADE EXCELLENT PROGRESS IN ESTABLISHING THE CONCEPT OF VENTURE CAPITAL BANKING IN THE MENA REGION.

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 Companions and Relatives.

During our first five years of operations, VCBank has made excellent progress in establishing the concept of venture capital banking in the MENA region, and spearheading support for the development of small-and-medium enterprises (SMEs). We have also built a strong and professional support infrastructure that provides a solid foundation for future business growth. These achievements are all the more remarkable given that half this period was marked by the most severe global financial crisis and economic downturn for over 75 years.

In yet another extremely challenging environment, VCBank achieved strong operational growth in 2010. On the business front, we continued to maintain the profitability of our venture capital and private equity portfolios, while we proactively managed our real estate portfolio in the light of testing market conditions. Organisationally, we continued to build the Bank's institutional capability, enhancing our operations and support functions, and strengthening our corporate governance and risk management framework.

INVESTMENTS

VCBank completed a number of new investments in 2010. These include the acquisition by the MENA SME Fund of a 12 per cent stake in Qatar Engineering & Construction Company (QCON), a leading engineering, procurement and construction (EPC) contracting company; and an investment by the Venture Capital Fund in Dar Alwasmi Company, a Bahrain-based custom wooden furniture manufacturer. The Bank also seeded the establishment of Tatweer Consultancy Company, which will provide customised advisory services in critical control areas such as corporate governance, risk management, internal audit and compliance.

The Bank's existing venture capital and private equity investments made good progress during the year. Highlights include the incorporation of Saudi Venture Capital Investment Company, which will focus on SMEs in the Kingdom of Saudi Arabia; the second successive year of dividend distributions by Lemissoler Maritime Company; the opening of the German Orthopaedic Hospital; and the execution of two high-value exits by Gulf Projects Company, which owns and manages the Venture Capital Building in Manama, Bahrain. In addition, placements of the VCB Liquidity Programme and the Royal Maternity Hospital were completed; four of the five production lines of the new expansion project by Jordan Al Abyad Fertilizers & Chemicals Company were commissioned; construction of the Jebel Ali Labour Accommodation complex continued on track; and all 30 oil and gas drilling rigs of Challenger Limited were leased and operational at the end of the year.

During 2010, VCBank continued to manage its real estate portfolio in a prudent and ethical manner. The majority of projects have no significant outstanding commitments to investors or contactors, and are not heavily leveraged, while all land for these projects is fully-owned by the Bank.

OPERATIONS AND SUPPORT

During 2010, we continued to enhance the institutional capability of the Bank in order to support the growth and development of our business activities. On the human resources front, we maintained headcount and filled a number of vacancies from within the organisation; continued to invest in training and development; and signed an agreement with Tamkeen for the training and career progression of junior staff. Key information technology developments include implementation of a new information security process; testing of the new customer relationship management (CRM) system; and finalisation of plans for a new online disaster recovery site.

A notable development during the year was the provision of consultancy services by the Bank's human resources, information technology and corporate communications teams for new VCBank portfolio companies. These include the German Orthopaedic Hospital, Royal Maternity Hospital, and Saudi Venture Capital Investment Company. Also during 2010, we conducted a comprehensive review of all policies, procedures and processes across the Bank, and enhanced our corporate governance and risk management framework, with particular emphasis on compliance with changing regulatory rules and requirements.

LOOKING AHEAD

Our business achievements during 2010, and in the five years since inception, underline the success of the Bank's MENA-based investment strategy. The core focus of our venture capital and private equity investment approach is to harness the potential of largely untapped business opportunities across the region. We identify and invest in undervalued or underfunded companies with strong growth potential, which are seeking access to capital and additional technical and operational support to facilitate growth and expansion. 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.

Against the backdrop of current and future challenging market conditions, highlighted by continued uncertainty and lack of clarity, I remain confident that our business and operational achievements to date will enable the Bank to continue to protect the interests of all stakeholders, and advance our strategic and business goals. The decision to book very conservative provisions, and post a marginal loss for year, will enable VCBank to start 2011 in a much stronger position. With a clean balance sheet, healthy portfolio, high liquidity, and a strong deal pipeline, we are well placed to take advantage of emerging new business opportunities.

ACKNOWLEDGEMENTS

The Bank's achievements during the year 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 dedicated efforts of our management and staff. I would like to thank all our stakeholders for their invaluable contributions during 2010 and throughout our first five years of operations. With God's blessing, I look forward to working with you to achieve even greater success during the next five years.

Abdullatif Mohammed Janahi
Board Member and Chief Executive Officer

EXECUTIVE MANAGEMENT

1. Abdullatif Mohamed Janahi
Board Member and
Chief Executive Officer
Chairman of the Executive
Management Committee

2. Dr. Khalid Abdulla Ateeq
Deputy CEO
Operations & Support

3. Masood Ahmed Al-Bastaki
Chief Placement Officer
Investment Placement

4. Faisal A. Aziz Al Abbasi
Chief Investment Officer
Private Equity & Financial Advisory

5. Saad Abdulla Al Khan
Acting Chief Investment Officer
Real Estate

6. Santosh Jacob Karipat
Executive Director
Financial Control

7. Najwa Abdulla Mohanna
Executive Director
Operation & Support

8. Saeed Haji
Director
Venture Capital & Business
Development

VCBANK HAS DEVELOPED A DISTINCTIVE AND SUCCESSFUL INVESTMENT STYLE AND PHILOSOPHY

Lemissoler Maritime Company

INVESTMENT STRATEGY

VCBank is uniquely positioned to source and invest in undervalued or underfunded companies, which are seeking access to capital and additional technical and operational support to facilitate growth and expansion, across a range of sectors. We then take an active role in ensuring the successful growth of each portfolio company through a hands-on monitoring approach and effective cooperation at every level. While the GCC and MENA constitute our primary market focus, we 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 addition, we offer 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.

NEW INVESTMENTS IN 2010

QCON

VCBank and the MENA SME Fund completed the acquisition of a 12 per cent stake, totalling US$ 25million, in Qatar Engineering & Construction Company (QCON) during 2010. QCON is a leading engineering, procurement and construction (EPC) contracting company, specialising in projects and plant maintenance for the oil and gas, petrochemicals, fertilisers, power and other industrial infrastructure sectors. Established in 1975, QCON has built a dominant position, and a strong reputation for quality and safety, in the niche segments in which it operates, based in Qatar.

EXISTING INVESTMENTS UPDATE

MENA SMEs Fund 1

This six-year US$ 80 million fund, established in 2006, made its last capital call in 2010 and is now closed. The Fund has performed extremely well since inception, and at the end of 2010, the NAV per share stood at US$ 60.01, an increase of US$ 10.04 per share or 20 per cent over the original NAV. The Fund's investments include Challenger Limited (2006), IT Worx (2007), JAFFCO (2008) and QCON (2010).

Challenger Limited

Libya-based Challenger is a provider of contract oil and gas land drilling and work-over services, operating primarily in the MENA region. The volatility of oil prices during the first half of 2010 prompted oil companies to adopt a more cautious approach to new exploration, resulting in a lower utilisation of rigs. However, as a local player, Challenger was well placed to take advantage of the stabilisation of oil prices during the second half of the year, which averaged US$ 75 per barrel for 2010. With oil prices forecast to average US$ 80 per barrel in 2011, the company will benefit from an upturn in drilling activities. Challenger signed a number of new rig contracts during the year, together with new agency agreements in countries such as Iraq, Algeria, Tunisia, Sudan, Jordan, Kuwait and Oman, to support its expansion programme.

JAFCCO

IT Worx Company

House of Development

Information security solutions provider, House of Development (HoD), signed a contract with the Saudi Arabian Chamber of Commerce for an electronic certification and authentication project in 2010. The company's New York office in the USA is now fully operational, and continues to build its customer base, with early reference companies including Microsoft and Cisco. During the year, HoD invested in R&D to enhance the functionality of its unique product offering.

SVCIC

By December 2010, the Company held its constituent General Assembly (CGA) announcing the formation of the company and registration with MOC. The Board of Directors comprising of 10 members was also elected by the CGA. The Company is expected to commence business operations by Q1 2011.

IT Worx Company

IT Worx, the largest software development company in Egypt, continues to operate profitably, and secured a number of important new contracts during 2010. These include the National Health Agency in Qatar; Dubai World Trade Centre in the UAE; Saudi Airlines in Saudi Arabia; and Carrier in the USA. In response to the challenge of reduced IT budgets by large companies, due to the global economic slowdown, IT Worx has developed a new proactive 'go-to-market' strategy, which entails less expensive off-the-shelf solutions aimed at SMEs. With its reputation for quality and its dual-language (English/Arabic) capability, IT Worx is competing successfully against Indian software development companies in the MENA region.

JAFCCO

After a gloomy year for the global fertiliser industry in 2009, demand rebounded in 2010, with India and China placing major purchase orders. The existing complex of Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO) benefited from the upturn with increased production and sales compared with 2009. Four of the five planned production lines of JAFCCO's new expansion project were commissioned during the year, with the fifth line due for completion in early 2011. The company secured off-take agreements for the new complex from distributors in Saudi Arabia and Egypt.

Lemissoler Maritime Company

Due to its proactive and prudent time charter strategy, Lemissoler was not affected by the decline in trade volumes that rocked the global shipping industry during 2009, and which carried over into 2010. The company continued to maintain sufficient revenue coverage through proactive time chartering; operate in different segments via specialised vessels and containers; and benefit from a strong balance sheet with little debt. While some major listed shipping companies were filing for bankruptcy, Lemissoler expanded its fleet through the acquisition of distressed vessels at a high discount. The company also maintained its distribution with another 9 per cent distribution in 2010.

German Orthopaedic Hospital

Dutch Delight Chocolate Company

INVESTMENT STRATEGY

VCBank focuses on harnessing the potential of largely untapped business opportunities in GCC and MENA markets which, if leveraged effectively, can provide a stable stream of alternative investment opportunities for investors. We first identify promising early to mid-stage growth companies with significant market potential. Then we put in place innovative and sophisticated investment structures through which to reduce the risks traditionally associated with venture capital investing, and provide investors with superior returns. Access to venture capital investments not only offers our clients opportunities in an under-invested niche asset class, but also enables them to play a positive role in channelling funds towards investment opportunities that stimulate real economic growth and further the development of regional economies.

NEW INVESTMENTS IN 2010

Tatweer Consultancy Company

VCBank seeded the establishment of this specialist Shariah-compliant consulting company. Launched in October 2010, and based in the Kingdom of Bahrain, Tatweer provides business customised advisory services and human resources development programmes to financial institutions, commercial companies and government organisations. Tatweer's programme portfolio embraces the corporate control areas of corporate governance, risk management, internal audit and compliance. It also covers board of directors level related areas such as strategy development, public relations, media management, and board functionality assessment.

EXISTING INVESTMENTS UPDATE

VCB Liquidity Programme

This first-of-its-kind Shariah-compliant short-term liquidity programme was launched in late 2009. Placement was finalised in early 2010, with the offering of US$ 55 million being fully subscribed. Providing an expected profit rate of between 4 and 6 per cent, the short-term certificates of the programme are backed by the prime asset of Venture Capital Bank Building.

Royal Maternity Hospital

Placement of this US$ 30.4 million specialised medical facility was completed in 2010. A preliminary licence from the Ministry of Health has been obtained, and the architectural design and engineering consultants have been appointed for the fit-out. Based on a proven UK model for 'healthcare and hospitality', the Royal Maternity Hospital is planned to be operational in early 2013.

The Lounge

This specialist serviced offices company, launched in Bahrain in 2008, entered into a franchise agreement in 2010 to set up an outlet in Casablanca , Morocco. The Lounge illustrates the venture capital approach of VCBank in successfully seeding a new concept in Bahrain then replicating it elsewhere in the MENA region.

German Orthopaedic Hospital

This specialist hospital, which provides a distinctive upgrade to existing medical facilities in Bahrain, was officially opened in 2010 by the Minister of Health in the presence of the German ambassador and other dignitaries. The hospital has signed an agreement with the General Organisation for Youth and Sports (GOYS) for the treatment of players of the Kingdom's national sports teams, which will save athletes having to go abroad for

Gulf Projects Company   Royal Maternity Hospital

special medical attention. The German Orthopaedic Hospital serves to illustrate the distinct ability of VCBank to identify a lucrative captive market.

Venture Capital Fund

This specialist fund, which provides 'smart capital' for small and medium enterprises, invested in Dar Alwasmi Company – a Bahrain-based custom wooden furniture manufacturer – in 2010. This follows an investment in the Dutch Delight chocolate company the previous year. The Fund has also identified further new investment opportunities in the healthcare, education and services sectors. VCBank is planning to replicate this Fund in other promising MENA markets in collaboration with development banks.

GLOREI

Launched in 2007, Global Omani Development & Investment Company provides an investment platform for opportunities in Oman. The company has successfully executed deals in the hospitality and logistics sectors, as well as certain sub-sectors of real estate, such as office space, and will shortly be announcing a number of new projects in the Sultanate.

Mozon Investment Holding Company

This company, which became fully operational in 2009, provides an investment platform for opportunities in Morocco. Mozon successfully completed an investment in the education sector during 2010, and has identified a number of additional opportunities.

Bayan Real Estate Development Company

Bayan Real Estate Development Co. (a closed Saudi Joint Stock Co.) was established in 2007 with a paid capital of SR300 million. Founders include key figures, leading companies & investors from Kingdom of Saudi Arabia, Kingdom of Bahrain and Stare of Kuwait. The company aims at securing residential units that can meet the acute shortage in number of quality houses for middle-income categories in the Kingdom, especially in the Eastern Province. The mission of Bayan Real Estate Development Co. focuses on exploring new value added real estate investment opportunities and providing innovative designs with a unique touch of creativity.

Gardinia Aziziyah Bayan Development

Bayan Real Estate Development Co. has embarked upon implementing its debut project –Aziziyah, an integrated residential district that includes 800-1000 villas with various designs to meet different needs and tastes. It also includes all needed services and facilities such as mosques, schools, medical and commercial services. The project covers 625,000 sqm with a cost of SR800 millions and is located in Al Khobar, Aziziya area which is 5 minutes away from Half Moon Beach and Prince Mohammed bin Fahd University. The project aims at offering unique opportunities of owning villas with competitive prices, suitable for different society categories, especially middle-income families.

Gulf Projects Company

This company is the part owner and operator of Venture Capital Bank Building in the Diplomatic Area of Manama in Bahrain. Illustrating the success of the company's venture capital approach to turn a concession into an operational asset, two successful exits were executed in 2010. The first provided a 138 per cent ROI with an IIR of 35 per cent over 3 years, while the second provided an 81 per cent ROI with an IIR of 27 per cent over 2 years. These far exceeded the respective offering memorandum's expected IIR of 15 per cent over 5 years. Venture Capital Bank Building is the prime asset underlying the short-term certificates of VCBank's Liquidity Programme.

Jebel Ali Accommodation

Difaaf

INVESTMENT STRATEGY

VCBank adopts a differentiated approach to real estate investment by focusing on niche markets with strong fundamentals, such as affordable housing, and end user based products. Through a proven fundamental and value based investment philosophy, we plan to capitalize on the current market situation, while continuing to maintain a balanced and diversified strategy. As in the past, we plan to ensure managing the associated inherent risks in our investments by applying minimal levels of leverage, while delivering superior risk adjusted returns to our clients.

INVESTMENT PORTFOLIO

One Bahrain

The land for this Sharia-compliant hospitality and residential project, located on the prestigious Reef Island development off the north coast of Manama, was acquired through a joint-venture with a Bahraini partner during 2008. One Bahrain is an up-market residential development split into two main components (1) serviced apartments that are planned to be operated by an internationally renowned operator, and (2) residential units that are planned to be sold to end-users.

Jebel Ali Labour Accommodation

Construction of three labour accommodation complexes within the Jebel Ali Industrial Area in the UAE is on track for completion in March 2011. The complexes, which comply with the latest UAE regulations for labour accommodations, will provide high quality accommodation and supporting amenities for over 4,000 workers. This project differentiates itself by concentrating on a segment of the real estate sector that targets the low income/labour segment, in contrast to the high end/luxury segment.

Difaaf

This architecturally distinguished real estate development consists of two high rise residential towers strategically located on Reef Island, off the north coast of Manama in Bahrain. The land has been purchased, designs drawn up, and preliminary construction works, such as pilling works, completed. Cost savings have been achieved due to the postponement in the appointment of the main contractor in 2008, and currently late stage negotiations with potential contractors are being undertaken.

Great Harbour

Great Harbour was established to undertake a mixed-use development on a plot measuring 35,039 sq meters in Hidd Area, Bahrain. It is a unique sea front plot with excellent development potential. VCBank along with the strategic partners involved in the project, are currently studying the most optimal concept to be built on this rare plot.

Jeddah Regeneration Project

One Bahrain

Jeddah Regeneration Project

VCBank is one of the founding investors in the City Center Development Company (CCDC) that won the mandate for developing a master plan and economic model for the regeneration of the Jeddah Central District. Jeddah Central District (JCD) is a large area that comprises around six million square metres of land. After decades of decay and neglect, a SR 34.6 billion urban renewal project will transform the district into a vibrant and dynamic metropolis that ranks with the best in the world.

Central Jeddah has long been marred by polluted lagoons and sewage discharge, leaving much of the area vacant and devalued. Now, private enterprise and the public sector are joining forces to create a new environment characterized by modern infrastructure and amenities, architecture that reflects the city's proud heritage, and landscaped public spaces – all to support Jeddah's bustling new economy.

The master plan has been endorsed by His Majesty King Abdulla Bin Abdulaziz Al Saud, and CCDC has been formally appointed as the master developer.

Principle goals of this project include:

- Creation of sustainable community in the Jeddah Central District
- Redevelopment of the Historical District
- Remediation of lagoons and coastline

Omran Al Bahrain

VCBank holds a 50 percent stake in this real estate development joint venture with Kuwaiti institutional investors. The company adopts a diversified approach to identifying potential real estate developments in the region, at the same time acting as a service provider in areas such as technical advisory and development consultancy. Omran Al Bahrain is currently exploring projects in different sub-sectors such as Sharia-compliant hospitality and healthcare segments..

INVESTMENT PLACEMENT

Challenger Limited

German Orthopaedic Hospital

Lemissoler Maritime Company

In yet another very challenging year for the regional investment banking industry, VCBank's placement team was successful in placing many new investment opportunities with its client base of strategic, institutional, corporate and private investors. Placement executions include Qatar Engineering & Construction Company (QCON), One Bahrain, VCBank Liquidity Programme and Royal Maternity Hospital.

At the same time, investors benefited from continued dividend payments from Lemissoler Maritime Company; increased NAVs of the MENA SME Enterprise Fund 1 and Venture Capital Fund; and a partial exit from Lemissoler Maritime Company. In addition, two successful exits from Gulf Projects Company were executed in 2010. The first provided a 139 per cent ROI with an IIR of 35 per cent over 3 years, while the second provided an 82 per cent ROI with an IIR of 27 per cent over 2 years. These far exceeded the offering memorandum's expected IIR of 15 per cent over 5 years.

During 2010, the Bank's placement team enhanced its reputation for technical ability, quality, speed, and professionalism, by maintaining a close and constant relationship with its clients through regular visits across the GCC. During the first five years of operations by VCBank, the placement team has successfully placed all of the Bank's investment offerings in venture capital and business development, private equity, and real estate.

During the year 2010 the Placement Department team were able to enhance relations with financial organizations & companies, gaining benefits from Venture Capital Bank achievements during past years and the good results achieved through the two past years in particular, which are considered one of the most difficult years of the global banking sector. The Bank and its teams benefited from their ties with new shareholders who joined shareholders list by end of 2009 after the process of increasing capital which gave a good momentum to the bank. Placement and Marketing team look forward to attain more achievements in 2011 and years to come towards achieving extra accomplishments that can be added to the honorable performance of the Bank.

OPERATIONS & SUPPORT

During 2010, the Operations & Support division continued to enhance its services to support the growing business operations of the Bank. A notable development during the year was the provision of consultancy services in the areas of Support.

TREASURY

Given the ongoing impact of the global financial crisis, the key focus of the Treasury team in 2010 was to proactively manage the Bank's liquidity and to secure funding for VCBank and its portfolio companies. Priority was also given to establishing new lines with Islamic financial institutions outside Bahrain, and closely monitoring the Bank's cross-border exposures to foreign exchange and profit rate risks. During the year, the team conducted a comprehensive review of Treasury policies, processes and procedures; while continuing to monitor the VCB Liquidity (Trust Certificates) Programme in conjunction with the external programme manager and custodian.

OPERATIONS

The Operations team was enhanced during 2010 to ensure continued provision of critical back office support to all areas of the Bank. This includes responsibility for contracts, transaction processing, payments and settlement through SWIFT, investigation, opening new accounts, updating position book with counterparties, processing international commodity Murabaha and investment project documentation. In addition, the team continued to enhance cross-functional working relationships between Financial Control, Treasury and Investment Administration. The development of a comprehensive Operations policies and procedures manual was also completed during the year.

HUMAN RESOURCES & ADMINISTRATION

VCBank in 2010 kept its focus on continued investment in training and development, and was successful in filling a number of vacancies from within. The Bank maintained its focus on enhancing professional qualifications and employed external consultants to assist in a major review of job descriptions and competencies. New developments during the year include the signing of an agreement with the Tamkeen Career Progression Program that will benefit around 50 staff from different levels; and the provision of recruitment and staff orientation consultancy services by the HR team for Saudi Venture Capital Investment Company. On the administration side, VCBank enhanced the level of its support for the increased number of shareholders and investors due to the Bank's recent capital raising exercise and new investment projects.

INFORMATION TECHNOLOGY

Major IT achievements in 2010 include implementing a new Information Security process, and finalising the development of an IT Policies and Procedures manual for introduction during 2011. At the same time, all planning was completed for a new online Disaster Recovery Site in support of VCBank's Business Continuity Plan. Appropriate IT systems for Treasury and Financial Control were selected and installed, while testing of the Bank's new Customer Relationship Management (CRM) system was successfully conducted. Also during the year, the IT team provided consultancy services for the German Orthopaedic Hospital and Saudi Venture Capital Investment Company, with assistance in setting up appropriate IT infrastructures.

FINANCIAL CONTROL

During 2010, the Bank conducted a comprehensive review of its financial control processes and procedures, and commissioned a new financial control IT system. This will enhance the ability of the Financial Control team to provide senior management with timely financial reports to aid decision-making, and also in the preparation of quarterly and annual consolidated financial statements in line with the latest regulatory requirements.

CORPORATE COMMUNICATIONS

VCBank maintained the quality and timeliness of external and internal communications with its stakeholders during 2010. Core communication delivery channels include the corporate website and brochure, quarterly newsletter, annual report, and regular announcements in the media. Also during the year, the Corporate Communications team provided a range of consultancy services for the German Orthopaedic Hospital, including brand development, advertising and an official launch programme.

CORPORATE GOVERNANCE

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

Key aspects of this framework include the following:

1. Members of the Board have significant financial, business and industrial expertise.
2. The majority of Directors are independent, and their active participation is encouraged.
3. The Board is supported by an effective Board Committee structure.
4. The Board and It's Committees undergo annual self-assessment and evaluation.
5. Comprehensive Policies and Procedures are in place to manage the Bank.
6. The Bank's financial management is verified through external audits.
7. Independent Compliance and Internal Audit functions report to the Board.
8. The Bank's formal succession plan is reviewed annually for adequacy.

KEY DEVELOPMENTS IN 2010

During 2010, VCB continued to strengthen its corporate governance framework, and introduced new initiatives aimed at promoting enhanced corporate governance practices, with particular emphasis on increasing the awareness and understanding of the directors, management and staff on this important topic.

Specific initiatives introduced during the year include the following:

- Reviewed the new Corporate Governance Code of the Kingdom of Bahrain, which was issued by the Ministry of Industry and Commerce on March 2010..
- Reviewed additional disclosure requirements by the Central Bank of Bahrain (CBB) in line with October 2010 updates to the High Level Controls Module.
- Submitted Corporate Governance Assessment & Implementation Plan to the CBB.
- Developed a revised VCB Code of Corporate Governance for approval by the Board.
- Completed a risk profiling exercise to identify all material risks affecting the Bank's business activities and operations, with each risk prioritised according to its degree of materiality, and mitigation measures developed in consultation with risk owners for implementation.
- Conducted quarterly stress testing, with results reported to the Risk Committee of the Board.
- Broadened and enhanced the Bank's corporate governance training programme for directors, management and staff.

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. The Board comprises 12 members, all of whom are independent non-executive Directors except for the CEO. Board members and their profiles are listed on page 30 of this annual report.

BOARD COMMITTEES

The Board is supported by 5 Board Committees: Nomination & Remuneration Committee, Corporate Governance Committee, Finance & Investment Committee, Audit Committee and Risk Committee. Membership of the Board Committees is listed in the table on page 26).

Nomination & Remuneration Committee

The mandate of the Nomination & Remuneration Committee is to assist the Board of Directors in establishing a fair and transparent nominations process for the appointment and remuneration of directors, other Board Committees and the Chief Executive Officer, and remuneration of the Executive Management team.

Corporate Governance Committee

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

Finance & Investment Committee

The mandate 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.

Directors' attendance January to December 2010

Board Members	Board Meetings	Finance & Investment Committee Meetings	Corporate Governance Committee Meetings	Audit Committee Meetings	Risk Committee Meetings	Nomination & Remuneration Committee Meetings
Dr Ghassan Ahmed Al Sulaiman Chairman	4/4	4/4 ¥	4/4			2/2 ¥
Abdulfatah MohammedRafei Marafie Deputy Chairman	4/4	4/4	4/4 ¥			2/2
Abdullatif Mohamed Janahi	4/4	4/4				2/2
Ali Mousa Al Mousa	4/4				4/4 ¥	
Marwan Ahmad Al Ghurair	4/4		4/4			
Saleh Mohammed Al Shanfari	4/4	4/4				
Nedhal Saleh Al Aujan	3/4			5/5 ¥		
Mohammed Bin Sulaiman Abanumay	3/4	4/4				
Sulaiman Ibrahim Al Hudaithi	4/4			3/5		
Ajlan Abdulaziz Al Ajlan	2/4	2/4				
Ibrahim Hamad Al Babtain	4/4				4/4	
Abdulhadi Treheeb Al Shahwani	3/4				3/4	

¥ Denotes Committee Chairman

Audit Committee

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

Risk Committee

The mandate of the Risk Committee is to maintain 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.

Finance & Investment Committee members

Dr Ghassan Ahmed Al Sulaiman, Chairman
Abdulfatah MohammedRafei Marafie, Deputy Chairman
Abdullatif Mohamed Janahi, Member
Saleh Mohammed Al Shanfari, Member
Mohammed Bin Sulaiman Abanumay, Member
Ajlan Abdulaziz Al Ajlan, Member

Corporate Governance Committee members

Abdulfatah MohammedRafei Marafie, Chairman
Dr Ghassan Ahmed Al Sulaiman, Deputy Chairman
Marwan Al-Ghurair, Member
Mohammed Al Sarhan, Non-Board Member

Audit Committee members

Nedhal Saleh Al Aujan, Chairman
Sulaiman Ibrahim Al Hudaithi, Deputy Chairman
Dr. Jawaher Al Mudhahki, Non-Board Member

Risk Committee members

Ali Mousa Al Mousa, Chairman
Ibrahim Hamad Al Babtain, Deputy Chairman
Abdulhadi Treheeb Al Shahwani, Member

Nomination & Remuneration Committee members

Dr Ghassan Ahmed Al Sulaiman, Chairman
Abdulfatah MohammedRafei Marafie, Deputy Chairman
Abdullatif Mohamed Janahi, Member until June 2010
Saleh Mohammed Al Shanfari, New Member since Sep 2010

DIRECTORS' REMUNERATION

The Nominations & Remunerations Committee assists the Board in establishing a fair and transparent nomination and remuneration process for the appointment and remuneration of its Directors and Board Committee members. This Committee is guided by the Nomination & Remuneration Committee Charter, which forms part of the Bank's overall Corporate Governance Framework.

The remuneration of Directors is a formula-based approach, based on the Bank's profitability level and the number of Board meetings attended by each Director. It also reflects the extent of responsibilities of each Director. Total remuneration includes

Directors' membership in one or more of the Board's committees. The actual remuneration of VCBank's Board of Directors and the Bank's policy are disclosed in the Bank's financial statements. This disclosure policy supports the Bank's assurance to its stakeholders that sufficient disclosure is provided in relation to the Bank's remuneration policies.

BOARD AND BOARD COMMITTEES DEVELOPMENT

The below statement relates to the actions done during 2010. Newly-elected Directors of the Bank attend a mandatory Induction Programme which highlights, amongst other topics, the major duties and responsibilities of Directors vis-à-vis various laws, regulations and guidelines governing their roles. Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors also receive briefings and updates on the Bank's financials, businesses, operations, risk management, internal controls, corporate governance, and all changes relevant to legislation, rules and regulations, from the Bank's executive management and professionals.

BOARD TRAINING

The annual training plan for Board members includes workshops designed to enable them to carry out their supervisory and observation roles and responsibilities. These include important topics such as corporate governance, compliance and risk management. Board Members also attend an annual strategy workshop with the Executive Management team to review the Bank's strategic plan and objectives.

BOARD EVALUATION

The Bank has in place a comprehensive Board Evaluation Programme, which is designed to help them identify areas for improvement and reinforce their responsibilities. The programme comprises three phases of self assessment: at a Board level, at a Board Committee level, and at an for individual Director level. The evaluation/self assessment will start to take place during 2011.

SHARI'AH SUPERVISORY BOARD

Composed of eminent Shari'ah scholars, the Bank's 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 of Shari'ah Supervisory Board and their profiles are listed on page 11 of this annual report.

MANAGEMENT

The Executive Management team, which is responsible for the day-to-day management of the Bank entrusted to it by the Board, is headed by the Chief Executive Officer, who is assisted by the Deputy CEO Operations & Support, Chief Investment Officer - Private Equity & Financial Advisory, Chief Investment Officer - Venture Capital & Business Development, Acting Chief Investment Officer - Real Estate, and Chief Placement Officer. Executive Managers and their profiles are listed on page 32 of this annual report.

EXECUTIVE MANAGEMENT COMMITTEE

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

STRATEGY STATEMENT

VCBank is the first Islamic investment bank in the MENA region to specialise in venture capital investment opportunities. Offering clients a broad range of superior products and services across a number of promising asset classes in the region, the Bank is active in 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.

CODE OF CONDUCT

The Bank has developed a Code of Conduct which contains rules on professional conduct and ethical behaviour that are applicable to the directors and employees of the Bank. The Code is designed to guide all directors and employees in fulfilling their responsibilities and obligations towards the Bank's stakeholders, in compliance with all applicable laws and regulations.

SHAREHOLDER/INVESTOR COMMUNICATION & AWARENESS

The Board is committed to communicating with its shareholders and investors in a professional, transparent, accurate and timely manner, and adopts a number of different ways through which to promote greater understanding and dialogue with all stakeholders.

These include the Annual General Meeting, annual reports and quarterly financial reports, corporate website, brochure and video, and regular announcements in the local media. In addition, VCB issues a quarterly newsletter to keep shareholders, investors and staff up to date about the Bank's projects, investments, business developments and other activities. The newsletter also includes regular articles to enhance awareness about corporate governance, compliance and risk management.

GOVERNANCE CONTROL FUNCTIONS

As well as undertaking their specific responsibilities, the Compliance, Risk Management, Internal Audit, and Shari'ah Coordination & Review departments work closely together in assisting the Board and Executive Management of the Bank to uphold the highest standards of corporate governance.

Compliance

The Compliance department reports directly to the Corporate Governance Committee of the Board, and administratively to the Chief Executive Officer. The department functions as an independent and objective body that reviews and evaluates the Bank's compliance risk; and monitors the Bank's operations and activities to ensure they are in compliance with the rules and regulations of the Central Bank of Bahrain, the Ministry of Industry & Commerce, and all other applicable laws and regulations. This is supported by comprehensive policies and procedures to ensure full legal and regulatory compliance, including anti-money laundering reporting and prudential reporting. The Compliance department also checks that organisational behaviour meets the Bank's ethical standards, and assists management in educating staff and increasing awareness on compliance issues across the Bank.

Risk Management

The Risk Management Department reports directly to the Risk Committee of the Board and administratively to the Chief Executive Officer. The primary objectives of the department are to develop an integrated risk management framework for the Bank, establish minimum risk management standards for the entire organisation, and instill a culture whereby all employees are individual owners of risks. The department continuously reviews and assesses the Bank's risk management policy, processes and procedures; provides advice to strengthen the Bank's internal controls; formally identifies the key risks to which the Bank is exposed, and develops various initiatives to manage, monitor and minimise such risks. The department is also responsible for the development of a risk management and internal capital adequacy assessment framework, which incorporates a capital allocation process to ensure that the Bank manages its capital in accordance with standards prescribed by the Central Bank of Bahrain.

Internal Audit

The Internal Audit department reports directly to the Audit Committee of the Board, and administratively to the Chief Executive Officer. The department is responsible for evaluating and providing assurance to the Board of Directors and Executive Management on the effectiveness of the Bank's control, risk management and governance processes. This involves reviewing the effectiveness and efficiency of all business processes and their compliance with the Bank's policies, standards and procedures, and all applicable laws and regulations. In addition, the department audits the activities of all portfolio companies for which the Bank has a fiduciary responsibility. The department conducts its audits in accordance with the audit plan approved by the Audit Committee. This plan is developed using a risk-based methodology which also considers any risks identified by the Risk Management function, the Executive Management and external auditors. Regular reports on Internal Audit activities are presented to the Audit Committee. The Internal Audit department also provides management and staff with preventive advice and guidance.

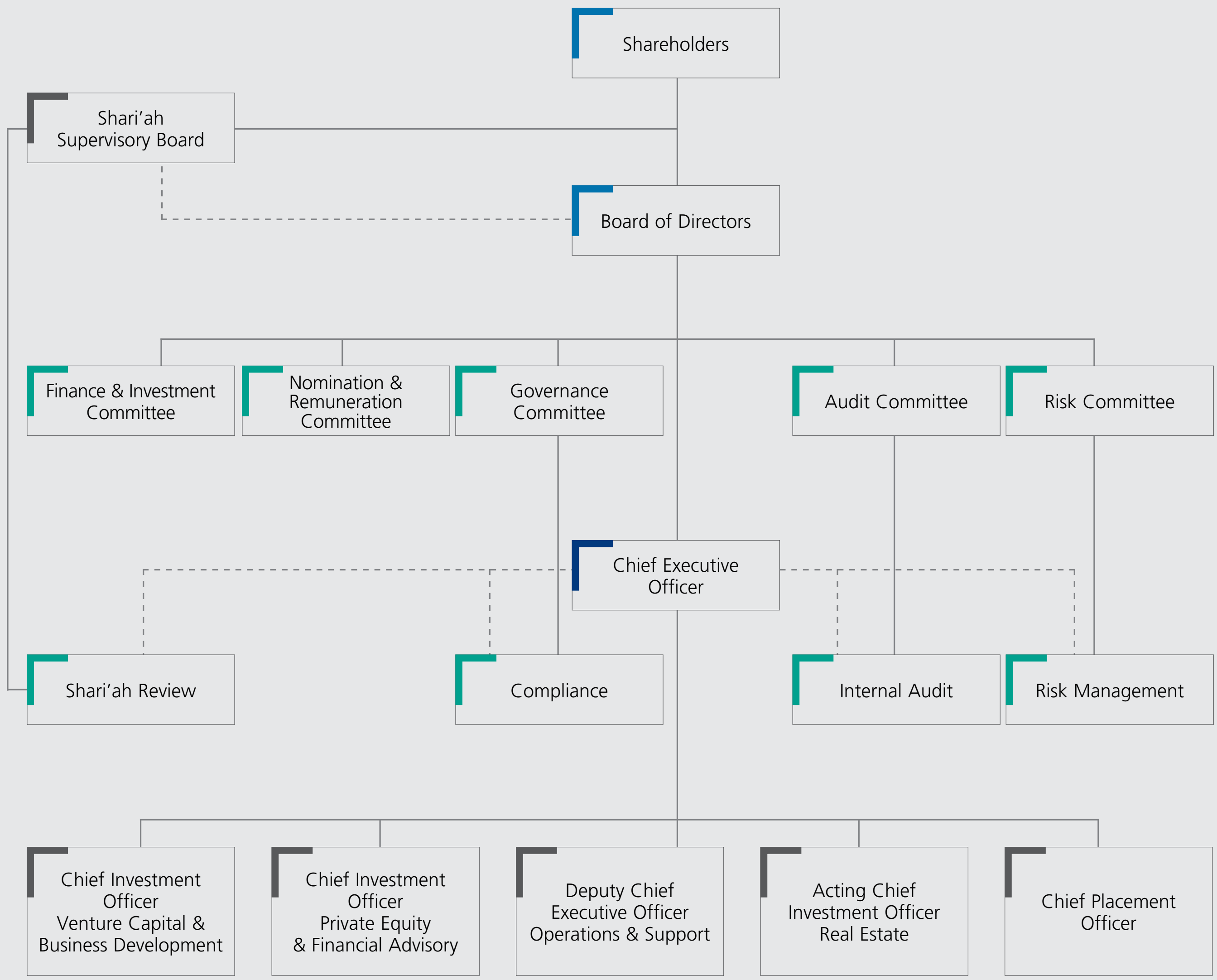
Shari'ah Coordination and Review

The Shari'ah Coordination and Review department reports directly to the Bank's Shari'ah Supervisory Board and administratively to the Deputy Chief Executive Officer- Operations & Support. The department adopts a unique continuous review methodology rather an annual retrospective Shari'ah audit, with all transactions and deals being reviewed even if there are precedents. The department is proactively involved in the development of new products and investments, follows up on investment project activities such as sub-transactions, and monitors Treasury transactions and Operations payments on a daily basis. The department plays an important role in communicating all transactions, structures and documentations of every business plan to the Shari'ah Supervisory Board in order to make sure that the Bank's activities are in full compliance with the rules and principles of Islamic Shari'ah.

Governance Training and Awareness

The Compliance, Risk Management, Internal Audit, and Shari'ah Coordination & Review departments work closely with the Human Resources department to coordinate an education, training and development and awareness programme that covers all aspects of corporate governance, for directors, management and staff. This programme embraces the annual training plan for Board members, in-house workshops and courses for management and staff, and simulation workshops and real case studies, supported by online training and specialised external courses. Topics covered by the programme include corporate governance best practice, risk management, compliance with internal policies and procedures and regulatory requirements, and latest developments in anti-money laundering and combating the financing of terrorism (AML/ACT).

GOVERNANCE AND ORGANISATION STRUCTURE



BOARD MEMBERS' PROFILES

Dr Ghassan Ahmed Al Sulaiman
Chairman

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Appointed 6 October 2005
32 years' experience

VCBank Committees: Chairman of Finance & Investment Committee; Chairman of Nomination & Remuneration Committee; Deputy Chairman of Corporate Governance Committee.

Chairman: Ghassan Ahmad Al Sulaiman Holding Co.; Ghassan Ahmed Al Sulaiman Trading (GAAT); Ghassan Ahmed Abdullah Al Sulaiman Trading; Ghassan Ahmad Al Sulaiman Furniture Co. Ltd (IKEA); Ghassan Ahmad Al Sulaiman & Partners Co. (GASP); House of Development Co. Ltd (HOD); (SID) Sahary Information Development; Training & Education Services Co. Ltd (TESCO); Tauzeef Human Resource Co. Ltd; Khaleej Salman Bay Development Co.; Siraj Capital Ltd; Al Sulaiman Inter-market Co. Ltd (SIC); Propaganda Advertising Company (Ish'har); Manafith International Marketing Company Ltd (MANAFITH); and Saudi Chamber of Commerce and Industry of Jeddah.

Member of the Board: Propaganda Advertising Co. (Ish'har); Bin Sulaiman Holding Co.; Abna Abdullah Al Sulaiman Co. Ltd; Arabian Cement Co; Savola Company; Jeddah Province Council and Saudi Venture Capital Company (SVCIC).

Abdulfatah MohammedRafei Marafie
Deputy Chairman

State of Kuwait
Independent and Non-Executive Director
Appointed 6 October 2005
31 years' experience

VCBank Committees: Chairman of Corporate Governance Committee; Deputy Chairman of Nomination & Remuneration Committee; Deputy Chairman of Finance & Investment Committee.

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

Chairman: Mozon Holding Company; and Al Durrat Al Tijaria Co.

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

Board Member: Center for Strategic & Futuristic Studies, Kuwait University; The Public Institution for Social Security; ASAS Real Estate Co., KSA; The Voluntary Work Center; The Fund of Awqaf for Social & Scientific Development, Kuwait Awqaf Public Foundation ; Amar Finance & Leasing Co.; Commercial Bank of Kuwait and Saudi Venture Capital Company (SVCIC) .

Abdullatif Mohamed Janahi
Board Member

Kingdom of Bahrain
Chief Executive Officer
Appointed 6 October 2005
28 years' experience

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 Lemissoler Maritime Company, World Development Company, Gulf Projects Company, Venture Capital Fund Bahrain, the Great Harbour Project, German Orthopaedic Hospital, Royal Maternity Hospital and Al Jazira Plastic Company. Mr. Janahi is Deputy Chairman of Challenger Oil Drilling Company, Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO) and Vice Chairman of Global Real Estate. He is Director of GLOREI in Oman as well as the Chairman of their Investment Committee and Board member of Qatar Engineering & Construction Company (QCON). Mr. Janahi is Director of Bayan Realty Company (formerly ASAS Company) in Saudi Arabia and Mozon Holding Company in Morocco.

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

Ali Mousa Al Mousa
Board Member

State of Kuwait
Independent and Non-Executive
Appointed 6 October 2005
36 years' experience

VCBank Committees: Chairman of Risk Committee.

Chairman & Managing Director: Securities Group Company.

Vice Chairman: Themar International Holding Co.

Board Member: Industrial Bank of Kuwait.

Ex- Planning Minister: State of Kuwait.

Ex-Deputy Governor: Central Bank of Kuwait.

Marwan Ahmad Al Ghurair
Board Member

United Arab Emirates
Independent and Non-Executive Director
Appointed 6 October 2005
21 years' experience

VCBank Committees: Member of Corporate Governance Committee.

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

Saleh Mohammed Al Shanfari
Board Member

Sultanate of Oman
Independent and Non-Executive Director
Appointed 6 October 2005
21 years' experience

VCBank Committees: Member of Finance & Investment Committee.

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

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

Board Member: 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; and Omani-Syrian Joint Business Council.

Nedhal Saleh Al Aujan
Board Member

Kingdom of Bahrain
Independent and Non-Executive
Appointed 6 October 2005
28 years' experience

VCBank Committees: Chairman of Audit Committee.

Chief Executive Officer: Bahrain Development Bank.

Board Member: Retail Arabia; Bahrain Atomisers International; Bahrain Specialist Hospital; Joslin Diabetes Center; Bahrain Business Incubator Centre; Batelco; Dun & Bradstreet Same Limited and Saudi Venture Capital Company (SVCIC).

Mohammed Bin Sulaiman Abanumay
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive
Appointed 4 March 2008
30 years' experience

VCBank Committees: Member of Finance & Investment Committee.

Chief Executive Officer: Abanumay Ind. Corp.

Board member: SABIC; Malath insurance Company; Qassim Cement Company; Al-Watan Newspaper in the Kingdom of Saudi Arabia; and Wajeef Brokerage.

Member: MENA Fund Investment Committee.

Sulaiman Ibrahim Al Hudaithi
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive
Appointed 4 March 2009
28 years' experience

VCBank Committees: Deputy Chairman of Audit Committee.

Managing Director: Jeddah Commercial Investment Company.

Board Member: Saudi Research & Marketing Group; Saudi Printing and Packaging Company; Saudi Specialized Laboratories Company; Al Madaen Star Group; Saudi Specialized Publishing Company; and Saudi Shipping and Maritime Services Company and Saudi Venture Capital Company (SVCIC).

Ajlan Abdulaziz Al Ajlan
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive
Appointed 4 March 2009
31 years' experience

VCBank Committees: Member of Finance & Investment Committee.

Chairman: Ajlan and Bros.; Ajlan Bin Abdulaziz Al Ajlan & Bros.; Abdulaziz bin Ajlan Sons Co.; Nomou Real Estate Development Co.; International Fashion Co. Ltd.; and Fashion Co. Ltd. for Trade & Real Estate.

Board member: Riyadh Chamber of Commerce and Industry and Saudi Venture Capital Company (SVCIC).

Ibrahim Hamad Al Babtain
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive
Appointed 4 March 2009
26 years' experience

VCBank Committees: Deputy Chairman of Risk Committee.

Chairman: Al Babtain Power and Telecom Company.

Executive Director: Al Mouwasat Medical Company; and Al Maktaba Marketing Company.

Board member: Al Babtain Holding Company; and Al Babtain Contracting Company.

Abdulhadi Treheeb Al Shahwani
Board Member

State of Qatar
Independent and Non-Executive
Appointed 4 March 2009
31 years' experience

VCBank Committees: Member of Risk Committee.

Chairman: Al Shahwani Group of Companies including: Bin Nayfa Al Shahwani International; Hadi Sons Group; Al Hadi Cars & Heavy Equipments; Gulf Fire Fighting Foam Factory; Qatar Fire Extinguishers Factory; and Shahwani Fire Protection & Technical Services.

EXECUTIVE MANAGEMENT PROFILES

Abdullatif Mohammed Janahi
Board Member and Chief Executive Officer

Chairman of the Executive Management Committee
Joined VCBank in 2005
28 years' experience

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 Lemissoler Maritime Company, World Development Company, Gulf Projects Company, Venture Capital Fund Bahrain, the Great Harbour Project, German Orthopaedic Hospital, Royal Maternity Hospital and Al Jazira Plastic Company. Mr. Janahi is Deputy Chairman of Challenger Oil Drilling Company, Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO) and Vice Chairman of Global Real Estate. He is Director of GLOREI in Oman as well as the Chairman of their Investment Committee and Board member of Qatar Engineering & Construction Company (QCON). Mr. Janahi is Director of Bayan Realty Company (formerly ASAS Company) in Saudi Arabia and Mozon Holding Company in Morocco.

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

Dr. Khalid Abdulla Ateeq
Deputy CEO
Operations & Support

Member of the Executive Management Committee
Joined VCBank in 2005
31 years' experience

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 (CBB), where he was responsible for the licensing, inspection and supervision of financial institutions, ensuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at the University of Bahrain. In addition, through his diversified exposure, Dr. Ateeq served in senior posts with a number of reputable banks and firms. He holds a PhD in Philosophy of Accounting from the UK.

Faisal A. Aziz Al Abbasi
Chief Investment Officer
Private Equity & Financial Advisory

Member of the Executive Management Committee
Joined VCBank in 2005
Appointed to present position in 2010
12 years' experience

Through his 12 years of working in the financial sector, Mr Al Abbasi has gained extensive experience in private equity and investment banking, working with several leading financial institutions in the Middle East. Prior to joining VCBank, he was a senior member of the Middle East Private Equity team at Unicorn Investment Bank. Previously, he worked in the Direct Investment Group at Kuwait Finance House Bahrain, and the Investment Division of BBK. Mr Al Abbasi holds a BSc degree in Accounting from the University of Bahrain.

Saad Abdulla Al Khan
Acting Chief Investment Officer
Real Estate

Member of the Executive Management Committee
Joined VCBank in 2007
Appointed to present position in 2010
13 years' experience

Mr Saad Al Khan has 13 years' experience in the field of Islamic banking. Prior to joining VCBank, he was Senior Manager of Investments & Marketing at AlBaraka Islamic Bank AIB) During his time at AIB, he gained extensive knowledge of Islamic investment banking activities, and was successful in establishing a broad network of regional relationships, especially in the UAE. Mr Al Khan holds a BSc in Accounting from the University of Bahrain.

Masood Ahmed Al Bastaki
Chief Placement Officer

Member of the Executive Management Committee
Joined VCBank in 2005
23 years' experience

Prior to joining VCBank, Mr. Al-Bastaki was Head of the Islamic Banking Division at BankMuscat International, with a mandate to establish an Islamic banking subsidiary. Before that, he was with JPMorgan Chase Bank for six years as Head of the GCC Client Management Team, responsible for the bank's business with financial institutions, government agencies, and large corporates. Previously, he spent five 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 BBK where he spent more than seven years in the field of corporate and project finance, investment, and financial institutions. Mr. Al-Bastaki holds a Post Graduate Diploma Honours) and a BSc (Honours) in Business Administration from the University of Bahrain.

Dr. Ahmed Al-Jawhary
Chief Investment Officer
Venture Capital & Business Development
(Resigned on December 2010)

FINANCIAL STATEMENTS 2010

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REPORT OF THE SHARI'AH SUPERVISORY BOARD

VENTURE CAPITAL BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for the year ended 31 December 2010

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

The Shari'ah Supervisory Board of Venture Capital Bank has reviewed all the business and investments of the Bank in its meetings held in 2010.

It has studied and discussed, with the Bank's management, the financial statements including the balance sheet as at 31/12/2010 and the income statement for the period from 01/01/2010 to 31/12/2010.

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

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

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

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

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

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

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

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

We give all praise to Allah the Lord of the worlds.

Abdulsattar Abu Ghodah	**Nidham Bin Mohammed Saleh Yaqoobi** Chairman, Shari'ah Supervisory Board	**Issa Zaki**

Venture Capital Bank
Shari'ah Supervisory Board

Executed on Monday, the 23th of Rabi 2, 1431 H, corresponding to the 28th day of March 2011

A. K.
28 MAR 2011

Venture Capital Bank, P.O. Box 11755, Manama, Kingdom of Bahrain
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REPORT OF THE AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF VENTURE CAPITAL BANK B.S.C. (c)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Venture Capital Bank B.S.C. (c) [the Bank] and its subsidiaries [together 'the Group'], which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of Zakah Fund for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Bank's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, and for such control the Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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 policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Other matter

The Group's consolidated financial statements for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those statements on 15 March 2010.

Report on Other Regulatory Requirements

We confirm that, in our opinion, proper accounting records have been kept by the Group and the consolidated financial statements, and the contents of the report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Group or on its financial position and that the Bank has complied with the terms of its banking license.

Ernst + Young

20 February 2011

Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2010

	Note	31 December 2010 USD' 000	31 December 2009 USD' 000
ASSETS			
Balances with banks		2,672	14,287
Placements with financial institutions	8	11,267	50,789
Investment securities	9	135,396	129,259
Investments in associates and joint venture accounted under the equity method	10	31,677	36,814
Investment property	11	9,130	62,884
Receivable from investment banking services	12	13,837	9,925
Short term funding to project companies	13	20,975	14,418
Other assets	14	11,942	23,618
Property and equipment	15	12,350	14,007
TOTAL ASSETS		249,246	356,001
LIABILITIES			
Islamic financing payable		44	13,428
Payable on acquisition of investment property		-	41,737
Employee accruals		5,785	5,767
Other liabilities	16	3,715	9,272
Total liabilities		9,544	70,204
EQUITY			
Share capital	17	250,000	173,250
Share premium	17	28,429	13,533
Funds received towards capital increase		-	64,905
Unvested shares of employee share ownership plan		(22,764)	(15,000)
Statutory reserve		10,414	10,414
Investment fair value reserve		2,229	1,496
Employee share ownership plan reserve		5,064	4,211
(Accumulated losses) retained earnings		(33,670)	32,988
Total equity		239,702	285,797
TOTAL LIABILITIES AND EQUITY		249,246	356,001
OFF STATEMENT OF FINANCIAL POSITION ITEMS			
Restricted investment accounts		16,219	16,779

Dr. Ghassan Al Sulaiman
Chairman

Abdullatif M. Janahi
Board Member and Chief Executive Officer

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2010

	Note	2010 USD' 000	2009 USD' 000
INCOME			
Income from investment banking services	18	13,249	24,619
Income from placements with financial institutions	23	787	594
Income from short term funding to project companies	23	76	102
(Loss) gain on investment securities	19	(13,658)	7,005
Other income		2,300	2,387
Total income		2,754	34,707
EXPENSES			
Staff costs	20	9,890	9,763
Travel and business development expenses		753	906
Legal and professional fees		1,333	508
Finance costs	23	254	28
Depreciation	15	1,612	1,343
Other expenses	22	2,315	2,511
Total expenses		16,157	15,059
(LOSS) PROFIT BEFORE IMPAIRMENT AND SHARE OF LOSS OF ASSOCIATES AND JOINT VENTURE		(13,403)	19,648
Impairment allowances	21	(30,999)	(6,410)
Share of loss of associates and joint venture	10	(3,200)	(2,234)
NET (LOSS) PROFIT FOR THE YEAR		(47,602)	11,004
Attributable to:			
Shareholders of the parent		(47,602)	11,013
Non-controlling interests		-	(9)
		(47,602)	11,004

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 USD' 000	2009 USD' 000
(LOSS) PROFIT FOR THE YEAR		(47,602)	11,004
Other comprehensive income			
Changes in fair value of available-for-sale investments	9	733	1,581
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(46,869)	12,585
Attributable to:			
Shareholders of the parent		(46,869)	12,594
Non-controlling interests		-	(9)
		(46,869)	12,585

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Attributable to the shareholders of the parent										
	Note	Share capital	Share premium	Funds received towards capital increase	Unvested ESOP shares	Statutory reserve	Investment fair value reserve	ESOP reserve	Retained earnings (accumulated losses)	Total before non-controlling interests	Non-controlling interests	Total
		USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000
Balance at 1 January 2010		173,250	13,533	64,905	(15,000)	10,414	1,496	4,211	32,988	285,797	-	285,797
Issue of share capital	17	57,773	14,896	(64,905)	(7,764)	-	-	-	-	-	-	-
Loss for the year		-	-	-	-	-	-	-	(47,602)	(47,602)	-	(47,602)
Other comprehensive income for the year		-	-	-	-	-	733	-	-	733	-	733
Total comprehensive income (loss) for the year		-	-	-	-	-	733	-	(47,602)	(46,869)	-	(46,869)
Bonus shares issued during the year	17	18,977	-	-	-	-	-	-	(18,977)	-	-	-
Zakat contribution	26,30	-	-	-	-	-	-	-	(79)	(79)	-	(79)
Employee share ownership plan vesting charge	24	-	-	-	-	-	-	853	-	853	-	853
Balance at 31 December 2010		250,000	28,429	-	(22,764)	10,414	2,229	5,064	(33,670)	239,702	-	239,702

		Attributable to the shareholders of the parent										
	Note	Share capital	Share premium	Funds received towards capital increase	Unvested ESOP shares	Statutory reserve	Investment fair value reserve	ESOP reserve	Retained earnings (accumulated losses)	Total before non-controlling interests	Non-controlling interests	Total
		USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000
Balance at 1 January 2009		165,000	13,533	-	(15,000)	9,314	(85)	3,073	49,352	225,187	13	225,200
Profit (loss) for the year		-	-	-	-	-	-	-	11,013	11,013	(9)	11,004
Other comprehensive income for the year		-	-	-	-	-	1,581	-	-	1,581	-	1,581
Total comprehensive income (loss)		-	-	-	-	-	1,581	-	11,013	12,594	(9)	12,585
Transfer to statutory reserve		-	-	-	-	1,100	-	-	(1,100)	-	-	-
Dividends declared for 2008		-	-	-	-	-	-	-	(16,293)	(16,293)	-	(16,293)
Directors' remuneration for 2008		-	-	-	-	-	-	-	(1,534)	(1,534)	-	(1,534)
Bonus shares issued during the year	17	8,250	-	-	-	-	-	-	(8,250)	-	-	-
Zakat contribution	26,30	-	-	-	-	-	-	-	(191)	(191)	-	(191)
Funds received towards capital increase	17	-	-	64,905	-	-	-	-	-	64,905	-	64,905
Employee share ownership plan vesting charge	24	-	-	-	-	-	-	1,138	-	1,138	-	1,138
Acquisition of non-controlling interest		-	-	-	-	-	-	-	(9)	(9)	(4)	(13)
Balance at 31 December 2009		173,250	13,533	64,905	(15,000)	10,414	1,496	4,211	32,988	285,797	-	285,797

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 USD' 000	2009 USD' 000
OPERATING ACTIVITIES			
(Loss) profit for the year		(47,602)	11,004
Adjustments for non-cash items:			
Loss (gain) from investment securities	19	13,658	(7,005)
Share of results of associates and joint venture accounted under the equity method	10	3,200	2,234
Employee share ownership plan vesting charge		853	1,138
Impairment allowances	21	30,999	6,410
Depreciation	15	1,612	1,343
Operating profit before changes in operating assets and liabilities		2,720	15,124
Changes in operating assets and liabilities:			
Investment securities		(33,128)	(8,563)
Receivable from investment banking services		(6,811)	(691)
Short term funding to project companies		(17,044)	(6,024)
Other assets		11,547	(1,184)
Employee accruals		18	(8,768)
Other liabilities		(5,557)	5,700
Net cash used in operating activities		(48,254)	(4,406)
INVESTING ACTIVITIES			
Purchase of property and equipment		(75)	(10,208)
Purchase of investment in associates and joint venture accounted under the equity method		(1,481)	(459)
Proceeds from sale (purchase) of investment property		53,873	(54,413)
Acquisition of non-controlling interest		-	(13)
Net cash from (used in) investing activities		52,317	(65,093)
FINANCING ACTIVITIES			
Repayment of Islamic financing payables		(13,384)	13,140
Payable on acquisition of investment property		(41,737)	41,737
Funds received towards capital increase		-	64,905
Dividend and other appropriations paid		-	(17,827)
Zakah contribution		(79)	(191)
Net cash (used in) from financing activities		(55,200)	101,764
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(51,137)	32,265
Cash and cash equivalents at beginning of the year		65,076	32,811
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	8	13,939	65,076
Cash and cash equivalents per the statement of financial position			
Balances with banks		2,672	14,287
Placements with financial institutions		11,267	50,789
		13,939	65,076

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2010

2010	Balance as at 1 January USD' 000	Investment/ withdrawal USD' 000	Fair value movement / (impairment) USD' 000	Gross income USD' 000	Dividends paid USD' 000	Bank's fees as an agent USD' 000	Balance as at 31 December USD' 000
	Movements during the year						
GCC Pre IPO Fund	4,471	-	(595)	2	-	-	3, 878
VC Bank Investment Projects Mudarabah	12,308	-	-	887	(792)	(62)	12, 341
Balance as at 31 December 2010	16,779	-	(595)	889	(792)	(62)	16, 219
2009							
GCC Pre IPO Fund	4,615	(146)	(127)	129	-	-	4, 471
VC Bank Investment Projects Mudarabah	-	12, 000	-	331	-	(23)	12, 308
Balance as at 31 December 2009	4,615	11, 854	(127)	460	-	(23)	16, 779

	2010 USD' 000	2009 USD' 000
Investment in equities	3, 681	4, 276
Funds in short term murabaha	12, 538	12, 503
Total	16, 219	16, 779

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 VC Bank Investment Projects Mudarabah provides an opportunity for investors to earn attractive returns from providing liquidity financing to selected investment projects from the portfolio of projects promoted by the Bank.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH FUND

For the year ended 31 December 2010

	Note	2010 USD' 000	2009 USD' 000
Sources of Zakah Fund			
Contribution by the Group	30	79	191
Total sources of Zakah Fund		79	191
Uses of Zakah Fund			
Contributions to charitable organisations	30	79	191
Total uses of Zakah Fund		79	191
Undistributed Zakah Fund at 31 December		-	-

The attached notes 1 to 37 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Incorporation

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.

Activities

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.

These consolidated financial statements were approved by the Bank's Board of Directors on 20 February 2011.

2 BASIS OF PREPARATION

Statement of compliance

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

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention as modified for the remeasurement at fair value of investment securities, and are presented in United States Dollars (USD) which is the functional currency of the Group. All values are rounded off to the nearest thousand (USD 000's) unless otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (together "the Group"). A subsidiary is an entity that the Group has the power to control so as to obtain economic benefits and therefore excludes those held in a fiduciary capacity. The financial statements of the subsidiary are prepared for the same reporting period as the Bank, using consistent accounting policies.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profit and losses are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statements of income and comprehensive income and within equity, separately from the parent shareholders' equity.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgements and estimates are discussed below:

Going concern

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

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as "held for trading", "available-for-sale" or "held to maturity". 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Fair value of financial instruments

Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies/funds. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

Details of estimates and related sensitivity analysis are disclosed in notes 35 and 36.

Impairment on assets carried at amortised cost

Judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the liquidity of the project, evidence of deterioration in the financial health of the project, impacts of delays in execution and the net realisable value of any underlying assets. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Each asset is assessed on its merits, and the strategy to recover and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Finance and Investment Committee.

Impairment of available-for-sale investments

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the investment's fair value compared to cost. The determination of what is 'significant' or 'prolonged' requires judgement and is assessed for each investment separately. In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than six months as prolonged. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

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 investments in long-term real estate development projects. In making a judgement of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Consolidation of special purpose entities (SPEs)

The Group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments. The Group provides nominee, corporate administration, investment management and advisory services to these SPEs, 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 SPEs 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's intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

4 CHANGES IN ACCOUNTING POLICIES

Revised standards, amendments to standards and interpretations issued but not yet effective

As of 31 December 2010, the International Accounting Standards Board (IASB) has issued a number of new standards, amendments to standards and interpretations that are not yet effective. The standards and interpretations issued, which the Group reasonably expects to be applicable at a future date are discussed below. The Group intends to adopt those standards when they become effective.

IFRS 9 - Financial Instruments

IFRS 9 as issued reflects the first phase of IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting IFRS 9. However, as the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

IAS 24 -Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government related entities or for the entire standard.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 New and amended standards and interpretation

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- *IFRS 2 Share-based Payment (Revised)*
- *IFRS 3 Business combinations (Revised)*
- *IAS 27 Consolidated and Separate Financial Statements (Amended)*
- *IFRIC 17 Distribution of Non-cash Assets to Owners*
- *Financial Accounting Standard No. 23 -Consolidation*
- *Financial Accounting Standard No. 24 -Associates*

These amendments did not have any impact on the Group's consolidated financial position or performance during the year.

5.2 Improvements to IFRSs

In May 2008 and April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following improvements did not have any impact on the accounting policies, financial position or performance of the Group:

IAS 1 -Presentation of Financial Statements

IAS 7 -Statement of Cash Flows

IFRS 2 -Share-based Payment IAS 17 -Leases

IAS 34 - Interim Financial Reporting

IAS 36 - Impairment of Assets

IAS 39 - Financial Instruments: Recognition and Measurement

5.3 Significant accounting policies

(a) 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

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in equity as part of the fair value adjustment of the respective items. Fair value differences arising from investments in associates denominated in a foreign currency are taken to "foreign currency translation reserve" forming part of equity.

(iii) Group companies

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(b) Financial assets and liabilities

(i) Recognition and de-recognition

Financial assets of the Group comprise cash and balances with banks, placements with financial institutions, investment securities (other than associates and joint ventures that are equity accounted), and receivable from investment banking services, short-term financing to project companies and other receivables. Financial liabilities of the Group comprise Islamic financing payables, employee accruals and other liabilities. All financial assets (except investment securities) and financial liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).

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

(i) the right to receive cash flows from the asset has expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification of financial assets and liabilities

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

(iii) Measurement principles

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

Fair value measurement

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

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

Amortised cost

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

(c) 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 profit or loss; held-to-maturity investments; and available-for-sale investments.

(i) Classification

Investments carried at fair value through profit or loss are financial assets that are either held for trading or which upon initial recognition are designated as such by the Group.

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

The Group designates investment securities as fair value through profit or loss at inception only when it is managed, evaluated and reported internally on a fair value basis. These include certain private equity investments, including investments in certain associates and joint ventures.

Held-to-maturity investments are investment securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. The Group currently does not hold any heldto-maturity investments.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in certain quoted and unquoted equity securities.

(ii) Initial recognition

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on investments carried at fair value through profit or loss are expensed in the statement of income when incurred.

(iii) Subsequent measurement

Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the consolidated statement of income in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the consolidated statement of comprehensive income and presented in 'Investment fair value reserve' within equity. When available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in equity is transferred to the consolidated statement of income.

Held-to-maturity investments are carried at amortised cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances.

(iv) Fair value measurement principles

The determination of fair value for investment securities depends on the accounting policy as set out below:

(i) For investments quoted in an active market, fair value is determined by reference to quoted market prices;

(ii) For investments in unit funds, fair value is determined based on the latest net asset value provided by the fund manager; and

(iii) For unquoted investments, where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as expected cash flows, expected scale of activity, EBITDA multiples and discount rates.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(c) Investment securities (continued)

(v) Impairment of investment securities

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

In case of available-for-sale equity securities carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. 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 consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

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.

(d) Other financial assets carried at amortised cost

All other financial assets are classified as loans and receivables and are carried at amortised cost less impairment allowances. Impairment loss 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 statement of income and reflected in an allowance account against the respective financial asset.

(i) Investment property

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the Group, are classified as investment properties and are accounted for under the cost method net of accumulated depreciation. Investment property comprises freehold land and building. Land is not depreciated. Building is depreciated over its economic useful life of 40 years using the straight line method.

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

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

(e) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with banks and placements with financial institutions with original maturities of ninety days or less.

(f) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over the following estimated useful lives. Residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting dat

Investment property	40 years
Office equipment	4 years
Furniture and fixtures	5 years
Motor vehicles	4 years

(g) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

(h) Financing liabilities

Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Finance expense is recognised in the consolidated statement of income on a time-apportioned basis at the effective profit rate.

(i) Financial guarantees

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

(j) Dividends and Board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are approved by the shareholders at the Bank's Annual General Meeting.

(k) Share capital and statutory reserve

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

Treasury shares

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

Statutory reserve

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(l) Revenue recognition

Income from investment banking services

Income from investment banking services comprise income from investment advisory and structuring income, advisory fee, placement and arrangement fee and other fees arising from related activities, as further explained below:

(i) Investment advisory and structuring income

Investment advisory and structuring income is recognised when the service is provided and income is earned. This is usually when the Group 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 Group.

(ii) Fee income

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

(iii) Income from placements with financial institutions

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

Dividend income

Dividend income is recognised when the right to receive payment is established.

(m) Operating leases

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

(n) Restricted investment accounts

Restricted investment accounts represent assets acquired using funds provided by holders of restricted investment accounts 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 Group in the consolidated financial statements.

(o) 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 Social Insurance Organisation for Bahrain (SIO) 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 consolidated statement of income when they are due.

(ii) Post employment benefits

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

(iii) Share based payment transactions

The Group has established an employee share ownership plan (ESOP) under which employees are entitled to purchase units in the ESOP on a deferred payment basis. Each unit carries the rights to benefits of ownership of one share of the Bank upon completion of a five year service 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 statement of income 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 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 meet the related service conditions at the vesting date.

(p) 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.

(q) Segment reporting

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

(r) Zakah

In the absence of appointment of the Bank to pay Zakah on behalf of the shareholders, the responsibility of payment of Zakah is on individual shareholders of the Group.

(s) Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, if and only if there is a legally enforceable or religious right (based on Shari'ah) to set off the recognised amounts and the Group intends to settle on a net basis.

6 INVESTMENT IN SUBSIDIARIES

Key subsidiaries of the Group, all of which have 31 December as their year end, are listed below. There is no change in the percentage holding of the subsidiaries during the year and all of them are wholly owned.

Name of subsidiary	Year of incorporation	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	Kingdom of Bahrain	To own an interest in and operate the VC Bank Building.
Lime Restaurant Management and Catering Services Co. W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage restaurant and catering services companies.
The Lounge Serviced Offices Company W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
Mena SME Fund Manager Limited	2006	Cayman Island	Fund manager to Mena SME Fund LP.
VC Bank ESOP S.P.C.	2008	Kingdom of Bahrain	To hold employee share ownership plan shares on behalf of the employees of the Bank.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group's financial instruments have been classified for the purpose of measurement under International Accounting Standard 39: Financial Instruments: Recognition and Measurement as follows:

At 31 December 2010	Fair value through profit and loss USD' 000	Available-for-sale USD' 000	Amortised cost / cost USD' 000	Total 2010 USD' 000
ASSETS				
Balances with banks	-	-	2,672	2,672
Placements with financial institutions	-	-	11,267	11,267
Investment securities	86,206	49,190	-	135,396
Receivable from investment banking services	-	-	13,837	13,837
Short term funding to project companies	-	-	20,975	20,975
Other assets	-	-	11,942	11,942
TOTAL FINANCIAL ASSETS	86,206	49,190	60,693	196,089
Restricted investment accounts	-	3,681	12,538	16,219

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2009	Fair value through profit and loss USD' 000	Available-for-sale USD' 000	Amortised cost / cost USD' 000	Total 2009 USD' 000
ASSETS				
Balances with banks	-	-	14,287	14,287
Placements with financial institutions	-	-	50,789	50,789
Investment securities	76,362	52,897	-	129,259
Receivable from investment banking services	-	-	9,925	9,925
Short term funding to project companies	-	-	14,418	14,418
Other assets	-	-	23,618	23,618
TOTAL FINANCIAL ASSETS	76,362	52,897	113,037	242,296
Restricted investment accounts	-	4,276	12,503	16,779

At 31 December 2010, all the financial liabilities of the Group are classified under 'Amortised cost/ cost' amounting to USD 9,544 thousand (31 December 2009: USD 70,204 thousand).

8 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2010 USD' 000	2009 USD' 000
Short-term placements	11,271	50,827
Less: Deferred profits	(4)	(38)
	11,267	50,789

Short-term placements comprise commodity murabaha and wakala deals entered into for cash management purposes with local and regional banks of good credit standing. These carry annual profit rates ranging between 2.70% and 4.00% (2009: 0.45% and 3.50%).

9 INVESTMENT SECURITIES

	2010 USD' 000	2009 USD' 000
Investments at fair value through profit or loss		
Quoted - equities held for trading	1,293	1,351
Unquoted:		
Joint venture	13,572	28,672
Equity securities	54,370	33,382
Funds	16,971	12,957
	86,206	76,362
Available-for-sale investments		
Quoted - equities	5,756	5,832
Unquoted - equities	43,192	46,823
Managed funds - at net asset value	242	242
	49,190	52,897
	135,396	129,259

Summarised financial information for investment in joint ventures and associates at fair value through profit or loss are as follows:

	2010 USD' 000	2009 USD' 000
Total assets	91,684	104,622
Total liabilities	56,561	56,544
Total revenues	1,388	1,445
Total net loss for the year	(9,284)	(9,005)

Available-for-sale investment securities

Investments with a carrying value of USD 43,192 thousand (2009: USD 46,823 thousand) in unquoted equities are stated at cost less impairment in the absence of a reliable measure of fair value. The Group has insignificant shareholding in some of these companies and accordingly is unable to obtain reliable information to perform valuation of these investments. Further, some of the investments are either private equity investments managed by external investment managers or represent investments in real estate development projects / start-up entities promoted by the Group. The Group intends to exit these investments principally by means of sale to strategic buyers or at the time of sale of the underlying assets in these investments.

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED UNDER THE EQUITY METHOD

The Group has the following associates and joint venture as at 31 December:

Name of associate	Nature of business	Country of incorporation	% holding 2010	% holding 2009
Mozon Holding SA	Investment development	Morocco	20	20
German Medical Centre Bahrain	Specialist orthopaedic hospital	Kingdom of Bahrain	30	30
Dari Holdings	Real estate development	Kingdom of Bahrain	43	43
House of Development	Software development	Kingdom of Saudi Arabia	49	49
Venture Capital Fund, Bahrain	SME investment fund	Kingdom of Bahrain	30	20

Name of joint venture	Nature of business	Country of incorporation	% holding 2010	% holding 2009
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	50	50

	2010 USD' 000	2009 USD' 000
Associates	9,962	14,721
Joint venture	21,715	22,093
	31,677	36,814

Movement in investments in associates and joint venture accounted under equity method is as follows:

	2010 USD' 000	2009 USD' 000
At 1 January	36,814	17,147
Acquisitions / additional investments during the year	1,481	459
Reclassification from asset held-for-sale	-	22,843
Consolidation of a joint venture upon full acquisition	-	(1,358)
Reclassification to available-for-sale investment on dilution	-	(43)
Share of losses of associates and joint venture, net	(3,200)	(2,234)
Impairment allowance	(3,418)	-
	31,677	36,814

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED UNDER THE EQUITY METHOD (continued)

	2010 USD' 000	2009 USD' 000
Total assets	97,161	94,219
Total liabilities	30,720	22,386
Total revenues	1,205	475
Total net (loss) profit for the year	(4,602)	(5,333)

11 INVESTMENT PROPERTY

	2010 USD' 000	2009 USD' 000
Land carried at cost	9,130	9,130
Building	-	53,754
	9,130	62,884

The land is located in the Kingdom of Bahrain. The fair value of the land as at 31 December 2010 is approximately USD 17.95 million (31 December 2009: USD 15 million) and was determined based on the valuation from an independent external valuer.

During February 2010, the Group transferred their beneficial rights in the investment property for USD 65 million to Liquidity Finco along with the associated liabilities. This resulted in derecognition of the investment property and the corresponding Islamic financing payable and payable on acquisition of investment property. The Group has a fiduciary responsibility to manage the property under an operators agreement with Liquidity Finco.

12 RECEIVABLE FROM INVESTMENT BANKING SERVICES

	2010 USD' 000	2009 USD' 000
Gross receivables	17,816	11,005
Less: impairment allowance	(3,979)	(1,080)
	13,837	9,925

Movement in impairment allowance for receivables from investment banking services is as follows:

	2010 USD' 000	2009 USD' 000
At 1 January	1,080	-
Charge for the year (note 21)	2,899	1,080
At 31 December	3,979	1,080

13 SHORT TERM FUNDING TO PROJECT COMPANIES

	2010 USD' 000	2009 USD' 000
Gross funding	32,212	15,168
Less: impairment allowances	(11,237)	(750)
	20,975	14,418

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

Movement in impairment allowance for short term funding to project companies is as follows:

	2010 USD' 000	2009 USD' 000
At 1 January	750	-
Charge for the year (note 21)	10,487	750
At 31 December	11,237	750

14 OTHER ASSETS

	2010 USD' 000	2009 USD' 000
Investment sale proceeds receivable	7,498	-
Advances to acquire investments	159	22,633
Project costs recoverable	2,440	1,798
Other receivables	3,302	515
Less: impairment allowances	(1,457)	(1,328)
	11,942	23,618

Movement in impairment allowances is as follows:

	2010 USD' 000	2009 USD' 000
At 1 January	1,328	749
Charge for the year (note 21)	129	579
At 31 December	1,457	1,328

15 PROPERTY AND EQUIPMENT

	Building USD' 000	Office equipment USD' 000	Furniture and fixtures USD' 000	Motor vehicles USD' 000	2010 Total USD' 000
Cost					
At 1 January 2010	9,794	1,190	4,817	534	16,335
Additions during the year	-	41	34	-	75
At 31 December 2010	9,794	1,231	4,851	534	16,410
Depreciation					
At 1 January 2010	-	527	1,562	359	2,448
Charge for the year	306	352	820	134	1,612
At 31 December 2010	306	879	2,382	493	4,060
Net book value at 31 December 2010	9,488	352	2,469	41	12,350
Net book value at 31 December 2009	9,914	663	3,255	175	14,007

16 OTHER LIABILITIES

	2010 USD' 000	2009 USD' 000
Accounts payable	1,376	848
Provisions and accruals	1,625	1,525
Deferred income	211	1,270
Payable towards acquisition of investment securities	-	3,613
Dividends payable	-	1,284
Other	503	732
	3,715	9,272

17 SHARE CAPITAL

	2010 USD' 000	2009 USD' 000
Authorised: 500,000,000 ordinary shares of USD 1 each	500,000	500,000
Issued and fully paid up: 250,000,000 shares of USD 1 each (2009: 173,250,000 shares of USD 1 each)	250,000	173,250

At the annual general meeting held on 22 March 2010, the shareholders approved:

- Issue of bonus shares of 8.5% on shares outstanding as at 31 December 2009 resulting in increase of paid-up capital by USD 18,977 thousand;
- Allocation of 7,764 thousand shares at par towards the Bank's Employee Share Ownership Plan; and
- Appropriation to statutory reserve of USD 1,100 thousand.

During the first quarter of 2010, the Bank completed the capital increase process which had been initiated pursuant to the resolution of the Extraordinary General Meeting held on 4 June 2009. Accordingly, the Bank increased its paid up capital by USD 50.01 million through a rights issue to existing shareholders of 37.77 million shares at a price of USD 1.20 per share, and an issue of 12.24 million shares to new investors at a price of USD 1.60 per share.

Share premium

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

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year has to be transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. As the Group incurred losses during the year, no appropriations were made to the statutory reserve.

Investment revaluation reserve

The unrealised fair value gains or losses from revaluation of available-for-sale investments, if not determined to be impaired, are recorded under the investment revaluation reserve in equity. Upon disposal of such assets, the related cumulative gains or losses are transferred to the consolidated statement of income.

18 INCOME FROM INVESTMENT BANKING SERVICES

	2010 USD' 000	2009 USD' 000
Investment advisory and structuring income	7,897	21,433
Investment management and advisory fees	5,077	3,096
Placement and arrangement fees	275	90
	13,249	24,619

19 (LOSS) GAIN ON INVESTMENT SECURITIES

	2010 USD' 000	2009 USD' 000
Trading securities	(28)	642
Investments designated at fair value through profit or loss	(13,650)	2,301
Available-for-sale investments	20	4,062
	(13,658)	7,005

Details of income by nature are as follows:

2010	Trading USD' 000	Designated at fair value USD' 000	Available-for-sale USD' 000	Total USD' 000
Fair value losses	(58)	(15,100)	-	(15,158)
Profit on sale	-	-	-	-
Dividends	30	1,450	20	1,500
	(28)	(13,650)	20	(13,658)

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

20 STAFF COSTS

	2010 USD' 000	2009 USD' 000
Salaries and benefits	8,932	8,974
Social insurance expenses	951	778
Other staff expenses	7	11
	9,890	9,763

21 IMPAIRMENT ALLOWANCES

	2010 USD' 000	2009 USD' 000
Available for sale investments	14,066	4,001
Investment in associates and joint venture (note 10)	3,418	-
Receivable from investment banking services (note 12)	2,899	1,080
Short term funding to project companies (note 13)	10,487	750
Other assets (note 14)	129	579
	30,999	6,410

22 OTHER EXPENSES

	2010 USD' 000	2009 USD' 000
Rent and office expenses	1,691	1,896
Publicity, conferences and promotion	192	203
Board and Shari'ah expenses	408	356
Others	24	56
	2,315	2,511

23 FINANCE INCOME AND EXPENSE

	2010 USD' 000	2009 USD' 000
Finance income		
Income from placements with financial institutions	787	594
Short term funding to project companies	76	102
	863	696
Finance expense		
Financing expense	(254)	(28)
Net finance income	609	668

24 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 five year service 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 and participation in bonus rights conditional on completion of the five year service period and settlement of the cost of the units. The cost to the Bank, representing the fair value of the units offered at each grant date, is determined by an independent firm of accountants using the Black-Scholes model, and is recognised as an expense in the consolidated statement of income over the vesting period with corresponding increase in the ESOP reserve recognised as a separate component in the consolidated statement of changes in equity.

The shareholders have authorised issue of up to 25 million shares to the ESOP under this scheme. The Group has incorporated VC Bank ESOP SPC (ESOP Vehicle), a special purpose vehicle, to hold the shares for the benefit of the participating employees until they vest. The shares issued to the ESOP are treated as treasury shares until they unconditionally vest to the benefit of the employees.

As at 31 December 2010, 12.788 million units (31 December 2009: 11.786 million units) which had been granted under the terms of the ESOP were outstanding. During the year 2010, the Bank did not grant any new units to its employees. The vesting charge for the current year net of forfeiture amounted to USD 853 thousand (2009: USD 1,138 thousand).

25 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties.

A significant portion of the Group's income from investment banking services and management fees are from entities over which the Group exercises influence. Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are mostly third parties and are the economic beneficiaries of the underlying investments.

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

2010	Associates and joint venture USD' 000	Key management personnel USD' 000	Significant shareholders / entities in which directors are interested USD' 000	Assets under management including special purpose entities USD' 000	Total USD' 000
Assets					
Balances with banks	-	-	404	-	404
Placements with financial institutions	-	-	2,255	-	2,255
Investment securities	-	-	63,019	13,548	76,566
Investments in associates and joint ventures	-	-	-	104,493	104,493
Receivable from investment banking services	1,002	-	5,022	-	6,024
Short term funding to project companies	13,128	-	1,296	-	14,424
Other assets	110	-	88	-	198
Liabilities					
Employee accruals	-	2,161	-	-	2,161
Payable on acquisition of investment property	-	-	-	-	-
Payables	-	-	-	-	-
Income					
Income from investment banking services	1,792	-	3,318	-	5,109
Income from investment securities	-	-	-	-	-
Share of profit/ (loss) of associates and joint venture accounted for using the equity method	3,200	-	-	-	3,200
Other income	-	-	-	-	-
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	3,418	-	10,133	-	13,551
Impairment allowances against receivables	6,227	-	7,217	-	13,444
Commitments and contingencies	435	-	11,831	-	12,266
Restricted investment accounts	12,341	-	-	-	12,341

25 RELATED PARTY TRANSACTIONS (continued)

2009	Associates and joint venture USD' 000	Key management personnel USD' 000	Significant shareholders / entities in which directors are interested USD' 000	Assets under management including special purpose entities USD' 000	Total USD' 000
Assets					
Balances with banks	-	-	127	-	127
Placements with financial institutions	-	-	265	-	265
Investment securities	-	-	1,628	52,395	54,023
Investments in associates and joint ventures	77,276	-	-	-	77,276
Receivable from investment banking services	3,330	-	-	7,160	10,490
Short term funding to project companies	3,601	-	3,466	1,170	8,237
Other assets	14	-	-	28,141	28,155
Liabilities					
Employee accruals	-	1,670	-	-	1,670
Payable on acquisition of investment property	41,737	-	-	-	41,737
Payables	1,270	-	-	-	1,270
Income					
Income from investment banking services	10,160	-	-	-	10,160
Income from investment securities	100	-	-	-	100
Share of profit/ (loss) of associates and joint venture accounted for using the equity method	(2,234)	-	-	-	(2,234)
Other income	626	-	-	-	626
Expenses (excluding compensation for key management personnel)					
Impairment allowances on investments	-	-	250	-	250
Impairment allowances on receivables	400	-	750	-	1,150
Commitments and contingencies	-	-	21,644	-	21,644
Restricted investment accounts	12,308	-	-	-	12,308

Key management personnel

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

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

Categories*	2010		2009	
	Number of Shares	Number of Directors	Number of Shares	Number of Directors
Less than 1%	5,928,122	4	3,574,167	3
1% up to less than 5%	3,255,000	1	6,628,539	2

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

Details of material contracts involving directors include:

	2010 USD' 000	2009 USD' 000
Directors' participation in investments promoted by the Group	12,704	13,975

The key management personnel compensation is as follows:

	2010 USD' 000	2009 USD' 000
Board member fees	255	142
Share-based payments	516	549
Salaries and other short-term benefits	2,091	2,262
	2,862	2,953

Terms and conditions of transactions with related parties

The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at commercial profit rates and fees. The above mentioned transactions and balances arose from the ordinary course of business of the Group. Outstanding balances at the year end are unsecured.

26 ZAKAH

In accordance with the Articles of Association, the Bank is not required to collect or pay Zakah on behalf of its shareholders or restricted investment accounts holders. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of Zakah on each share held in the Bank. Zakah payable by the shareholders is computed by the Bank based on the method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of each share for the year ended 31 December 2010 is US cents 0.4843 for every share held (31 December 2009: US cents 0.1807 for every share held). Investors should be aware that the ultimate responsibility of calculating and paying the zakah due on them is their sole responsibility.

27 EARNINGS PROHIBITED BY SHARI'AH

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. There were no earnings from non-Islamic sources during the year (2009: nil).

28 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.

29 SOCIAL RESPONSIBILITY

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

30 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:

	2010 USD' 000	2009 USD' 000
Zakah	79	191

31 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and liabilities and unrecognised commitments on the basis of their expected maturities. The amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 35 (c).

2010	No fixed maturity USD' 000	Up to 3 months USD' 000	3 to 6 months USD' 000	6 months to 1 year USD' 000	Total up to 1 year USD' 000	1 to 3 years USD' 000	Over 3 years USD' 000	Total USD' 000
Assets								
Balances with banks	-	2,672	-	-	2,672	-	-	2,672
Placements with financial institutions	-	11,267	-	-	11,267	-	-	11,267
Investment securities	135,396	-	-	-	-	-	-	135,396
Investments in associates and joint venture	31,677	-	-	-	-	-	-	31,677
Investment property	9,130							9,130
Receivable from investment banking services	-	4,792	450	1,021	6,263	4,774	2,800	13,837
Short term funding to project companies	-	3,868	4,911	1,000	9,779	11,196	-	20,975
Other assets	-	10,810	306	84	11,200	742	-	11,942
Property and equipment	12,350	-	-	-	-	-	-	12,350
Total assets	188,553	33,409	5,667	2,105	41,181	16,712	2,800	249,246
Liabilities								
Islamic financing payables	-	-	44	-	44	-	-	44
Payable on acquisition of investment property	-	-	-	-	-	-	-	-
Employee accruals	-	-	-	-	-	2,096	3,689	5,785
Other liabilities	-	3,715	-	-	3,715	-	-	3,715
Total liabilities	-	3,715	44	-	3,759	2,096	3,689	9,544
Net liquidity gap	188,553	29,694	5,623	2,105	37,422	14,616	(889)	277,124
Cumulative liquidity gap	188,553	218,247	223,870	225,975	263,397	278,013	277,124	-

2009	No fixed maturity USD' 000	Up to 3 months USD' 000	3 to 6 months USD' 000	6 months to 1 year USD' 000	Total up to 1 year USD' 000	1 to 3 years USD' 000	Over 3 years USD' 000	Total USD' 000
Assets								
Balances with banks	-	14,287	-	-	14,287	-	-	14,287
Placements with financial institutions	-	50,789	-	-	50,789	-	-	50,789
Investment securities	129,259	-	-	-	-	-	-	129,259
Investments in associates and joint venture	36,814	-	-	-	-	-	-	36,814
Investment property	62,884							62,884
Receivable from investment banking services	-	323	2,810	3,247	6,380	1,833	1,712	9,925
Short term funding to project companies	-	-	5,034	-	5,034	5,090	4,294	14,418
Other assets	-	-	22,172	126	22,298	905	415	23,618
Property and equipment	14,007	-	-	-	-	-	-	14,007
Total assets	242,964	65,399	30,016	3,373	98,788	7,828	6,421	356,001
Liabilities								
Islamic financing payables	-	13,262	47	48	13,357	71	-	13,428
Payable on acquisition of investment property	-	6,564	12,535	11,434	30,533	11,205	-	41,738
Employee accruals	-	-	-	-	-	1,986	3,781	5,767
Other liabilities	-	9,272	-	-	9,272	-	-	9,272
Total liabilities	-	29,098	12,582	11,482	53,162	13,262	3,781	70,205
Net liquidity gap	242,964	36,301	17,434	(8,109)	45,626	(5,434)	2,640	331,422
Cumulative liquidity gap	242,964	279,265	286,699	288,590	334,216	328,782	331,422	-

32 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND RESTRICTED INVESTMENT ACCOUNTS

a) 2010 Industry

2010	Trading and Manufacturing USD' 000	Banks and financial Institutions USD' 000	Real estate USD' 000	Oil and Gas USD' 000	Health care USD' 000	Technology USD' 000	Shipping USD' 000	Others USD' 000	Total USD' 000
Assets									
Balances with banks	-	2,672	-	-	-	-	-	-	2,672
Placements with financial institutions	-	11,267	-	-	-	-	-	-	11,267
Investment securities	29,145	21,971	31,276	10,174	10,160	-	17,768	14,902	135,396
Investment in associates and joint ventures	-	4,438	22,999	-	2,464	-	-	1,776	31,677
Investment property	-	-	9,130	-	-	-	-	-	9,130
Receivable from investment banking services	330	668	2,856	-	304	-	2,025	7,653	13,836
Short term funding to project companies	2,737	2,175	7,046	-	6,243	2,774	-	-	20,975
Other assets	182	2,753	128	-	84	15	76	8,704	11,942
Property and equipment	-	-	9,488	-	-	-	-	2,862	12,350
Total assets	32,394	45,944	82,923	10,174	19,255	2,789	19,869	35,897	249,246
Liabilities									
Financing payables	-	44	-	-	-	-	-	-	44
Payable on acquisition of investment property	-	-	-	-	-	-	-	-	-
Employee accruals	-	-	-	-	-	-	-	5,785	5,785
Other liabilities	249	-	-	-	-	-	-	3,466	3,715
Total liabilities	249	44	-	-	-	-	-	9,251	9,544
Commitments and contingencies	9,441	37,260	17,666	-	-	-	-	-	64,367
Restricted investment accounts	-	3,294	12,341	-	-	-	-	584	16,219

2009	Trading and Manufacturing USD' 000	Banks and financial Institutions USD' 000	Real estate USD' 000	Oil and Gas USD' 000	Health care USD' 000	Technology USD' 000	Shipping USD' 000	Others USD' 000	Total USD' 000
Assets									
Balances with banks	-	14,287	-	-	-	-	-	-	14,287
Placements with financial institutions	-	50,789	-	-	-	-	-	-	50,789
Investment securities	25,244	991	57,556	9,662	2,650	-	17,255	15,901	129,259
Investment in associates and joint ventures	-	2,946	24,007	-	3,363	1,690	-	4,808	36,814
Investment property	-	-	62,884	-	-	-	-	-	62,884
Receivable from investment banking services	210	3,127	3,650	-	1,966	200	-	772	9,925
Short term funding to project companies	1,170	-	6,777	-	3,864	2,607	-	-	14,418
Other assets	171	285	463	5	562	473	-	21,659	23,618
Property and equipment	-	-	9,914	-	-	-	-	4,093	14,007
Total assets	26,795	72,425	165,251	9,667	12,405	4,970	17,255	47,233	356,001
Liabilities									
Financing payables	-	13,428	-	-	-	-	-	-	13,428
Payable on acquisition of investment property	-	-	-	-	-	-	-	41,738	41,738
Employee accruals	-	-	-	-	-	-	-	5,767	5,767
Other liabilities	497	3,300	-	-	-	-	313	5,162	9,272
Total liabilities	497	16,728	-	-	-	-	313	52,667	70,205
Commitments and contingencies	8,437	-	21,644	-	7,300	-	-	-	37,381
Restricted investment accounts	-	3,292	12,308	-	-	-	-	1,178	16,778

32 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic region

The following table shows the assets and liabilities of the Group, classified into geographical regions based on the domicile of the entity for the year ended 31 December:

2010	GCC countries USD' 000	Other MENA countries USD' 000	Europe USD' 000	Cayman / Americas USD' 000	Total USD' 000
Assets					
Balances with banks	2,672	-	-	-	2,672
Placement with financial institutions	11,267	-	-	-	11,267
Investment securities	85,043	17,154	16,228	16,971	135,396
Investment in associates and joint venture	29,900	1,777	-	-	31,677
Investment property	9,130	-	-	-	9,130
Receivable from investment banking services	11,190	330	2,025	292	13,837
Short term funding to project companies	15,464	2,737	-	2,774	20,975
Other assets	11,668	198	76	-	11,942
Property and equipment	12,350	-	-	-	12,350
Total assets	188,684	22,196	18,329	20,037	249,246
Liabilities					
Financing payable	44	-	-	-	44
Payable on acquisition of investment property	-	-	-	-	-
Employee accruals	5,785	-	-	-	5,785
Other liabilities	3,466	249	-	-	3,715
Total liabilities	9,295	249	-	-	9,544
Commitments and contingencies	54,926	9,441	-	-	64,367
Restricted investment accounts	16,219	-	-	-	16,219

2009	GCC countries USD' 000	Other MENA countries USD' 000	Europe USD' 000	Cayman / Americas USD' 000	Total USD' 000
Assets					
Balances with banks	14,202	85	-	-	14,287
Placement with financial institutions	50,523	266	-	-	50,789
Investment securities	82,221	17,853	16,228	12,957	129,259
Investment in associates and joint venture	30,319	1,859	4,636	-	36,814
Investment property	62,884	-	-	-	62,884
Receivable from investment banking services	6,144	454	200	3,127	9,925
Short term funding to project companies	10,641	1,170	2,607	-	14,418
Other assets	23,143	463	-	12	23,618
Property and equipment	13,196	811	-	-	14,007
Total assets	293,273	22,961	23,671	16,096	356,001
Liabilities					
Financing payable	13,428	-	-	-	13,428
Payable on acquisition of investment property	-	-	-	41,738	41,738
Employee accruals	5,767	-	-	-	5,767
Other liabilities	5,162	497	3,613	-	9,272
Total liabilities	24,357	497	3,613	41,738	70,205
Commitments and contingencies	28,943	8,438	-	-	37,381
Restricted investment accounts	16,779	-	-	-	16,779

33 FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group acting as the custodian of the assets and or making decisions on behalf of such entities in a fiduciary capacity. Assets that are held in such capacity are not included in these consolidated financial statements. At 31 December 2010, the Group had fiduciary assets under management of USD 714 million (31 December 2009: USD 672 million).

34 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees for USD 22.51 million (2009: USD 16.10 million) in respect of its development projects, on which no losses are expected. The Group also had commitments to finance of USD 37.26 million (31 December 2009: 11.40 million) and commitments to invest of USD 4.60 million (31 December 2009: USD 9.80 million).

35 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 statement of financial position 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 the counterparty to a financial instrument does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the balances with banks, placements with financial institutions, funding receivables and certain other assets like receivables from investment banking services and structuring fees.

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

Credit-related commitments risks

In the course of its business, the Group may extend to its investment project companies guarantees which may require the Group to make payments on their behalf. Such payments are collected from the projects based on the terms of the guarantee. They expose the Group to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk

The maximum exposure of credit risk on the financial assets of the Group is the carrying value of the financial assets as at 31 December 2010. The Group does not hold collateral against any of its exposures as at 31 December 2010 (31 December 2009: nil).

Past due

At 31 December 2010, the Group has receivable of investment banking fee, short-term funding to project companies, expenses recoverable and other receivables amounting to USD 42.07 million (31 December 2009: USD 29.82 million). These receivables are generally free of profit and do not have specific terms of repayment, but are expected to be recovered in full in the course of project development and on realisation of cash flows from sale of the underlying assets and their operations. The Group does not consider these as past due based on the expected cash flows of the project companies. For expected timelines of recovery of these balances refer note 31.

Impaired financial assets

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

Based on the estimates and recovery of these receivables, the Group has made an impairment provision of USD 13,515 thousand (2009: USD 2,409 thousand) against its receivable exposure during the year.

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

a) Credit risk (continued)

The gross amount of impaired facilities by class of financial assets is as follows:

	2010 USD' 000	2009 USD' 000
Investment securities	30,509	28,408
Investments in associates and joint venture accounted under the equity method	5,146	-
Receivable from investment banking services	3,927	1,674
Short term funding to project companies	24,406	14,985
Other assets	2,002	1,159
Total	65,990	46,226

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 32.

At 31 December 2010, the amount of credit exposure in excess of 10% of the Group's equity to individual counterparties was USD 118,242 thousand (31 December 2009: USD 66,611 thousand).

c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group'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 Group'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 Group as a whole.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 31 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2010	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000
Liabilities						
Islamic financing payables	-	44	-	-	-	44
Payable on acquisition of investment property	-	-	-	-	-	-
Employee accruals	-	-	-	2,096	3,689	5,785
Other liabilities	3,715	-	-	-	-	3,715
Total financial liabilities	3,715	44	-	2,096	3,689	9,544
Commitments and contingencies	-	-	-	15,695	48,672	64,367
Restricted investment accounts	197	-	12,341	3,681	-	16,219

	Gross undiscounted cash flows					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2010	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000
Liabilities						
Islamic financing payables	13,262	47	48	71	-	13,428
Payable on acquisition of investment property	6,564	12,535	11,434	11,205	-	41,738
Employee accruals	-	-	-	1,986	3,781	5,767
Other liabilities	9,272	-	-	-	-	9,272
Total financial liabilities	29,098	12,582	11,482	13,262	3,781	70,205
Commitments and contingencies	-	-	-	21,278	16,103	37,381
Restricted investment accounts	195	-	12,308	4,276	-	16,779

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 Group's income or the value of its holdings of financial instruments. Market risk comprises four types of risk: currency risk, profit rate risk, equity price 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.

(i) Profit rate risk

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

	2010	2009
Placements with financial institutions	3.13%	1.26%
Short-term funding to project companies	1.56%	3.00%
Islamic financing payables	10.22%	6.93%

Sensitivity analysis

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

	2010 USD' 000	2009 USD' 000
100 bps parallel increase / (decrease)		
Placements with financial institutions	+/-112.67	+/-471
Short-term funding to project companies	+/-65.51	+/-34
Islamic financing payables	+/-0.44	+/-137

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

(ii) Currency risk

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

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

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

	2010 USD' 000	2009 USD' 000
Kuwaiti Dinars	1,670	3,171
Euro	11	12

The table below indicates the currencies to which the Group had significant exposure at 31 December 2010 and 31 December 2009 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the United States Dollar with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount on the table below represents a potential net reduction in the consolidated statements of income or equity, while a positive amount reflects a net potential increase.

		2010		2009	
Increase in currency rate by 10%		Effect on profit USD' 000	Effect on equity USD' 000	Effect on profit USD' 000	Effect on equity USD' 000
Kuwaiti Dinars	+10%	34	133	84	233
Euro	+10%	1	-	1	-
Kuwaiti Dinars	-10%	(167)	-	(84)	(233)
Euro	-10%	(1)	-	(1)	-

(iii) Other price risk

The Group's available-for-sale equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 5 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 half yearly basis and is reported to the Board Finance and Investment Committee.

(iv) 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 effect on equity, as a result of a change in fair value of trading equity instruments and equity instruments held as available-for-sale, due to a reasonably possible change in equity indices or net asset values, with all other variables held constant, is as follows:

		2010		2009	
		Effect on profit	Effect on equity	Effect on profit	Effect on equity
Trading securities	+1%	13	-	14	-
Available-for-sale	+1%	-	60	-	61
Trading securities	-1%	(13)	-	(14)	-
Available-for-sale	-1%	(13)	(47)	-	(61)

e) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Bank. The Group already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

f) Investment property price risk

Investment property price risk is the risk that the fair value of investment property decreases as a result of downfall in the real estate market. The investment property price risk exposure arises from Group's holding of land. The Group carries its investment in the and at cost less impairment.

g) Capital management

The Bank's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (based on the Basel II and IFSB frameworks) in respect of regulatory capital. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to risk-weighted assets. The Bank's operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

	31 December 2010 USD' 000	31 December 2009 USD' 000
Capital adequacy	608,930	647,781
Total risk weighted assets		
Tier 1 capital	276,716	328,690
Tier 2 capital	-	-
Total regulatory capital	276,716	328,690
Total regulatory capital expressed as a percentage of total risk weighted assets	45.44%	50.74%
Minimum requirement	12%	12%

Tier 1 capital comprises share capital, share premium, statutory reserve and retained earnings, gross unrealised gains arising from fair valuing available-for-sale equity securities (subject to 55% haircut), minority interest in consolidated subsidiaries less gross unrealised loss arising from fair valuing equities and 50% of excess over permitted large exposure limit.

Tier 2 capital comprises unrealised gains arising from fair valuing equity securities (subject to 55% haircut) and 50% of excess over permitted large exposure limit. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of Bahrain.

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

36 FAIR VALUE

Fair value hierarchy

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

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- **Level 3** – Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

36 FAIR VALUE (continued)

This hierarchy requires the use of observable market data when available. There have been no transfers between the levels of valuation in 2010.

2010	Level 1 USD' 000	Level 2 USD' 000	Level 3 USD' 000	Total USD' 000
Held for trading	1.293	-	-	1.293
Designated at fair value investments	-	-	84.913	84.913
Available-for-sale investments	5.756	242	-	5.998
	7.049	242	84.913	92.204

2009	Level 1 USD' 000	Level 2 USD' 000	Level 3 USD' 000	Total USD' 000
Held for trading	1.351	-	-	1.351
Designated at fair value investments	-	-	75.011	75.011
Available-for-sale investments	5.832	242	-	6.074
	7.183	242	75.011	82.436

There were no transfers of financial assets between Level 1, Level 2 and Level 3.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

	31 December 2010 USD' 000	31 December 2009 USD' 000
Balance at 1 January	75,011	69,820
Total gains or losses recognised in consolidated statement of income	(15,100)	(670)
Investments bought	25,002	8,848
Sales / settlements	-	(2,987)
At 31 December	84,913	75,011

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an initial period of between two to five years and then a terminal value has been estimated using a combination of value based on forward multiples and at a perpetual growth rate of up to 2-3% applied on the discounted cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 10.75% – 21.7%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company.

The Group has also made use of illiquidity and marketability discount where considered appropriate.

The potential income effect of a 1% change, on either side, in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by USD 4,278 thousand or increase the fair values by USD 4,278 thousand respectively. The potential income effect of 0.5 times change, on either side, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by USD 5,362 thousand or reduce the fair values by USD 5,362 thousand respectively.

37 EVENT AFTER FINANCIAL POSITION DATE

At 31 December 2010, the Group has an investment amounting to USD 5.24 million in a company operating in Libya. Subsequent to the year end, Libya has witnessed adverse political conditions that may have far reaching implications on its economy.

The Group's management is currently assessing the implications of the current condition in Libya on the recoverable value of its investment.

BASEL II – PILLAR 3 DISCLOSURES

For the year ended 31 December 2010

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BASEL II – PILLAR 3 DISCLOSURES

For the year ended 31 December 2010

1. Introduction

These disclosures have been prepared in accordance with the Central Bank of Bahrain's ("CBB") Basel II guidelines on capital adequacy which became effective from 1 January 2008 and in compliance with the Public Disclosure Module ("PD"), Chapter 1.3 of the CBB Rule Book, Volume II for Islamic Banks. These disclosures also reflect Basel II - Pillar 3 and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks, and should be read in conjunction with the Risk and Capital Management Disclosures and other notes made in the Annual Report of Venture Capital Bank ('the Bank") and its subsidiaries (together "the Group") for the year ended 31 December 2010.

These disclosures provide qualitative and quantitative information on the Group's risk exposures and risk management processes. The Group makes these disclosures on a comprehensive basis comprising qualitative and quantitative information annually and on a restricted basis semi-annually.

2. Capital Structure

2.1 Capital Base

The authorized share capital of the Bank is USD 500 million, comprising 500 million common shares of USD 1 each. The Bank's initial paid up capital was USD 66 million, which was increased to USD 150 million in 2007 through a rights issue and a private placement to new strategic investors. In addition, a further 15 million shares were authorized for allocation to the Bank's Employee Share Ownership Plan ("ESOP").

The Bank undertook a further capital increase in 2009 which increased its paid up capital to USD 250 million par value during 2010, comprising 250 million shares of USD 1 each, including 24.85 million shares allotted to the ESOP following approval by the shareholders at the AGM held on 22 March 2010.

2.2 Group structure

The Bank has the following operational subsidiaries which are fully consolidated in its financial statements.

Subsidiary	Country	Capital	Percentage interest
Gulf Projects Company W.L.L	Bahrain	USD 1,000,000	100%
The Lounge Serviced Offices Co. W.L.L	Bahrain	BHD 20,000	100%
The Lime Restaurants Management & Catering Services Co. W.L.L	Bahrain	BHD 20,000	100%
Mena SME Fund Manager Limited	Cayman Island	USD 2	100%

2.3 Review of financial performance

The Group commenced operations in October 2005 and achieved excellent returns in the first four years as indicated below. The results for 2010 were affected by the recent market turmoil, as a consequence of which significant impairment provisions and fair value losses were recorded resulting in a net loss, as disclosed in the financial statements.

Particulars	2006	2007	2008	2009	2010
Net profit (US$ m)	13.26	32.34	47.04	11.00	(47.60)
ROC (Return on paid up capital)	20%	20%	29%	6%	-19%
Number of employees	26	50	79	73	74
Total investments to total assets	51%	37%	58%	64%	71%
Leverage (total liabilities / total equity)	14%	10%	8%	25%	4%
Retained earnings to paid up capital	20%	19%	30%	19%	-13%

As disclosed in the consolidated financial statements, income from investment banking services comprises the main contributor to net income. With the anticipated 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.

In this regard, the Group intends to accelerate its growth by stepping-up investment deal flow and attracting high quality investor in-flows.

Capital Adequacy Management Program

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

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

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

2.7 The Group uses the Standardised Approach to quantify its credit and market risk 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 applying varying degrees of sophistication, namely the Standardized Approach, Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach. The Group 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 the Internal Models Approach subject to prior approval by CBB. The Group 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 Group uses the Basic Indicator Approach, which uses the average of the past three-year's gross income as a basis for the calculation of capital charges for operational risk.

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

a. Tier 1 Capital which is the nominal value of paid in capital, audited retained earnings and accumulated reserves arising from the appropriation of current and past years' income and/or retained earnings less treasury stock, minority interests and negative fair value reserves. Local regulations also require that certain investments or exposures should 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 can not exceed 100% of Tier 1 Capital.

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

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

2.11 During 2010, the Group continued the development and enhancement of its risk management and internal capital adequacy assessment framework. This framework includes a capital allocation process as well as a process description for scenario analysis of the Group's strategy. It is envisaged that once the framework is finalized and implemented, quantitative details of capital allocated to each business line as well as a scenario analysis of the Group's strategy will be provided.

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

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

2. **Capital Structure** (continued)

Table 1: Regulatory Eligible Capital

Details of eligible capital base		USD '000
	Tier 1	Tier 2
Issued and fully paid ordinary shares	250,000	
Less: Employee stock incentive program funded by the bank (outstanding)	22,764	
Disclosed reserves	43,908	
Legal / statutory reserves	10,415	
Share premium	28,429	
Capital redemption reserve	-	
Others	5,064	
Retained profit brought forward	3,021	
Unrealized gains arising from fair valuing equities (45% only)	4,910	
Minority interest in consolidated subsidiaries	63,820	
Less:		
Current interim cumulative net losses	33,752	
Unrealized gross losses arising from fair valuing equity securities	15,100	
Tier 1 Capital before PCD deductions	294,043	
Unrealized gains arising from fair valuing equities (45% only)		1,003
Tier 2 Capital before PCD deductions		1,003
Total Available Capital		295,046
Excess amount over maximum permitted large exposure limit	9,165	9,165
Additional deduction from Tier 1 to absorb deficiency in Tier 2	8,162	
Total Deductions (3.1 to 3.10 inclusive)	17,327	9,165
	i	ii
Net Available Capital	276,716	-
Total Eligible Capital (i + ii)	-	276,716

BASEL II – PILLAR 3 DISCLOSURES

For the year ended 31 December 2010

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	11,313	2,414	290
Exposures to corporates	70,303	70,303	8,436
Investments in listed equities in banking book	4,530	4,530	544
Investments in unlisted equities in banking book	158,069	237,104	28,452
Investments in real estate	85,156	170,312	20,437
Other exposures	14,247	14,247	1,710
Total credit risk exposure under standardized approach	343,618	498,910	59,869
Market risk:			
Trading equities position	1,293	2,586	310
Foreign exchange position	1,860	1,860	223
Total market risk under standardized approach	3,153	4,446	533
Operational risk under Basic Indicator Approach (ref. below)		105,574	12,669
Total		608,930	73,071
Total eligible capital - (Tier 1 + Tier 2)		276,716	
Total eligible capital - Tier 1		276,716	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		45.4%	
Tier 1 Capital Adequacy Ratio		45.4%	

Capital requirement for Operational Risk (Basic Indicator Approach)			USD'000
	2009	2008	2007
Gross income for prior three years	32,473	82,047	54,398
Average of past 3 years gross income	56,306		
Capital requirement for Operational Risk (15%)	8,446		
Risk weighted exposure for Operational Risk	105,574		

Total unrealized fair value gains / (losses):	2010
Unrealized fair value losses recognized in income	(15,100)
Unrealized fair value gains recognized in equity	733

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-Dec-10	Maximum	Minimum
Market risk exposures			
Listed equities held for trading	1,293	1,293	1,293
Foreign currency exposure	1,860	1,860	1,860
Market risk charge			
Listed equities held for trading	207	207	207
Foreign currency exposure	149	149	149
Total market risk charge	356	356	356
Market risk weighted exposure			
Listed equities held for trading	2,586	2,586	2,586
Foreign currency exposure	1,860	1,860	1,860

3. Risk Management

Risk Governance Structure

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

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

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

a. Risk Identification and Measurement
   i. Procedures for the identification and quantification of risks
   ii. The use of quantitative models and qualitative approaches to assess and manage risks
b. Risk Control
   i. Clearly defined risk exposure limits
   ii. Criteria for risk acceptance based on risk and return as well as other factors
   iii. Portfolio diversification and, where possible, other risk mitigation techniques
   iv. Robust operating policies and procedures
   v. Appropriate Board Committee's authorization and approval for investment transactions
c. Risk Monitoring and Reporting
   i. Ongoing review of exposures and risks by Risk Management Department, including stress testing and frequent reporting
   ii. Periodic internal audits of the control environment

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

3.4 The Internal Audit Department 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 Group. A risk assessment is carried out annually to determine the major risks faced by each business or support unit and accordingly, an annual audit plan is prepared by the Internal Audit Department and approved by the Board's Audit Committee. The annual plan envisages the coverage, amongst others, of the Risk Management and Compliance Departments.

Detailed operational risk assessments and tests of effectiveness of internal controls designed to mitigate risks (covering each of the risk components as mentioned above) are carried out in accordance with the annual audit plan. Furthermore, Internal Audit Department also intends to evaluate the adequacy of the Group's capital management program later in 2011. A follow up audit to ascertain the status of implementation of observations previously made by internal or external audit is also part of the annual audit plan.

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

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

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

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

3.7 The credit risk exposures faced by the Group 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 Group's credit exposures, this is considered more appropriate than a collective impairment provision.

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

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

Securitisation

3.10 The Group does not generally participate in securitization activities in relation to credit synthesis; acting as sponsor, liquidity facility provider, credit enhancement facility provider and has not securitised any of its assets and therefore has no recourse obligations under such transactions as defined by the Financial Stability Task Force.

However, during 2009, the Group structured and arranged the "Liquidity Program" to retire the shares of Venture Logistics 1 and 2 (representing the owning equity in a subsidiary "Gulf Projects Co. W.L.L"). This Program has in 2010 raised a total of USD 55 million through the issuance Shari'ah compliant 1 year tenor liquidity certificates with early redemption options of 30 days, 90 days and 180 days with attractive yields, which has been more than fully subscribed by investors. During 2010, the Group also concluded arrangements with a local Islamic bank to act as a liquidity provider under the Program commitment to honor early redemptions up to USD 15 million which are not immediately taken up by replacement investors under the Program.

Statement of financial position

3.11 The Group's off-balance sheet items comprise

a. a contingent exposure (USD 22.51 million) associated with the issuance of guarantees for investment related funding made by financial institutions to the Bank's investment projects. Since these may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements;
b. commitments to finance and invest totaling USD 41.86 million, and
c. restricted investment accounts of USD 16.2 million (refer to financial statements for details).

Concentration Risk

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

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

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

3. Risk Management (continued)

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

USD '000

Geographic sector	GCC countries	Other MENA countries	Europe	Cayman / Americas	Total
Assets					
Balances with banks	2,672	-	-	-	2,672
Placements with financial institutions	11,267	-	-	-	11,267
Investment securities	85,043	17,154	16,228	16,971	135,396
Investment in associates and joint ventures	29,900	1,777	-	-	31,677
Investment property	9,130	-	-	-	9,130
Receivable from investment banking services	11,190	330	2,025	292	13,837
Short-term financing to project companies	15,464	2,737	-	2,774	20,975
Other assets	11,668	198	76	-	11,942
Property and equipment	12,350	-	-	-	12,350
Total Assets	188,684	22,196	18,329	20,037	249,246
Off balance sheet assets					
Restricted investment accounts	16,219	-	-	-	16,219
Commitments and contingencies	54,926	9,441	-	-	64,367
	259,829	31,637	18,329	20,037	329,832

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

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

Distribution of bank's exposure by industry sector — USD'000

Industry sector	Trading & Manufacturing	Banks & financial Inst.	Real estate related	Oil and Gas	Health Care	Technology	Shipping	Others	Total
On balance sheet									
Balances with banks	-	2,672	-	-	-	-	-	-	2,672
Placements with financial institutions	-	11,267	-	-	-	-	-	-	11,267
Investment securities	29,145	21,971	31,276	10,174	10,160	-	17,768	14,902	135,396
Investment in associates and joint ventures	-	4,438	22,999	-	2,464	-	-	1,776	31,677
Investment property	-	-	9,130	-	-	-	-	-	9,130
Receivable from investment banking services	330	669	2,856	-	304	-	2,025	7,653	13,837
Short-term financing to project companies	2,737	2,175	7,046	-	6,243	2,774	-	-	20,975
Other assets	182	2,753	128	-	84	15	76	8,704	11,942
Property and equipment	-	-	9,488	-	-	-	-	2,862	12,350
Total on balance sheet	32,394	45,945	82,923	10,174	19,255	2,789	19,869	35,897	249,246
Off balance sheet exposures									
Restricted investment accounts	-	3,294	12,341	-	-	-	-	584	16,219
Commitments and contingencies	9,441	37,260	17,666	-	-	-	-	-	64,367
Total gross credit exposure	41,835	86,499	112,930	10,174	19,255	2,789	19,869	36,481	329,832

c. Table 5: Exposure by Maturity

USD '000

Credit exposure by maturity	No fixed maturity	Up to 3 months	3 to 6 months	6 months to 1 year	Total up to 1 year	1 to 3 years	Over 3 years	Total USD'000
Assets								
Balances with banks	-	2,672	-	-	2,672	-	-	2,672
Placements with financial institutions	-	11,267	-	-	11,267	-	-	11,267
Investment securities	135,396	-	-	-	-	-	-	135,396
Investment in associates and joint ventures	31,677	-	-	-	-	-	-	31,677
Investment property	9,130	-	-	-	-	-	-	9,130
Receivable from investment banking services	-	4,792	450	1,021	6,263	4,774	2,800	13,837
Short-term financing to project companies	-	3,868	4,911	1,000	9,779	11,196	-	20,975
Other assets	-	10,810	306	84	11,200	742	-	11,942
Property and equipment	12,350	-	-	-	-	-	-	12,350
Total assets	188,553	33,409	5,667	2,105	41,181	16,712	2,800	249,246
Off-balance sheet items								
Restricted investment accounts	-	197	-	12,341	12,538	3,681	-	16,219
Commitments and contingencies	-	-	-	-	-	15,695	48,672	64,367
	188,553	33,606	5,667	14,446	53,719	36,088	51,472	329,832

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

2010	Associates and joint venture USD 000	Key management personnel USD 000	Significant shareholders / entities in which directors are interested USD 000	Assets under management (including special purpose entities USD 000	Assets under management (including special purpose entities USD 000
Assets					
Balances with banks	-	-	404	-	404
Placements with financial institutions	-	-	2,255	-	2,255
Investment securities	-	-	63,019	13,548	76,566
Investments in associates and joint ventures	-	-	-	104,493	104,493
Receivable from investment banking services	1,002	-	5,022	-	6,024
Short term funding to project companies	13,128	-	1,296	-	14,424
Other assets	110	-	88	-	198
Liabilities					
Employee accruals	-	2,161	-	-	2,161
Payable on acquisition of investment property	-	-	-	-	-
Payables	-	-	-	-	-
Income					
Income from investment banking services	1,792	-	3,318	-	5,109
Income from investment securities	-	-	-	-	-
Share of profit/ (loss) of associates and joint venture accounted for using the equity method	3,200	-	-	-	3,200
Other income	-	-	-	-	-
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	3,418	-	10,133	-	13,551
Impairment allowances against receivables	6,227	-	7,217	-	13,444
Commitments and contingencies	435	-	11,831	-	12,266
Restricted investment accounts	12,341	-	-	-	12,341

3. Risk Management (continued)

Market Risk Management

3.15 Market risk is defined as the risk of losses in the Group's on and off statement of financial position exposures 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 Group.

3.16 The Group'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 market risk is currently not a major source of risk since the Group's business strategy does not envisage taking on significant market risk. The Group measures its market risk exposure using the Standardised Approach under the Basel II framework.

Operational Risk Management

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

3.18 The Group 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 Group from the front office to the back office and support areas and, not just the operations department.

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

3.20 Notwithstanding this, the Group'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 Group also engages in subsequent monitoring of accounting records, daily reconciliation of cash, bank and securities accounts and other checks to enable it to detect, on a timely basis, any erroneous or improper transactions which may have occurred.

3.21 The Group 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 Group's loss mitigation process and hence, the overall operational risk management framework.

In addition, the Group is reviewing and updating its Business Continuity Plan to mitigate the risk of loss from business disruption due to unexpected events.

Legal Risks

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

3.23 The Group'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 Group has designed and implemented a comprehensive set of policies and procedures. Adherence to the Group's policies and procedures is reinforced through staff training as well as internal and external reviews. As on the reporting date, the Group has no material legal contingencies including pending legal actions.

Shari'ah compliance

3.24 The Shari'ah Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Group in order to ensure that they are in compliance with the rules and principles of Islamic Shari'ah. The Group 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 Group. An annual audit report is issued by the SSB confirming the Group's compliance with Shari'ah rules and principles.

Equity Risk In The Banking Book (Investment Risk)

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

3.26 The Group uses the Standardised Approach under the Basel II Framework for measuring its investment risks, which is considered a part of its "Banking Book". The Group 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 Group also seeks to diversify its investments, not only geographically and sectorally, but across various revenue stages of investments as well.

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

Impairment Provisions

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

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

Impairment provisions - by asset class — USD '000

Particulars (USD '000)	Gross exposure	Impairment booked in 2010	Cumulative impairment	Net carrying value
Available for sale investments	30,509	14,066	21,088	9,421
Investments in associates and joint venture	5,146	3,418	3,418	1,728
Receivable from investment banking services	3,927	2,899	1,516	2,411
Short term funding to project companies	24,406	10,487	12,647	11,759
Other assets	2,002	129	1,265	737
Total	65,990	30,999	39,935	26,055

Impairment provisions - by industrial sector — USD '000

Particulars (USD '000)	Gross exposure	Impairment booked in 2010	Cumulative impairment	Net carrying value
Real estate	42,180	22,060	26,919	15,261
Health care	7,543	1,300	1,300	6,243
Technology	10,010	6,788	6,791	3,219
Others	6,257	851	4,924	1,333
Total	65,990	30,999	39,934	26,056

Unrealised Fair Value Gains

3.30 The Bank's investments which are designated at fair value through income are re-valued at every half calendar year, and the gains / (losses) recognized in the income statement in accordance with the relevant Internal Financial Reporting Standards. The valuations are performed by the Bank's investment divisions using appropriate internal valuation models with relevant market inputs and assumptions. These valuations are then independently reviewed by the Risk Management Department and the external auditors, and presented to the Board's Finance and Investment Committee for approval. As at 31 December 2010, the Group had an unrealised fair value loss of US$ 15,100 thousand from their Real estate investments carried at fair value through profit or loss.

Liquidity Risk Management

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

3.32 The Bank does not currently have any borrowings other than an insignificant amount of bank financing and routine accounts payables for operating costs. Accordingly, it does not have any significant liquidity risk exposure from borrowings. However, the Bank has extended certain guarantees and undertaken commitments in support of its investment projects as disclosed in Note 34 to the Consolidated Financial Statements.

3.33 Although this gives rise to a level of liquidity funding risk, management carefully monitors liquidity through regular forecasts prepared by the Bank's Treasury Department in consultation with the business and finance functions of the Bank, including considerations of stress scenarios. The Bank also has a portfolio of quoted equity securities which are available to meet any unexpected shortfalls in funding requirements. Accordingly, management considers that VC Bank is not exposed to any significant funding liquidity risk.

3. Risk Management (continued)

3.34 The Bank funds its assets primarily through internal accruals and shareholders equity. (See Note 35 (c) to the Consolidated Financial Statements), and has enjoyed a strong liquidity position during the year. Its liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 160% at 31 Dec 2010.

Liquidity ratio: (USD '000)	31-Dec-10 USD '000
Cash at bank	2,672
Placements at bank	11,267
Marketable securities	1,293
Total liquid assets	15,232
Liabilities	9,544
Liquidity ratio	160%

Profit Margin Rate Risk Management in the Banking Book

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

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

	USD'000				
Position at 31 December 2010 Repricing Period	Rate Sensitive Assets	Rate Sensitive Liabilities	Gap	Cumulative Gap	Impact of 200 bp change
1 day	-	-	-	-	-
> 1 day to 3 months	15,082	31	15,051	15,051	75
> 3 months to 6 months	2,737	13	2,723	17,774	27
> 6 months to 12 months	-	-	-	17,774	-
> 1 year to 5 years	-	-	-	17,774	-
> 5 years	-	-	-	17,774	-

a. 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 Group's net profit margin income for the repricing period of > 1 day to 3 months would potentially by USD 75 thousand if profit margin rate increases by 200 basis points.

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

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

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

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

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

4 Board and Executive Management remuneration

4.1 The Nomination and Remuneration Committee of the Board assists the Board in determining the remuneration and compensation of the Board and Executive Management, including executive incentives and employee share ownership plan entitlements.

4.2 Board compensation comprises board remuneration on a formula approach reflecting the Bank's profitability and participation in Board meetings, and attendance fees per meeting attended.

4.3 Executive Management compensation comprises, in addition to salaries that are in line with industry norms, incentives based on profitability and performance, plus participation in the Bank's employee share ownership plan, as disclosed in Notes 24 and 25 to the Consolidated Financial Statements.