BASEL 2
PILLAR 3 DISCLOSURE

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1. Capital Structure

Capital Base

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

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

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

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

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

Subsidiary	Country	Capital	Percentage Interest
The Lounge Serviced Offices Co. WLL	Bahrain	BHD 20,000	90%
The Lime Restaurants Management & Catering Services Co. WLL	Bahrain	BHD 20,000	100%

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

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

As shown by the financial statements, investment advisory and structuring income comprise the main contributor to net profit, representing approximately 75% of gross income over the past three years. With the growth in assets under management, the Bank expects to increase the proportion of recurring income from management fees going forward, to provide increased level of sustainable income.

The Bank intends to accelerate its growth by stepping-up investment deal flow and attracting high quality investor in-flows. Increasing the Bank's capital as explained in 1.2 above is an important constituent of its plan.

Capital Adequacy Management Program

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

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

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

1.9 VCBank uses the Standardised Approach to quantify its credit and market risks weighted exposures and the Basic Indicator Approach to measure its operational risk weighted exposures.

a. Credit risk weighted exposures may be calculated in three different ways of varying degrees of sophistication, namely the Standardized Approach, Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach. VCBank has adopted the Standardized Approach for credit risk measurement, which uses fixed risk weights for different categories of credit risk.
b. Market risk weighted exposures may be quantified using the Standardized Approach, which uses fixed capital charges for specific categories of market risk, or Internal Models Approach that must be subject to prior approval by CBB. The Bank uses the Standardized Approach for market risk measurement.
c. For operational risk, there are three different approaches - Basic Indicator Approach, Standardized Approach, and Advanced Measurement Approach. The Bank uses the Basic Indicator Approach, which uses the average of the past three-year gross income as a basis for the calculation of capital charges for operational risk.

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

a. Tier 1 Capital which is the nominal value of paid in capital, audited retained earnings and accumulated reserves arising from the appropriation of current and past years' income and/or retained earnings less any treasury stock, minority interests, or negative fair value reserves. Local regulations require that certain investments or exposures be deducted from Tier 1 capital.
b. Tier 2 Capital, which consists of the qualifying portion of subordinated loans and unrealised gains arising on fair valuation. Under the CBB regulations, the aggregate amount of Tier 2 capital eligible for inclusion in the CAR is limited to no more than 100% of Tier 1 Capital.

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

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

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

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

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

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Table 1: Regulatory Eligible Capital

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

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Table 2 – details of exposures

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

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

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

Table 2.1 – details of market risk weighted exposures (USD '000)

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

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2. Risk Management

Risk Governance Structure

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

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

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

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

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

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

Detailed operational risk assessments and tests of effectiveness of internal controls designed to mitigate risks (covering each of the risk components as mentioned in 2 above) are carried out in accordance with the annual audit plan. Furthermore, Internal Audit also intends to evaluate the adequacy of the Bank's capital management program, particularly the ICAAP, once such program is formally introduced later in 2009. A follow up audit to ascertain the status of implementation of observations previously made by internal or external audit is also planned during 2009.

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

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

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

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

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

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

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

Securitisation

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

Off-Balance Sheet Items

2.11 The Bank's off-balance sheet items comprise
  a. a small contingent exposure (USD17.5 mil) associated with the issuance of short term letters of credit and guarantees for investment related funding made by financial institutions to the Bank's investment projects. Since these may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements; and
  b. restricted investment accounts of USD4.6 million (See financial statements for details.

Concentration Risk

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

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

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

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

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

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

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

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

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

c. Table 5: Exposure by Maturity

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

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

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Market Risk Management

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

2.16 VCBank's market risk exposures arise predominantly from its trading portfolio of listed equities and a small portfolio of foreign currency denominated assets that are not pegged to the USD. Management opines that the Bank's market risk is currently not a major source of risk since the Bank's business strategy does not envisage taking on significant market risk. The Bank measures its market risk exposure using the Standardised Approach under the Basel II framework.

Operational Risk Management

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

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

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

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

2.21 The Bank is currently enhancing its operational risk management framework that will
a. help track operational loss events and potential exposures as well as report these on a regular basis; and
b. improve the Bank's loss mitigation process and hence, the overall operational risk management framework.

In addition, the Bank has a Business Continuity Plan to mitigate the risk of loss from business disruption due to unexpected events.

Legal Risks

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

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

Shari'ah Compliance

2.24 The Shari'ah Supervisory Board (SSB) is entrusted with the duty of directing reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'ah. The Bank also has a dedicated internal Shari'ah reviewer who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'ah standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'ah rules and principles.

Equity Risk In The Banking Book (Investment Risk)

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

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

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

Impairment Provisions

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

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

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

Unrealised Fair Value Gains

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

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

Liquidity Risk Management

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

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

2.33 Notwithstanding this, regular forecasts are prepared by the Bank's Treasury Department in consultation with the business and finance functions of the Bank. Management considers that VCBank is not exposed to any significant funding liquidity risk. The Bank has enjoyed a strong liquidity position during the year. Its liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 204% at 31 Dec 2008. and 368% at 31 Dec 2007.

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

Profit Margin Rate Risk Management in the Banking Book

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

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

Position @ 31Dec 2008 Repricing Period (USD'000)	Rate Sensitive Assets	Rate sensitive Liabilities	Gap	Cumulative Gap	Impact of 200 bp change
1 day	-	-	-	-	-
> 1 day to 3 months	32,810.8	-	32,810.8	32,810.8	656.2
> 3 months to 6 months	-	-	-	32,810.8	-
> 6 months to 12 months	-	-	-	32,810.8	-
> 1 year to 5 years	-	-	-	32,810.8	-
> 5 years	-	288.2	(288.2)	32,522.6	5.8

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

a. The Bank's net profit margin income for the repricing period of >1 day to 3 months would potentially decrease by USD656k if profit margin rate decreases by 200 basis points.

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

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

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

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