Venture Capital Bank B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

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.

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

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.

20 February 2011
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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 USD '000*	*Share premium USD '000*	*Funds received towards capital increase USD '000*	*Unvested ESOP shares USD '000*	*Statutory reserve USD '000*	*Investment fair value reserve USD '000*	*ESOP reserve USD '000*	*Retained earnings (accumulated losses) USD '000*	*Total before non-controlling interests USD '000*	*Non-controlling interests USD '000*	*Total 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**

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 USD '000	Share premium USD '000	Funds received towards capital increase USD '000	Unvested ESOP shares USD '000	Statutory reserve USD '000	Investment fair value reserve USD '000	ESOP reserve USD '000	Retained earnings (accumulated losses) USD '000	Total before non-controlling interests USD '000	Non-controlling interests USD '000	Total 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

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	9	**(33,128)**	(8,563)
Receivable from investment banking services	12	**(6,811)**	(691)
Short term funding to project companies	13	**(17,044)**	(6,024)
Other assets	14	**11,547**	(1,184)
Employee accruals		**18**	(8,768)
Other liabilities	16	**(5,557)**	5,700
Net cash used in operating activities		**(48,255)**	(4,406)
INVESTING ACTIVITIES			
Purchase of property and equipment	15	**(75)**	(10,208)
Purchase of investment in associates and joint venture accounted under the equity method	10	**(1,481)**	(459)
Proceeds from sale (purchase) of investment property	11	**53,874**	(54,413)
Acquisition of non-controlling interest		**-**	(13)
Net cash from (used in) investing activities		**52,318**	(65,093)
FINANCING ACTIVITIES			
Repayment of Islamic financing payables	11	**(13,384)**	13,140
Payable on acquisition of investment property	11	**(41,737)**	41,737
Funds received towards capital increase		**-**	64,905
Dividend and other appropriations paid		**-**	(17,827)
Zakah contribution	26,30	**(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		**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	8	**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*	*Movements during the year* 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*
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.

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

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:

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(i) Recognition and de-recognition (continued)

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(iii) Measurement principles (continued)

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

(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 held-to-maturity investments.

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

(ii) Initial recognition
Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on investments carried at fair value through profit or loss are expensed in the 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(c) Investment securities (continued)

(iii) Subsequent measurement (continued)

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.

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(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 date.

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(g) Impairment of non-financial assets

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Significant accounting policies (continued)

(o) Employee benefits (continued)

(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

9 INVESTMENT SECURITIES (continued)

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

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

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

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

	2010	*2009*
	USD '000	*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

Summarised financial information for investments in associates and joint venture accounted under the equity method, is as follows:

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

12 RECEIVABLE FROM INVESTMENT BANKING SERVICES (continued)

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	*Office equipment*	*Furniture and fixtures*	*Motor vehicles*	*2010 Total*
	USD '000	*USD '000*	*USD '000*	*USD '000*	*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	*2009*
	USD '000	*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	2009
	USD '000	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	*2009*
	USD '000	*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	*2009*
	USD '000	*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	*2009*
	USD '000	*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	*2009*
	USD '000	*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	*2009*
	USD '000	*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	2009
	USD '000	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.

25 RELATED PARTY TRANSACTIONS (continued)

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

25 RELATED PARTY TRANSACTIONS (continued)

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

The key management personnel compensation is as follows:

	2010	*2009*
	USD '000	*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	*2009*
	USD '000	*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	**-**

31 MATURITY PROFILE (continued)

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	296,699	288,590	334,216	328,782	331,422	-

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

a) Industry sector

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**

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

a) Industry sector (continued)

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**

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

(b) Geographic region (continued)

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).

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

a) Credit risk (continued)

Maximum exposure to credit risk (continued)

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.

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

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographical and industry wise distribution of assets and liabilities are set out in note 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.

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

c) Liquidity risk (continued)

2010	***Gross undiscounted cash flows***					
	Up to 3 months USD '000	***3 to 6 months USD '000***	***6 months to 1 year USD '000***	***1 to 3 years USD '000***	***Over 3 years USD '000***	***Carrying amount 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**

2009	*Gross undiscounted cash flows*					
	Up to 3 months USD '000	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*Carrying amount 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

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the 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	*2009*
	USD '000	*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.

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

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

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(ii) Currency risk (continued)

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*	
		Effect on profit USD' 000	***Effect on equity USD' 000***	*Effect on profit USD' 000*	*Effect on equity USD' 000*
Increase in currency rate by 10%					
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 USD '000	***Effect on equity USD '000***	*Effect on profit USD '000*	*Effect on equity USD '000*
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.

35 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

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		
Total risk weighted assets	**608,930**	647,781
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.

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

36 FAIR VALUE (continued)

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 4,728 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.