



COMM

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THE NEWSLETTER FROM VENTURE CAPITAL BANK, BAHRAIN ISSUE 02 - FEBRUARY 2008

A REMARKABLE PERFORMANCE EXCEEDING ALL EXPECTATIONS

IT IS MY PRIVILEGE TO INTRODUCE THE SECOND ISSUE OF VCOMM – OUR REGULAR NEWSLETTER DESIGNED TO PROVIDE ALL STAKEHOLDERS WITH A TIMELY & INFORMATIVE UPDATE OF THE LATEST NEWS & DEVELOPMENTS FROM VENTURE CAPITAL BANK (VC BANK).

I AM DELIGHTED TO ANNOUNCE THAT VC BANK ENJOYED AN EXTREMELY SUCCESSFUL SECOND YEAR OF OPERATIONS IN 2007. EXCEEDING ALL EXPECTATIONS, THE YEAR WAS MARKED BY RECORD FINANCIAL RESULTS, ENCOURAGING STRATEGIC INITIATIVES, IMPRESSIVE NEW BUSINESS ACHIEVEMENTS, & ONGOING ORGANISATIONAL DEVELOPMENTS.



MESSAGE BY THE BOARD MEMBER & CHIEF EXECUTIVE OFFICER ABDULLATIF MOHAMMED JANAH

Our financial results for 2007 are reported later in this newsletter, so I would just like to highlight the increase of 143% in net profit to US\$ 32.3 million, and the return on equity of 33%. These examples constitute a remarkable performance for a newly established bank, with our ROE comparing more than favourably with even the most successful, long established international institutions.

Key strategic initiatives during the year include more than doubling our paid up capital through a successful rights issue and private placement, which will support our ambitious business plans for the future. In addition, the establishment of Saudi Venture Capital Investment Company, which is currently under formation, heralds the start of our regional expansion strategy into Saudi Arabia and other key GCC markets.

Building on our impressive business achievements during our first year of operations, VCBank successfully executed a number of new innovative products, projects and deals in the MENA region during 2007. These include unique investment offerings in new sectors such as shipping and fertilisers, new investment companies

to tap the potential of growing regional markets such as Oman and Morocco, and additional real estate offerings, including an exclusive residential community project in the iconic 'The World' master development in Dubai.

In addition, our existing portfolio of investments progressed well during the year. These include the MENA SME Private Equity Fund, Jeddah and Abha City centre rejuvenations projects, Park Plaza, ASAS Real Estate Company, Challenger Limited, and House of Development. Details of these ongoing investments and their development during 2007 are included in this issue.

We are also currently working on a number of major investment projects, which we expect to finalise shortly before launching them as investment products for the Bank's clients, offering a rewarding yield and high value.

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

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

Above all, however, these achievements would not have been possible without the support and encouragement of all our stakeholders, who are the real architects of the Bank's continued success. I would therefore like to thank our shareholders and directors, our strategic partners, our investors, and our management team and staff, for their invaluable contributions during 2007.

With God's blessing, I look forward to working with you to achieve even greater success in 2008 and beyond.

// WE CONTINUED TO BUILD THE INSTITUTIONAL CAPABILITY OF THE BANK //



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Dr. Ghassan Ahmed Al-Sulaiman
Chairman

VCBANK – STRATEGIC REGIONAL EXPANSION

PROPOSED US\$ 100 Million NEW SAUDI VENTURE CAPITAL INVESTMENT COMPANY IN FINAL STAGE OF REGULATORY APPROVAL

**VCBANK REPORTS
RECORD FINANCIAL
RESULTS FOR 2007**

Venture Capital Bank earned a net profit of US\$ 32.3 million for the year ended 31 December 2007, up 143% over 2006. Return on equity was 33% compared with 20.1% for 2006. Total income for the year was US\$ 54.4 million, with total expenditure of US\$ 22.1 million, while total assets at the end of 2007 stood at US\$ 229 million, compared to US\$ 91 million at the end of 2006. The Board of Directors have recommended a cash dividend of 15% for 2007 (2006: 12.5% comprising 7.5% in cash and 5% in bonus shares).

VCBank Chairman Dr. Ghassan Ahmed Al-Sulaiman commented: "This constitutes a record-breaking performance for the second operational year of the Bank. The results reinforce the effectiveness of the Bank's team in delivering the best results for shareholders and investors through innovative investments with high returns."

CURRENTLY UNDER FORMATION, SAUDI VENTURE CAPITAL INVESTMENT COMPANY (SVCIC) PRESENTS INVESTORS WITH AN OPPORTUNITY TO PARTICIPATE IN A UNIQUE INVESTMENT CONCEPT THAT WILL PROVIDE EARLY AND EXPANSION CAPITAL PRIMARILY TO THE SME SECTOR IN THE KINGDOM OF SAUDI ARABIA.

As part of its strategy of regional expansion, VCBank has made good progress with its plans to establish Saudi Venture Capital Investment Company (SVCIC) in the Kingdom of Saudi Arabia, which aims to capitalise on the significant potential of investment banking activities in the Saudi Arabian market. SVCIC has successfully completed the raising of capital for the investment, and its application for a securities business licence from the Saudi Capital Markets Authority is currently under process.

The economic performance of Saudi Arabia in 2007 was exceptionally strong. Key factors

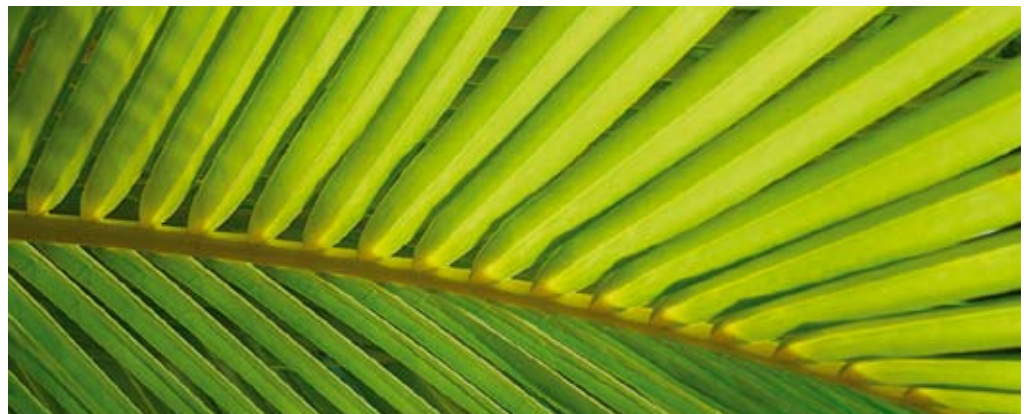
fuelling this growth include the high price of oil, record budget and current account surpluses, increased government spending on major projects, and enhanced levels of liquidity resulting from wealth returning to the region from the US and Europe.

Investors can expect 2008 to be a pivotal year in this economic boom, highlighted in particular by a continued dynamic growth of the Kingdom's non-oil private sector, which is forecast to grow by over seven per cent, the fastest rate for more than 25 years. This will create ample investment opportunities for venture capital and private equity firms such as SVCIC, who will be able to capitalise on the high economic growth to achieve superior returns on their investments.

The economic fundamentals that are supporting this current boom, such as the improving macro-economic condition, the improving capital markets and the improving regulatory structure, remain in place and will continue to do so.

Attracted by this sustained economic boom, the number of private sector investments, particularly in the small & medium enterprises (SME) segment in Saudi Arabia, has increased significantly. SMEs, which account for well over 50% of the private sector, are also considered to be an important source for creating jobs, fostering technological innovation, and introducing new products and services. As such, they are expected to contribute even more substantially to Saudi Arabia's manufacturing and production capacity in the near future.

Nevertheless, despite the strategic importance of SMEs, very few financial institutions and other funding sources in Saudi Arabia have focused on opportunities represented and offered by SMEs. With most intermediaries mainly focusing on late stage financing, there is a clear opportunity for a new player, such as SVCIC, to focus on providing early, expansion and bridge stage capital to SMEs in Saudi Arabia. ■



REAL ESTATE – DUBAI, UAE

VCBANK FORMS JOINT VENTURE TO INVEST IN 'THE WORLD'



IN OCTOBER 2007, VCBANK OFFERED INVESTORS A UNIQUE OPPORTUNITY TO INDIRECTLY INVEST IN THE DEVELOPMENT OF AN EXCLUSIVE RESIDENTIAL COMMUNITY WITHIN THE 'THE WORLD'

VCBank has formed a 50:50 joint venture with Arabian Holdings International Limited to establish the US\$ 54 million World Development Company Limited, which will develop a high end residential and leisure community on a prestigious island within the iconic 'The World' master plan.

Covering a total area of 900,000 square feet, the island (called Dikson) is located in the northern part of The World, and is part of the land mass more commonly known

as Russia. The island was carefully chosen for its strategic location and size. Dikson, situated in close proximity to some islands which are categorised as "Private Islands", enjoys excellent and unobstructed views of the sunset and open waters.

The low density island will house an exclusive residential community that will be operated by an internationally renowned operator as a 'managed residence'. It will comprise only 122 individually designed and carefully zoned residential units, ranging from junior suites to four-bedroom signature villas, with canal-side or waterfront settings. The lead developer for the project is dxb-lab, a Dubai-based architectural firm that has designed and completed several projects to international acclaim.

The gross development value of the project is US\$ 164 million, and will encompass a gross floor area of approximately 284,000 square feet. World Development Company Limited provides a unique investment opportunity that is not available to average individual real estate investors in the region. The projected return on investment is in excess of 100% over the anticipated three-year investment period.

The World master plan is made up of 300 islands that are reclaimed in the shape of the world. Measuring nine by seven kilometres, and covering over 9 million square metres, The World will be visible to the naked eye from outer space.

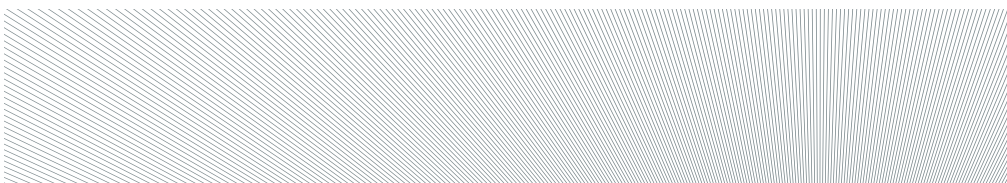
VCBANK INCREASES ITS PAID UP CAPITAL

At an Extraordinary General Meeting held in March 2007, shareholders approved an increase in the paid up share capital of Venture Capital Bank from the initial amount of US\$ 66 million to US\$ 150 million, represented by 150 million shares of US\$ 1 each, which was successfully completed during the year.

As a result the Bank's shareholders has increased to 135 shareholders from the previous 80, including a number of new strategic investors to give greater financial stability and underwriting capacity to the Bank.

In addition, 15 million shares have been set aside for allocation to the Employee Share Ownership Plan (ESOP), thus increasing the total issued capital to US\$ 165 million par value.

The additional capital will strengthen the Bank's capital base, boost investor confidence, and support the regional growth strategy of VCBank into the Middle East & North Africa. It will also enable the Bank to step up its investment deal flow and attract high quality investor inflows.





SAKANI TO DEVELOP AFFORDABLE HOUSING PROJECTS

Venture Capital Bank and United International Bank acted as co-promoters and anchor investors in a US\$ 100 million private placement offer for the establishment of Sakani – a new Shari’ah-compliant real estate development company.

Sakani will invest in the development of identified residential housing projects targeted at low and middle income groups in Bahrain, Saudi Arabia and the UAE. This is a segment that has been underserved for many years.

Sakani is targeting an Internal Rate of Return (IRR) in excess of 22% over the anticipated investment period of three years. ■

FERTILISER INDUSTRY - JORDAN

FINANCING THE EXPANSION OF JAFCCO TO MEET GROWING DEMAND FOR CHEMICAL FERTILISERS

IN ANOTHER UNIQUE INVESTMENT PRODUCT OFFERED BY VCBANK DURING 2007, INVESTORS WERE INVITED TO INDIRECTLY INVEST IN JORDAN AL ABYAD FERTILIZERS AND CHEMICALS COMPANY (JAFCCO). INCORPORATED IN THE HASHEMITE KINGDOM OF JORDAN, JAFCCO SPECIALISES IN THE MANUFACTURE OF CHEMICAL FERTILISERS AND OTHER KINDS OF INDUSTRIAL CHEMICALS, SUCH AS SULPHATE OF POTASSIUM AND HYDROCHLORIC ACID.

The proceeds of a US\$ 24.85 million private placement offering, arranged and placed by VCBank, will be used to fund JAFCCO’s growth plan, which comprises of the development of a state-of-the-art industrial complex, specialising in the manufacture of chemical fertilisers and other kinds of chemicals that are currently imported into the MENA region.

Since its incorporation in 1997, JAFCCO has established a strong

name in the chemical fertilisers industry, specialising in the manufacture of high quality sulphate of potassium (SOP) and hydrochloric acid (HCL) as a by-product of SOP. The Company started with one reactor producing 1,500 tons of SOP and 1,800 tons of HCL, which have since risen to 11,500 tons and 13,800 tons respectively.

JAFCCO’s full production capacity is sold to customers in Egypt, Saudi Arabia, Syria, Spain, Australia, India and the UAE, and it enjoys a natural barrier to entry as Jordan is the only producer of Potash (KCL), the main raw material for the production of SOP, in the Arab World, which is extracted from the Dead Sea.. SOP has proved to be one of the most important agricultural fertilisers as it contains nutrients needed in growing most high-revenue crops such as olive trees, vegetables, fruits and coffee. World consumption and production of SOP reached equilibrium in 2005, at 3.1

million tons, of which Asia and Africa account for around 50% of market demand. JAFCCO, being located in Jordan, therefore has a clear competitive advantage versus global producers in terms of transportation costs and the availability of raw materials to satisfy this supply / demand imbalance.

The new manufacturing facility to be built by JAFCCO will contain a sulphuric acid production line, an SOP plant and a technical grade phosphoric acid plant that uses HCL as a raw material, which results in another by-product – calcium chloride – that has a good market in the region. The projected production capacity of the new plant, which is expected to be operational in early 2010, will be 80,000 tons of SOP, 75,000 tons of sulphuric acid, 22,000 tons of purified phosphoric acid, and 32,000 tons of calcium chloride. ■



SHIPPING INDUSTRY – INTERNATIONAL

LEMISOLER MARITIME COMPANY FORMED IN BAHRAIN



THROUGH A STRATEGIC RELATIONSHIP WITH ONE OF THE LARGEST CYPRUS-BASED SHIPPING GROUPS, VCBANK IS OFFERING INVESTORS A UNIQUE OPPORTUNITY TO ENTER THE INTERNATIONAL SHIPPING INDUSTRY.

VCBank is the arranger and placement agent for a US\$ 80 million private placement offering in Lemissoler Maritime Company in Bahrain, which has been formed with the objective of owning and operating a fleet of specialised commercial vessels. The Company has acquired five specialist newsprint paper-carrying vessels that will comprise its initial fleet, and has already identified eight feeder containerships that will be acquired in two phases

during 2008, as an expansion fleet. The vessels of both fleets have long term, fixed-rate time charter agreements with blue chip shipping charterers.

The Company will utilise the strengths and experience of the Lemissoler Shipping Group, which is involved in international shipping activities including ship owning, container feeding services and third party ship management services. Through the Group's subsidiary, Lemissoler Shipmanagement Ltd., the Company will benefit from the considerable expertise on offer to help identify, acquire and operate the entire fleet with the necessary technical, administrative and commercial skills.

The shipping industry is an important and fast growing sector that is directly linked to the world's escalating trade activity, led increasingly by emerging economies of Asia as well as those of the Middle East and North Africa. The international shipping industry is responsible for the carriage of 90% of world trade and is the life blood of the global economy.

Lemissoler Maritime is therefore well positioned to take advantage of near term market opportunities including a growing need for specialised shipping vessels; an increasing shortage of adequate feeding services to complement larger container ships; and the worldwide development of new port facilities. ■

INFORMATION TECHNOLOGY

VCBANK ACQUIRES STAKE IN LEADING EGYPTIAN IT FIRM

The latest acquisition by the MENA SMEs Private Equity Fund is ITWorx, the largest third party software developer in Egypt. ITWorx specializes in providing tailor-made products for Global 2,000 companies with specific focus on financial service firms, educational institutions, telecommunication operators, regional governments and diversified conglomerates and includes the likes of Vodafone, Microsoft, United Technologies Corporation, the Egyptian Government, du, OTIS Elevators, Siemens, Adobe and Sony. Led by a strong management team, the award winning Company has a track record of profitable growth and currently has over 700 employees. It competes favourably on quality and expertise with similar companies in Asia and has the added advantage of a multi-language capability. Approximately 45% of sales are from the USA and Europe, while 55% are from the fast growing Middle East and North Africa region. The MENA SMEs Private Equity Fund has acquired 79% of ITWorx along with the two co-investors, EuroMena Fund administered by Capital Trust and Proparco, the private sector arm of the French Development Agency. ■

NEW INVESTMENT COMPANIES

VCBANK AND STRATEGIC PARTNERS PREPARE TO TAP THE INVESTMENT POTENTIAL OF OMAN & MOROCCO



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

GLOBAL OMANI DEVELOPMENT & INVESTMENT COMPANY

THE REAL ESTATE SECTOR IN OMAN IS WITNESSING AN UNPRECEDENTED RATE OF GROWTH. THE MAIN DRIVERS ARE A STEADILY GROWING POPULATION, BOTH INDIGENOUS AND EXPATRIATES; AVAILABILITY OF FINANCING; THE REGIONAL LIQUIDITY SURGE; AND FAVOURABLE REGULATORY CHANGES.

Regionally speaking, however, Oman’s real estate sector is considered to be behind in terms of property valuations, sophistication and reach of market players, and the number and size of projects underway. These combined factors make it one of the few remaining undervalued real estate markets in the region.

The Global Omani Development and Investment Company

(GLOREI), an Omani closed joint stock company to be incorporated with a paid up capital of US\$ 113 million, is being established at an opportune time to take advantage of the growing activity in the Omani real estate sector. Founding investors include VCBank and a number of prominent investment houses from around the Gulf. GLOREI Shall also act through its broad investments mandate as an investment platform and outpost through which attractive investments opportunities from different economic sectors can be identified, screened and structured as investment products.

By tapping into a host of carefully selected real estate asset types, GLOREI aims to assume a leadership position on the realty scene in the Sultanate of Oman aided by the direction and support of a select group of industry professionals and the support of a strategic network of associates and partners.

GLOREI will engage in activities of sustainable impact rather than those that are speculative in nature, and in doing so, turning existing market gaps into potential opportunities. In carrying out its business activities, GLOREI will deploy cutting-edge construction technologies and the best development practices to deliver to the market high-quality products at superior value.

MOZON INVESTMENT HOLDING COMPANY – KINGDOM OF MOROCCO.

IN JUNE 2007, VENTURE CAPITAL BANK AND A GROUP OF PROMINENT KUWAIT STRATEGIC PARTNERS COMPLETED THE PROCEDURES FOR THE ESTABLISHMENT OF MOZON INVESTMENT HOLDING COMPANY (MOZON) IN THE KINGDOM OF MOROCCO, WITH A PAID UP CAPITAL OF US\$ 20 MILLION.

The partners of VCBank include Real Estate Commercial Company, Al Burooj Real Estate Investment, Al Khaleeji Investment House, and Aayan Leasing and Investment. Through this partnership, Mozon endeavours to capture the many lucrative investment opportunities available to Arab and foreign investors in the Kingdom of Morocco, and to take advantage of the progressive investment environment of the Kingdom, which has successfully attracted foreign investments.

In terms of its direction and strategy, Mozon will concentrate its efforts and aptitude on a

// BY TAPPING INTO A HOST OF CAREFULLY SELECTED REAL ESTATE ASSET TYPES, GLOREI AIMS TO ASSUME A LEADERSHIP POSITION ON THE REALTY SCENE IN THE SULTANATE OF OMAN. //

variety of investment activities in the Kingdom, including buying and selling, and the establishment of companies spanning a range of economic sectors. These include, but are not limited to, industrial, service, real estate, finance, and investment.

Through its projects and activities in Morocco, Mozon will provide several well-governed and thoroughly-studied investment channels for a large GCC investor base, particularly for those who are on the verge of entering the promising assortment of markets and economic sectors in the Kingdom.

The Company is currently engaged in performing detailed analyses of several key projects in alliance with strategic partners in the Morocco, in order to begin implementation and execution in the near future. ■

VCBANK – INVESTMENT PORTFOLIO

EXCELLENT PERFORMANCE BY VCBANK'S INVESTMENT OFFERINGS LAUNCHED IN 2006

THE BANK'S INNOVATIVE INVESTMENT PRODUCTS, PROJECTS AND DEALS THAT WERE SUCCESSFULLY EXECUTED IN 2006 HAVE MADE EXCELLENT PROGRESS TO DATE. FOR EXAMPLE:

MENA SMES PRIVATE EQUITY FUND

This Small & Medium Enterprises Fund US\$ 80 million fund achieved its second and final closing in 2007. The fund's first acquisition – the MENA-based oil drilling contractor Challenger Limited – has performed extremely well, experiencing high demand in the region for its services. A major recent development was the acquisition of a 25% stake in Challenger by Bronco Drilling Company. Listed on the NASDAQ, Bronco is the sixth largest drilling operator in the US. Such an acquisition reinforces Challenger's growing reputation in the industry.

HOUSE OF DEVELOPMENT

VCBank acquired a controlling stake in this Saudi-based IT applications solutions provider to help it implement its global expansion plans. In 2007, House of Development opened an office in New York and commenced marketing its services in the US.

VENTURE LOGISTIC PROPERTIES – PARK PLAZA PROJECT

Venture Logistic Properties is a dedicated investment vehicle that was established for the purpose of investing in the shares of Gulf Projects Company (GPC). The first operational asset of GPC is the Park Plaza project, combining retail outlets, office space and

multi-storey car parking in the Diplomatic Area of Manama, Kingdom of Bahrain, which is now fully let and operational. To date, the targeted return on investment has been exceeded, with the payment of quarterly cash dividends starting in September 2007.

Park Plaza, which houses the new headquarters of VCBank, was renamed Venture Capital House in early 2008. The complex also includes a new concept in world class business centres – The Lounge – which was designed and funded by VCBank.

JEDDAH OLD CITY DISTRICT REJUVENATION – SAUDI ARABIA

This challenging project involves the rejuvenation of the Al Balad district, one of the oldest areas of Jeddah City, which covers a total area of over 5 million square metres, and faces serious problems of decaying

properties and outdated amenities. VCBank is part of an investment alliance that will raise financing for the project. Progress to date includes the commissioning of international consultants to develop a master plan, the appointment of a consortium of developers as master developers, and the identification of a global development partner.

ABHA CITY CENTRE REGENERATION – SAUDI ARABIA

This ambitious project entails the development of the centre of the city of Abha in the Aseer region, in order to promote tourism in this attractive area. VCBank is part of an investment alliance responsible for evaluating the best available development and funding options. A recent key achievement was the presentation of the concept plan to the ruler of Saudi Arabia, King Abdullah, which received his

“OUR SUCCESS TO DATE WILL PAVE THE WAY FOR GREATER PROSPERITY IN THE FUTURE, INSHALLAH.”

blessing. Additional progress to date includes the development of a business model that will meet the interests of the many owners of different parts of this 2 million square metre area, and identification of a major strategic investor.

VENTURE ESTATES / ASAS REAL ESTATE COMPANY

Venture Estates is a well governed investments structure that holds a 40 % stake in ASAS Real Estate Company, which is based in the Eastern...

Continued page 8





Continued from page 7

...Province of Saudi Arabia, and focuses on non-speculative real estate projects in the Kingdom. In 2007, the establishment of ASAS was completed, with the establishment of the Board of Directors, the recruitment of an executive management team, and the selection of premises in Al Khobar for the Company's head office. The Company is currently screening and negotiating several residential and mixed-use projects in the Eastern Province.

TIJARIA VENTURE REAL ESTATE COMPANY

A key business development of Al Tijaria Venture during 2007 was the successful five-fold increase of the Company's paid up capital, which was fully subscribed by existing shareholders. In addition to the initial Rainbow Towers development project in the Emirate of Umm A-Qaiwain, UAE, the Company has identified a number of real estate projects in Bahrain. These include residential plots on Reef Island and in the Dana district, plus a commercial plot in the Seef district. ■

VCBANK – HUMAN RESOURCES

MOVE TO NEW HEAD OFFICE WILL ENABLE VCBANK TO CONTINUE BUILDING ITS TEAM

VCBANK STARTED OPERATIONS IN OCTOBER 2005 WITH JUST FIVE STAFF. BY THE END OF 2007, THAT NUMBER HAD RISEN TO 50, WITH A FURTHER INCREASE TO 90 STAFF BY THE END OF 2008.

The Bank's staff is expected to grow to around 90 people by the end of 2008, which represents realistic staffing levels needed to support VCBank's growing

business activities. Despite an increase of 21 people during 2007, recruitment was constrained by the size of the Bank's temporary head office premises in the TAIB Tower, despite the interest of many suitably qualified applicants.

The recent move to spacious new offices at Park Plaza (now called Venture Capital House), will enable the Bank to fulfill its urgent recruitment needs in



Dr. Khalid Abdulla Ateeq
Deputy CEO - Operations & Support

all areas of the organisation, especially the critical back office support functions. The introduction of the Bank's employee share ownership plan

in 2007, which was taken up by all employees, will provide an extra incentive with which to attract new recruits, and also aid retention of staff. ■

